SENECA
FINANCIAL CORP.

2020 Annual Report

SENECA FINANCIAL CORP.

President's Letter

We could never have imagined a year ago that our lobby doors would close and we would see the change of four seasons before they would open again. That our dream teams would be working from home, or that we would create ripples of impact near and far through special loan programs for business owners, the likes of which never existed before. Indeed, it has been a long and winding road, but one we have learned and grown a great deal by traveling.

The diligence, patience, energy, and commitment from our employees and board members these past many months must be commended. We have given our customers and our community a sense of certainty, in an otherwise uncertain time. The work we do has always mattered but never as much as this past year. As we re-open our lobbies and welcome our employees back on-site, we begin to see new opportunities and an even vaster horizon before us. We intend to further leverage this past year's investments and advances at a whole new level, always mindful of the balance between profitable growth, risk and reward.

Progress and Prosperity

Many advances in our technology paved the way for new customer acquisitions and expansion of present customer relationships both in retail and commercial banking. Across all demographics, the shift to online banking during the pandemic has been dramatic. A notable, increased use of mobile banking is indicated by deposits. Mobile deposits increased from Jan 2020 to Jan 2021 466% in dollars deposited and a 73% increase in users. Remote deposit customers/users increased 30%.

For baby boomers especially, or roughly those between 55 and 75 years old, the pandemic has been a catalyst for more rapid adoption of online banking and other financial services. We have answered the call. Incredible coordination and investment of resources have been focused on elevating Seneca Savings' state-of-the-art **"BIG BANK" technology** over these past (12) twelve months and in the months ahead.

These include:

<u>Upcoming</u>

- **Transfer Now |** Capabilities for customer to make transfers to Seneca Savings from other institutions and vice versa
- **Live Link |** Remote customer assistance technologies; Customer chat within online banking along with remote assistance
- **Interactive Text |** Fraud Alerts for your debit card
- **Expanded |** Debit card phone support hours (weekends/nights)

- **Docusign** Capacity

Live now

- **Health Savings Accounts |** For those with a high deductible health insurance plan; available to consumers and small businesses who want to offer this to employees.
- **Micronotes |** Interactive communications with customers when logged into mobile or online banking
- **Merchant Service sales |** Visa/debit card payments for our commercial clients

Noteworthy upcoming advances include expansion of our Residential Mortgage Division, as well as our enhanced focus and growth for Financial Quest, including the addition of Financial Advisors.

The Newest Branch

Last year we spoke of our incredible footprint expansion with the addition of our Bridgeport branch. Poised to serve in a community that truly needed our resources and services, our team readied for their grand opening, only to be held back from a proper introduction to the Bridgeport community due to the pandemic. **We extend a special sentiment of gratitude and appreciation to the Bridgeport community and particularly our talented Bridgeport team.** You've thrived in spite of tremendous odds. We are committed to our Team and having an impactful voice in the Bridgeport community during 2021 and beyond and we Thank You all!

Financial Literacy Efforts

Advocacy through education remain at the forefront of our mission as we continue our efforts with expert financial literacy partner, EverFi. Through this partnership with area schools, and Seneca Savings Senior VP of Retail Banking, Laurie Ucher at the helm, our bank's impact to date with K-12 Students is astonishing:

- **541 Students** who have benefited from our financial education
- **800+ Hours of Learning** have been completed across two and a half school years with
- **6 different schools**, with an average
- **(+) 45% knowledge gain** in their financial literacy and capabilities

Sharing Our Story

There's an old saying that ***"it's tough to read the label when you're inside the bottle."*** The good works that we do, we often take for granted as we see it as our jobs, that's 'just what we do.' A new marketing firm we've recently partnered with is assisting us in building a bigger megaphone. Particularly through the use of more digital marketing strategies, together we're creating a robust marketing platform for expanding awareness for our offerings. These powerful strategies will drive our online reviews (measurable word-of-mouth and social media channels), customer conversions, and align our storytelling efforts.

Making A Difference

How do you sum up the total impact Seneca Savings has as a community bank? As one of our core values, we continue to craft a powerful true story of charity, being involved and doing good in the community because it's at the heart of who we are. Supporting and investing in our local culture, the arts, athletics, non-profit organizations, played out in unique ways this year given the pandemic. From the little league field to the local diaper bank, back to school backpacks and toys at Holiday time, to our work on behalf of Veterans, celebrating world class jazz music and musicians, and Lighting up Onondaga Lake Park for families to enjoy last December, our team adapted to new guidelines and ensured that we were as present in every way we could be. Raising awareness, shining a light, and sharing the stories that need to be told, uplifted more hearts and spirits, and reaffirmed for so many that **we're more powerful, together.**

PPP and Building Bridges

Last but far from least is the impact Seneca Savings created for businesses and employees in 2020 and ongoing in 2021 through implementation of an intensely effective and coordinated **Paycheck Protection**

Program effort. If ever there was a testament of fortitude and team effort, this is it. Last summer in **Round One of PPP,** Seneca Savings processed **282 PPP Loans ($18.5mm)** impacting **over 2,400 employees** in the communities we serve. That landed us in the **Top Twenty (20) PPP lenders** across the region.

Keeping company with the 'Big Banks' and credit unions, Seneca Savings out-performed some of its' much larger counterparts, funding more loans, changing more lives. We did this with no playbook, a steep learning curve, and total and utter belief we were doing the right and necessary thing for businesses and their employees. Senior Vice President, Angelo Testani and his commercial team continue to lead the charge and are extremely busy processing **Round Two of the 2021 PPP** loans. As of March 16, 2021, **133 PPP loans** totaling **($9.7M)** have been processed. What an amazing accomplishment! I'm incredibly proud of the team and talent we have worked so diligently to cultivate. In a time of many dark days for so many across our beautiful towns, schools, businesses and neighborhoods, never has our team been so needed. And never have they shined brighter.

Customer Survey

A customer survey conducted after Round One of PPP brought rave reviews to the bank and our teams. We achieved a **98%+ high satisfaction rate** across the board. Considering PPP was uncharted waters, this accomplishment is truly remarkable and a testament to our **five-star customer service,** caring, and capabilities.

Here are just a few, compelling comments from our customers:

> *"I greatly appreciate the willingness in assisting our company with the PPP loan. It was especially refreshing in that as a small company, we like being able to also utilize small businesses. Our only other option would have been a large banking system. Thank You!"*
>
> *"I met with Tadd Helmer and Courtney Kelly and opened a bunch of accounts and transferred money into your bank. I cannot thank you enough for the PPP loan and your expertise and professionalism in dealing with banking and small business."*
>
> *"Moving our business account from a large bank to Seneca."*
>
> *"Angelo and Angela are two real professionals. They treated us awesome and completed the process in record time."*
>
> *"We have moved all of our accounts that were at [big bank name] to Seneca Savings Bank! We could not be happier with the quick and efficient change over. The communication with Seneca was effortless. We plan to have a long-term relationship with Seneca Saving Bank."*

Recognition and Rewards

These efforts have also been recognized by other leaders in our community, as well as our very own employees. Centerstate CEO is a connector, an economic facilitator and advocate, and a true influence and force for our region. CenterstateCEO recently recognized Seneca Savings through the nomination of our bank for **Business of the Year**. Winners will be announced in April 2021 at the Annual Awards Celebration. Win or lose, to be nominated with only a handful of other notable businesses in the area, is an incredible accomplishment.

This past year Seneca Savings was awarded for a second year in a row, the **Best Places to Work Award for Central New York** by the Central NY Business Journal. Voted on by our employees, this is perhaps the greatest honor that can be bestowed. We do the work we do because we know we're making a difference. We're building bridges and changing lives for so many stakeholders, on so many levels. To be recognized publicly by and with our peers and employees, is simply the icing on the cake.

In Summary

The season of Spring is now upon us. It's a time of renewal, of new life and invigorated hope. The flowers bloom and the birds sing. Never in our history as a bank and community stakeholder, has Springtime ever meant so much, to so many. We forge ahead with tremendous momentum in our resources, relationships, trust, awareness and renewed commitment. Our entire team recognizes the many roles we play as a community bank for Baldwinsville, Liverpool, North Syracuse, Bridgeport, and surrounding areas. None of these roles do we take lightly whether it be as leader, connector, employer, safe-haven, creator, builder, investor, confidante, and friend.

As we cross the seasons of 2021 let us be mindful that every action, every interaction, every kind word we offer, matters. And through remembering that, practicing that, we are magnificently poised to build new bridges and change lives, **together.**

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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, 2020 and 2019, and the operating data for the years ended December 31, 2020, and 2019, 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, 2018, 2017 and 2016 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,				
	2020	2019	2018	2017	2016
	(Dollars in Thousands)				
Selected Financial Condition Data:					
Total assets	$221,525	$210,238	$195,307	$176,174	$161,411
Cash and due from banks	3,977	3,094	3,470	4,375	1,762
Available-for-sale securities	41,264	27,959	26,174	22,097	19,450
Loans, net	159,888	164,388	154,650	141,150	132,364
FHLB stock, at cost	2,884	2,820	2,622	2,340	2,090
Total liabilities	198,647	189,169	175,896	157,772	150,631
Deposits	155,918	151,911	143,975	129,596	119,542
FHLB advances and PPLF	38,096	32,900	28,350	24,500	28,000
Total stockholders' equity	22,878	21,069	19,411	18,402	10,780

	For the Years Ended December 31,				
	2020	2019	2018	2017	2016
	(Dollars in Thousands, except per share data)				
Selected Data:					
Interest income	$8,750	$8,769	$7,702	$6,828	$5,844
Interest expense	1,830	2,573	1,918	1,437	992
Net interest income	6,920	6,196	5,784	5,391	4,852
Provision for loan losses	730	242	10	180	247
Net interest income after provision for loan losses	6,190	5,954	5,774	5,211	4,605
Non-interest income	1,004	855	597	626	794
Non-interest expense	6,131	5,420	5,340	5,049	4,808
Earnings before provision for income taxes	1,063	1,389	1,031	788	591
Provision for income taxes	161	272	181	264	64
Net income	$ 902	$1,117	$ 850	$ 524	$ 527
Earnings per common share	$ 0.49	$ 0.60	$ 0.45	$ 0.28	N/A

	At or For the Years Ended December 31,				
	2020	2019	2018	2017	2016
Selected Financial Ratios and Other Data:					
Performance Ratios:					
Return on average assets	0.40%	0.54%	0.46%	0.31%	0.35%
Return on average equity	4.19%	5.76%	4.67%	4.14%	5.19%
Interest rate spread(1)	3.08%	2.93%	3.04%	3.17%	3.30%
Net interest margin(2)	3.25%	3.17%	3.23%	3.30%	3.42%
Efficiency ratio(3)	77.37%	76.87%	83.69%	83.91%	85.16%
Non-interest expense to average total assets	2.71%	2.64%	2.87%	2.96%	3.26%
Average interest-earning assets to average interest-bearing liabilities	120%	118%	118%	115%	117%
Asset Quality Ratios:					
Non-performing assets as a percent of total assets	0.56%	0.92%	0.62%	0.67%	1.07%
Non-performing loans as a percent of total loans	0.34%	1.18%	0.78%	0.83%	1.28%
Allowance for loan losses as a percent of non-performing loans	294.43%	63.94%	101.65%	105.44%	68.31%
Allowance for loan losses as a percent of total loans	1.02%	0.75%	0.79%	0.88%	0.88%
Net charge-offs to average outstanding loans during the period	0.19%	0.14%	0.01%	0.08%	0.25%
Capital Ratios(4):					
Common equity tier 1 capital (to risk weighted assets)	N/A%	15.42%	16.48%	17.39%	14.32%
Tier 1 leverage (core) capital (to adjusted assets)	10.25%	10.10%	10.27%	10.70%	8.65%
Tier 1 risk-based capital (to risk weighted assets)	N/A%	15.42%	16.48%	17.39%	14.32%
Total risk-based capital (to risk weighted assets)	N/A%	16.32%	17.51%	18.53%	15.56%
Average equity to average total assets	9.50%	9.46%	9.79%	7.42%	6.88%
Other Data:					
Number of full-service offices	4	4	3	3	3
Number of full-time equivalent employees	49	43	46	40	40

(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 We elected to use the Community Bank Leverage ratio which is equivalent to Tier 1 leverage (core) capital (to adjusted assets) in 2020 (See Footnote 13).

Management Discussion and Analysis of Financial Condition and Results of Operations

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

Overview

Our results of operations depend primarily on our net interest income. Net interest income is the difference between the interest income we earn on our interest-earning assets, consisting primarily of loans, investment securities and other interest-earning assets (cash and cash equivalents), and the interest we pay on our interest-bearing liabilities, consisting primarily of demand accounts, NOW accounts, savings accounts, money market accounts, certificate of deposit accounts and borrowings. Our results of operations also are affected by non-interest income, our provision for loan losses and non-interest expense. Non-interest income consists primarily of fee income and service charges, income from our financial services division, earnings on bank owned life insurance, realized gains on sales of loans and securities and other income. Non-interest expense consists primarily of compensation and employee benefits, core processing, premises and equipment, professional fees, postage and office supplies, FDIC premiums, advertising and other expenses. Our results of operations also may be affected significantly by general and local economic and competitive conditions, including the COVID-19 pandemic in 2020, changes in market interest rates, government policies and actions of regulatory authorities. For the year ended December 31, 2020, we had net income of $902,000 compared to net income of $1.1 million for the year ended December 31, 2019. The year over year $215,000 decrease in net income was primarily attributable to an increase in the provision for loan losses of $488,000, and an increase in non-interest expense of $711,000 partially offset by an increase in net interest income of $724,000 an increase in non-interest income of $149,000 and a decrease in the provision for income taxes of $111,000.

At December 31, 2020, we had $221.5 million in consolidated assets, an increase of $11.3 million, or 5.37%, from $210.2 million at December 31, 2019. During 2020, we focused on loan production, particularly with respect to commercial loans including the paycheck protection program loans ("PPP") (See footnote 4).

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,								
	2020			2019			2018		
	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	$170,296	$7,806	4.58%	$163,901	$7,862	4.80%	$148,129	$6,889	4.65%
Available-for-sale securities	35,092	751	2.14%	26,804	694	2.60%	26,453	611	2.31%
FHLB Stock	2,953	183	6.20%	2,967	189	6.37%	2,600	168	6.46%
Other interest-earning assets	4,464	10	0.22%	1,559	24	1.54%	1,899	34	1.79%
Total interest-earning assets	212,805	8,750	4.11%	195,231	8,769	4.49%	179,081	7,702	4.30%
Noninterest-earning assets	13,749			9,787			6,986		
Total assets	$226,554			$205,018			$186,067		

	For the Years Ended December 31,								
	2020			2019			2018		
	Average Outstanding Balance	Interest	Yield/ Rate	Average Outstanding Balance	Interest	Yield/ Rate	Average Outstanding Balance	Interest	Yield/ Rate
	(Dollars in thousands)								
Interest-bearing liabilities:									
NOW accounts	$ 19,144	$ 25	0.13%	$ 14,469	$ 23	0.16%	$ 13,892	$ 24	0.17%
Regular savings and demand club accounts	24,207	19	0.08%	22,189	20	0.09%	21,417	15	0.07%
Money market accounts	28,232	263	0.93%	16,817	169	1.00%	13,554	76	0.56%
Certificates of deposit and retirement accounts	61,863	763	1.23%	76,320	1,509	1.98%	73,034	1,149	1.57%
Total interest-bearing deposits	133,446	1,070	0.80%	129,795	1,721	1.33%	121,897	1,264	1.04%
FHLB and PPLF Borrowings	43,358	760	1.75%	35,497	852	2.40%	30,112	654	2.17%
Total interest-bearing liabilities	176,804	1,830	1.04%	165,292	2,573	1.56%	152,009	1,918	1.26%
Noninterest-bearing deposits	23,405			16,291			13,269		
Other non-interest bearing liabilities	4,833			4,039			2,569		
Total liabilities	205,042			185,622			167,847		
Stockholders' equity	21,512			19,396			18,220		
Total liabilities and stockholders' equity	$226,554			$205,018			$186,067		
	9.50%								
Net interest income		$6,920			$6,196			$5,784	
Net interest rate spread(1)			3.08%			2.93%			3.04%
Net interest-earning assets (2)	$ 36,001			$ 29,939			$ 27,072		
Net interest margin(3)			3.25%			3.17%			3.23%
Average interest-earning assets to average interest-bearing liabilities	120%			118%			118%		

(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.

Volume Rate 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, 2020 vs. 2019			Year Ended December 31, 2019 vs. 2018		
	Increase (Decrease) Due to		Total Increase (Decrease)	Increase (Decrease) Due to		Total Increase (Decrease)
	Volume	Rate		Volume	Rate	
	(In thousands)					
Interest-earning assets:						
Loans	$ 307	$(363)	$ (56)	$733	$ 240	$ 973
Available-for-sale securities	215	(158)	57	8	75	83
FHLB Stock	(1)	(5)	(6)	24	(3)	21
Other interest-earning assets	45	(59)	(14)	(6)	(4)	(10)
Total interest-earning assets	$ 566	$(585)	$ (19)	$759	$ 308	$1,067
Interest-bearing liabilities:						
NOW accounts	$ 7	$ (5)	$ 2	$ —	$ (1)	$ (1)
Regular savings and demand club accounts	2	(3)	(1)	—	5	5
Money market accounts	114	(20)	94	1	92	93
Certificates of deposit and retirement accounts	(286)	(460)	(746)	1	359	360
Total deposits	(163)	(488)	(651)	2	455	457
FHLB and PPLF Borrowings	189	(281)	(92)	117	81	198
Total interest-bearing liabilities	26	(769)	(743)	119	536	655
Change in net interest income	$ 540	$ 184	$ 724	$640	$(228)	$ 412

Comparison of Financial Condition at December 31, 2020 and December 31, 2019

Total assets increased $11.3 million, or 5.4%, to $221.5 million at December 31, 2020 from $210.2 million at December 31, 2019. The increase in assets was primarily due to increases in, securities available-for-sale and cash and cash equivalents, partially offset by a decrease in net loans.

Securities available-for-sale increased by $13.3 million, or 47.6%, to $41.3 million at December 31, 2020 from $28.0 million at December 31, 2019. The increase was primarily due to the purchase of securities of $28.2 million, partially offset by principal repayments and, amortization of premiums of $2.8 million, maturity and calls of $7.5 million, and proceeds from sales of $5.2 million. The growth in securities was to invest the increase in cash from a slow-down in consumer spending and government stimulus deposited into our customers' accounts due to the pandemic. A portion of our securities portfolio is used to collateralize FHLB advances.

Loans, net of allowance for loan losses decreased $4.5 million, or 2.7%, to $159.9 million at December 31, 2020 from $164.4 million at December 31, 2019, reflecting a decrease in one-to four-family residential loans. One- to four-family residential real estate mortgage loans decreased $12.1 million, or 12.2%, to $87.1 million at December 31, 2020 from $99.2 million at December 31, 2019, as principal payments outpaced originations and we sold 41.5% of our one-to four-family residential real estate mortgage loans originated or refinanced during the year ended December 31, 2020, with-out recourse maintaining the servicing rights. Commercial real estate loans increased $490,000, or 1.42%, to $34.9 million at December 31, 2020 from $34.4 million at December 31, 2019. Commercial and industrial loans increased $8.4 million, or 49.9%, to $25.2 million at December 31, 2020 from $16.8 million at December 31, 2019 we increased our portfolio of commercial loans primarily due to the Paycheck Protection Program loans ("PPP loans") servicing our existing business customers as well as new business customers in our local markets. We originated $18.7 million in PPP loans in 2020. Throughout the year of 2020, we increased our portfolio of commercial loans to increase earnings and to continue to manage interest rate risk.

Total deposits increased $4.0 million, or 2.6%, to $155.9 million at December 31, 2020 from $151.9 million at December 31, 2019. The increase was primarily due to increases in demand deposits and money market accounts. Demand deposits increased $8.4 million, or 50.4% to $25.1 million at December 31, 2020 from $16.7 million at December 31, 2019. The increased in demand deposits was due to our marketing efforts to increase transaction accounts in our primary market area and the opening of our Bridgeport location. We are offering products and services to attract new commercial checking accounts. Business online internet banking, ACH origination and wire services, remote deposit capture, mobility business services, check free small business bill payment and delivery and mobile source capture are products targeting the growth of our business deposit accounts. Money market accounts increased $10.2 million, or 49.3% to $30.9 million at December 31, 2020 from $20.7 million at December 31, 2019. The increase in money market accounts was the result of our continued focus on commercial deposit relationships and reduced consumer spending during the pandemic. Certificates of deposit decreased $27.1 million during 2020 as we reduced our dependence on jumbo certificates of deposit and CDARS.

Total borrowings from the FHLB of New York decreased $2.0 million, or 6.1%, from $32.9 million at December 31, 2019 to $30.9 million at December 31, 2020 as we took advantage of lower cost deposits to pay-off higher cost borrowings. Paycheck Protection Liquidity facility ("PPLF") advances from the Federal Reserve Bank of N.Y. at December 31, 2020 was $7.1 million. PPLF advances were used to fund PPP loans.

Total stockholders' equity increased $1.8 million, or 8.6%, to $22.9 million at December 31, 2020 from $21.1 million at December 31, 2019. The increase was due to the combined effect of our net income of $902,000 and decreases in accumulated other comprehensive loss of $859,000, an increase in the stock-based compensation valuation of $25,000, and a decrease in the unearned ESOP shares of $23,000 in 2020.

Comparison of Operating Results for the Years Ended December 31, 2020 and 2019

General. Net income decreased $215,000, or 19.2%, to $902,000 for the year ended December 31, 2020, compared to $1.1 million for the year ended December 31, 2019. The decrease was due to an increase in the provision for loan losses, and an increase in non-interest expense, partially offset by an increase in net interest income and an increase in non-interest income.

Interest Income. Interest income decreased $19,000, or 0.22%, to $8.8 million for the year ended December 31, 2020 as compared to the year ended December 31, 2019. Our average balance of interest-earning assets increased $17.6 million, or 9.0%, to $212.8 million for the year ended December 31, 2020 from $195.2 million for the year ended December 31, 2019 due primarily to the increase in the average balance of investments. Our average yield on interest-earning assets decreased 38 basis points to 4.11% for the year ended December 31, 2020 from 4.49% for the year ended December 31, 2019.

Interest income on loans decreased $56,000, or 0.71%, to $7.8 million for the year ended December 31, 2020 from $7.9 million for the year ended December 31, 2019, due primarily to the decrease in the average yield on loans. Our average yield on loans decreased by 22 basis points to 4.58% for the year ended December 31, 2020 from 4.80% for the year ended December 31, 2019, as lower-yielding commercial loans, primarily PPP loans, have been originated during the year. Our average balance of loans increased $6.4 million, or 3.9%, to $170.3 million for the year ended December 31, 2020 from $163.9 million for the year ended December 31, 2019. The increase in the average balance of loans resulted from our continued focus on commercial lending and PPP loans.

Interest income on securities increased $57,000, or 8.2%, to $751,000 for the year ended December 31, 2020 from $694,000 for the year ended December 31, 2019. The average balance of available-for-sale securities increased $8.3 million, or 30.9%, to $35.1 million in 2020 from $26.8 million in 2019 due to securities purchases. The average yield we earned on available-for-sale securities decreased by 46 basis points to 2.14% for the year ended December 31, 2020 from 2.60% for the year ended December 31, 2019 as yields on available-for- sale securities decreased in a declining rate environment.

Interest Expense. Interest expense decreased $743,000, or 28.89%, to $1.8 million for the year ended December 31, 2020 from $2.6 million for the year ended December 31, 2019, due to decreases in interest expense on deposits of $651,000 and $92,000 in interest expense on borrowings. Our average rate on interest-bearing liabilities decreased 52 basis points to 1.04% for the year ended December 31, 2020 from 1.56% for the year ended December 31, 2019, as a result of decreases in the average rates on certificates of deposit and FHLB of New York borrowings. Our average balance of interest-bearing liabilities increased $11.5 million, or 6.96%, to $176.8 million for the year ended December 31, 2020 from $165.3 million for the year ended

December 31, 2019 due primarily to increases in the average balances of money market accounts, NOW accounts and Paycheck Protection Liquidity Facility advances.

Interest expense on deposits decreased $651,000, or 37.8%, to $1.1 million for 2020 from $1.7 million for 2019 due to a decrease in the average rate paid on deposits. The average rate paid on deposits decreased to 0.80% for 2020 from 1.33% for 2019, primarily reflecting lower rates paid on, certificates of deposit and CDARS certificates of deposit. The average rate of certificates of deposit decreased by 75 basis points to 1.23% in 2020 from 1.98% in 2019. The average rate of money market deposits decreased by seven basis points to 0.93% in 2020 from 1.00% in 2019. The average balance of deposits increased $3.7 million, or 2.8% to $133.4 million for the year ended December 31, 2020 from $129.8 million for the year ended December 31, 2019 due primarily to the increase in the average balance of money market accounts which increased by $11.4 million to $28.2 million in 2020 from $16.8 million in 2019 and reflected the majority of growth in the average balance of deposits. The average balance of certificates of deposit decreased by $14.5 million to $61.9 million in 2020 from $76.3 million in 2019.

Interest expense on borrowings decreased $92,000, or 10.8%, to $760,000 for the year ended December 31, 2020 from $852,000 for the year ended December 31, 2019. The decrease in interest expense on borrowings reflected a decrease in the average rate of these borrowings to 1.75% in 2020 from 2.40% in 2019. The average rate on these borrowings decreased due to maturing term advances in 2020. Offsetting the decrease in the average rate of borrowings was a $7.9 million increase in our average balance of borrowings with the FHLB of New York and the PPLF to $43.4 million for 2020 from $35.5 million for 2019.

Net Interest Income. Net interest income increased $724,000, or 11.7%, to $6.9 million for the year ended December 31, 2020 from $6.2 million for the year ended December 31, 2019, primarily as a result of the greater growth in the average balance of our interest-earning assets as compared to our interest-bearing liabilities and the purchase of securities. Our net interest-earning assets increased 20.3% to $36.0 million for the year ended December 31, 2020, from $29.9 million for the year ended December 31, 2019, due to the increase in the average balance of loans and securities. Our net interest rate spread increased by 15 basis points to 3.08% for the year ended December 31, 2020 from 2.93% for the year ended December 31, 2019. Our net interest margin increased by eight basis points to 3.25% for the year ended December 31, 2020 from 3.17% for the year ended December 31, 2019.

Provision for Loan Losses. We establish a provision for loan losses which is charged to operations in order to maintain the allowance for loan losses at a level we consider necessary to absorb credit losses inherent in the loan portfolio that are both probable and reasonably estimable at the consolidated balance sheet date. In determining the level of the allowance for loan losses, we consider past and current loss experience, evaluations of real estate collateral, current economic conditions, including the impact of the COVID-19 pandemic, volume and type of lending, adverse situations that may affect a borrower's ability to repay a loan, and the levels of non-performing and other classified loans. The amount of the allowance is based on estimates and the ultimate losses may vary from such estimates as more information becomes available or conditions change. We assess the allowance for loan losses on a quarterly basis and make provisions for loan losses in order to maintain the allowance.

Based on our evaluation of the above factors, we recorded a $730,000 provision to the allowance for loan losses for the year ended December 31, 2020 compared to a $242,000 provision for loan losses for the year ended December 31, 2019. The increase in the provision for 2020 was the result of the impact of the COVID-19 pandemic and increased net charge-offs. Net charge-offs increased to $331,000 in 2020 as compared to $235,000 in 2019. The increase in charge-offs were due to residential and commercial real-estate loans foreclosed during the year and were provisioned in our allowance for loan losses. The allowance for loan losses was $1.6 million, or 1.03% of net loans outstanding at December 31, 2020 as compared to $1.2 million, and 0.75% of net loans outstanding at December 31, 2019.

To the best of our knowledge, we have recorded all loan losses that are both probable and reasonable to estimate at December 31, 2020 and December 31, 2019. However, future changes in the factors described above, including, but not limited to, actual loss experience with respect to our loan portfolio, could result in material increases in our provision for loan losses. In addition, the Office of the Comptroller of the Currency, as an integral part of its examination process, will periodically review our allowance for loan losses, and as a result of such reviews, we may have to adjust our allowance for loan losses. However, regulatory agencies are not directly involved in establishing the allowance for loan losses as the process is our responsibility and any increase or decrease in the allowance is the responsibility of management.

Non-Interest Income. Non-interest income increased $149,000, or 17.4%, to $1.0 million for the year ended December 31, 2020 from $855,000 for the year ended December 31, 2019. The increase was primarily due to increased income from net gains on the sale of residential mortgages of $217,000 and net gains on the sale of securities of $49,000. We sold and serviced approximately 41.5% of the residential mortgages we originated and refinanced in 2020 to mitigate interest rate risk and to increase non-interest income.

Non-Interest Expense. Non-interest expense increased by $711,000, or 13.1%, to $6.1 million for the year ended December 31, 2020 as compared to $5.4 million for the year ended December 31, 2019. The increase was due primarily to increases in compensation and employee benefits of $190,000, foreclosed real estate expense of $165,000, pre-payment of a FHLB term advance, of $108,000, an increase in premises and equipment of $105,000, an increase in FDIC premiums of $59,000, an increase in advertising expense of $49,000, and an increase in postage and office supplies of $11,000. Offsetting the increase in non-interest expense was a decrease in core processing expense of $42,000, and a decrease in other expenses of $32,000. The increase in compensation and employee benefits expense was due to an increase in full time equivalent employees to 49 in 2020 from 43 in 2019. As we increased the products and services in the communities in which we serve we added to our branch and lending staff. Foreclosed real estate expense increased due to a write down of foreclosed real estate of $156,000. A pre-payment penalty of $108,000 was incurred on a $1.1 million FHLBNY term advance maturing September 26, 2023 at a rate of 3.37%. The pre-payment penalty was taken to enhance our net interest margin in future periods by reducing our interest expense. Premises and equipment increased as we updated and modernized our offices and equipment. Advertising expense increased due to printed advertising campaigns in our local market and an increased focus of advertising on social media. FDIC insurance expense increase due to the increased in our asset size. Core processing decreased as we brought our out-sourced call center in house.

Income Tax Expense. We incurred income tax expense of $161,000 and $272,000 for the years ended December 31, 2020 and 2019, respectively, resulting in effective tax rates of 15.15% and 19.58%, respectively. The decrease in income tax expense resulted from the increase in tax exempt municipal bonds and a decrease in income before tax.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on the Financial Statements

We have audited the accompanying consolidated statements of financial condition of Seneca Financial Corp. and subsidiaries (the Company) as of December 31, 2020 and 2019, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2020, and the related notes (collectively referred to as the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of their operations and their cash flows for each of the years in the two-year period ended December 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

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

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

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

Bonadio & Co., LLP

Syracuse, New York
March 30, 2020

SENECA FINANCIAL CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(Dollars in thousands)

	December 31, 2020	December 31, 2019
ASSETS		
Cash and cash equivalents	$ 3,977	$ 3,094
Securities, available-for-sale	41,264	27,959
Loans, net of allowance for loan losses of $1,640 and $1,241	159,888	164,388
Federal Home Loan Bank of New York stock, at cost	2,884	2,820
Premises and equipment, net	5,210	5,414
Foreclosed real estate	682	—
Bank owned life insurance	2,545	2,492
Pension assets	3,659	2,831
Accrued interest receivable	992	799
Other assets	424	441
Total assets	$221,525	$210,238
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Non-interest bearing	$ 24,996	$ 16,719
Interest bearing	130,922	135,192
Total Deposits	155,918	151,911
Federal Home Loan Bank advances and Payroll Protection Liquidity Facility	38,096	32,900
Advances from borrowers for taxes and insurance	2,002	2,234
Other liabilities	2,631	2,124
Total liabilities	198,647	189,169
STOCKHOLDERS' EQUITY		
Preferred stock, $0.01 par value, 1,000,000 shares authorized and unissued Common stock, $0.01 par value, 19,000,000 shares authorized, 1,978,923 shares issued and 1,912,959 shares outstanding at December 31, 2020 and December 31, 2019	9	9
Additional paid-in capital	7,883	7,858
Treasury stock, at cost (65,964 shares at December 31, 2020 and December 31, 2019)	(579)	(579)
Retained earnings	17,506	16,604
Unearned ESOP shares, at cost	(702)	(725)
Accumulated other comprehensive loss	(1,239)	(2,098)
Total stockholders' equity	22,878	21,069
Total liabilities and stockholders' equity	$221,525	$210,238

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, 2020	2019
INTEREST INCOME		
Loans, including fees	$7,806	$7,862
Securities	934	883
Other	10	24
Total interest income	8,750	8,769
INTEREST EXPENSE		
Deposits	1,070	1,721
Advances and borrowings	760	852
Total interest expense	1,830	2,573
Net interest income	6,920	6,196
PROVISION FOR LOAN LOSSES	730	242
Net interest income after provision for loan losses	6,190	5,954
NON-INTEREST INCOME		
Service fees	122	132
Income from financial services	271	300
Fee income	290	293
Foreclosed real estate income	15	—
Earnings on bank-owned life insurance	53	54
Net gains on sales of available-for-sale securities	49	7
Net (loss) on disposal and gain on sale of fixed assets	(13)	9
Net gains on sale of residential mortgage loans	217	60
Total non-interest income	1,004	855
NON-INTEREST EXPENSE		
Compensation and employee benefits	3,194	3,004
Core processing	672	714
Premises and equipment	661	556
Foreclosed real estate expense	173	8
Professional fees	379	374
Postage & office supplies	120	109
FDIC premiums	84	25
Advertising	259	210
Mortgage recording tax	—	(101)
Director fees	131	139
FHLB pre-payment penalty on term advance	108	—
Other	350	382
Total non-interest expense	6,131	5,420
Income before provision for income taxes	1,063	1,389
PROVISION FOR INCOME TAXES	161	272
Net income	$ 902	$1,117
Net income per common shares – basic and diluted	$ 0.49	$ 0.60

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

SENECA FINANCIAL CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in thousands)

	Years Ended December 31,	
	2020	**2019**
NET INCOME	$ 902	$1,117
OTHER COMPREHENSIVE INCOME, BEFORE TAX		
Available-for-sale securities:		
Unrealized holding gains arising during period	840	794
Less reclassification adjustment for net gains included in net income	(49)	(7)
Net unrealized gains on available-for-sale securities	791	787
Defined benefit pension plan:		
Net gains arising during the period	118	484
Less reclassification of amortization of net losses recognized in net pension expense	180	103
Net changes in defined benefit pension plan	298	587
OTHER COMPREHENSIVE INCOME, BEFORE TAX	1,089	1,374
Tax effect	230	288
OTHER COMPREHENSIVE INCOME, NET OF TAX	859	1,086
TOTAL COMPREHENSIVE INCOME	$1,761	$2,203

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, 2020 AND 2019
(Dollars in thousands)

	Common Stock	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Unearned ESOP Shares	Accumulated Other Comprehensive Loss	Total Equity
BALANCE, JANUARY 1, 2019	$ 9	$7,846	$ —	$15,487	$(747)	$(3,184)	$19,411
Net income	—	—	—	1,117	—	—	1,117
Other comprehensive income	—	—	—	—	—	1,086	1,086
ESOP shares committed to be released (2,586 shares)	—	—	—	—	22	—	22
Stock-based compensation	—	12	—	—	—	—	12
Purchase of treasury shares at cost (65,964 shares)	—	—	(579)	—	—	—	(579)
BALANCE, DECEMBER 31, 2019	$ 9	$7,858	$(579)	$16,604	$(725)	$(2,098)	$21,069
Net income	—	—	—	902	—	—	902
Other comprehensive income	—	—	—	—	—	859	859
ESOP shares committed to be released (2,586 shares)	—	—	—	—	23	—	23
Stock-based compensation	—	25	—	—	—	—	25
BALANCE, DECEMBER 31, 2020	$ 9	$7,883	$(579)	$17,506	$(702)	$(1,239)	$22,878

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, 2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 902	$ 1,117
Adjustments to reconcile net income to net cash flow from operating activities:		
Depreciation and amortization	351	253
Provision for loan losses	730	242
Net amortization of premiums and discounts on securities	300	205
Gain on sale of residential mortgage loans	(217)	(60)
Proceeds from sale of residential mortgage loans	8,250	2,960
Loans originated and sold	(8,033)	(2,900)
Deferred income tax expense	118	172
Gain on sale of available-for-sale securities	(49)	(7)
Loss on disposal and (gain) on sale of fixed assets	13	(9)
(Accretion) and amortization of deferred loan fees	(437)	54
ESOP compensation expense	23	22
Stock based compensation expense	25	12
Earnings on investment in bank owned life insurance	(53)	(54)
Increase in accrued interest receivable	(193)	(28)
(Increase) decrease in other assets	17	46
Write-down of foreclosed real estate	192	—
Increase in pension assets	(530)	(1,282)
Increase in other liabilities	160	508
Net cash flow provided by operating activities	1,569	1,251
CASH FLOWS FROM INVESTING ACTIVITIES:		
Activity in securities available-for-sale:		
Proceeds from calls and maturities	7,470	780
Proceeds from sales	5,167	5,878
Principal repayments	2,823	1,842
Purchases	(28,226)	(9,697)
Purchase of Federal Home Loan Bank of New York stock	(1,240)	(2,062)
Redemption of Federal Home Loan Bank of New York stock	1,176	1,864
Loan originations and principal collections, net	3,333	(10,034)
Proceeds from sale of fixed assets	—	9
Purchases of premises and equipment	(160)	(2,221)
Net cash flow used in investing activities	(9,657)	(13,641)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in deposits	4,007	7,936
(Decrease) increase in advances from borrowers for taxes and insurance	(232)	107
Purchase of treasury stock	—	(579)
Proceeds from the Payroll Protection Liquidity Facility	7,196	—
Repayment of long-term FHLB advances	(6,100)	(11,600)
Proceeds from long-term FHLB advances	7,000	18,850
Decrease in short-term FHLB advances	(2,900)	(2,700)
Net cash flow provided by financing activities	8,971	12,014
Net change in cash and cash equivalents	883	(376)
CASH AND CASH EQUIVALENTS – beginning of year	3,094	3,470
CASH AND CASH EQUIVALENTS – end of year	$ 3,977	$ 3,094
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for:		
Interest on deposits and borrowed funds	$ 1,834	$ 2,526
Income taxes	$ 106	$ 53
Transfer of loans to foreclosed real estate	$ 874	$ —

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

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.

Coronavirus Pandemic

In December 2019, an outbreak of a novel strain of coronavirus (COVID-19) originated in Wuhan, China and has since spread to other countries, including the U.S. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. In addition, multiple jurisdictions in the U.S. have declared states of emergency. It is anticipated that these impacts will continue for some time. Potential impacts to the Company include disruptions or restrictions on our employees' ability to work, changes in demand for residential loans and commercial loans or the borrower's ability to pay the required monthly payments. Changes to the operating environment may also be impacted. Operations include loan applications, processing or other areas requiring contact with the borrowers. These changes may increase operating costs. Further impacts may include increased risk of loan defaults. The future effects of these issues are unknown.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of the Company, the Bank and the Bank's wholly-owned subsidiary, Seneca Savings Insurance Agency, Inc. dba Financial Quest ("Quest"). Quest offers financial planning and investment advisory services and sells various insurance and investment products through broker networks. All significant intercompany transactions and balances have been eliminated in consolidation. The Company, as used in the consolidated financial statements, refers to the consolidated group.

Comprehensive Income

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.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (Continued)

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, particularly given the economic disruptions and uncertainties associated with the ongoing COVID-19 pandemic, such differences may be significant. 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.

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (Continued)

in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying consolidated financial statements.

Federal Home Loan Bank of New York Stock

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

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

Loans

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

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

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

Mortgage loans on real estate:

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (Continued)

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.

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

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

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

Commercial and industrial loans:

Includes business installment loans, lines of credit, other commercial loans and Paycheck Protection Program Loans ("PPP"). 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.

During 2020, the Coronavirus Aid, Relief, and Economic Security ("CARES") Act authorized the Small Business Administration ("SBA") to guarantee loans under a new 7(a) loan program called the Paycheck Protection Program ("PPP"). We are a qualified SBA lender and we enrolled in the PPP by completing the required documentation. The PPP program was subsequently modified by legislation during the second quarter of 2020. PPP loans have: (a) an interest rate of 1.0%, (b) a two-year or five-year loan term to maturity; and (c) principal and interest payments deferred until the lender receives the applicable forgiven amount or 10 months after the period the business has used such funds. The SBA will guarantee 100% of the PPP loans made to eligible borrowers. The entire principal amount of the borrower's PPP loan,

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (Continued)

including any accrued interest, is eligible to be reduced by the loan forgiveness amount under the PPP so long as employee and compensation levels of the business are maintained and 60% of the loan proceeds are used for payroll expenses, with the remaining 40% of the loan proceeds used for other qualifying expenses.

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 $832,000 of loans held for sale at December 31, 2020 and no loans held for sale at December 31, 2019.

Allowance for Loan Losses

The allowance for loan losses represents management's estimate of losses inherent in the loan portfolio as of the date of the consolidated statements of financial condition and it is recorded as a reduction of loans. The allowance is increased by the provision for loan losses, and decreased by charge-offs, net of recoveries. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance. All, or part, of the principal balance of loans receivable are charged off to the allowance as soon as it is determined that the repayment of all, or part, of the principal balance is highly unlikely. Non-residential consumer loans are generally charged off no later than 180 days past-due on a contractual basis, unless productive collection efforts are providing results. Consumer loans may be charged off earlier in the event of bankruptcy, or if there is an amount that is deemed uncollectible. Because all identified losses are immediately charged off, no portion of the allowance for loan losses is restricted to any individual loan and the entire allowance is available to absorb all loan losses.

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

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

The general component covers pools of loans, by loan class, including commercial loans not considered impaired, as well as smaller balance 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:

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (Continued)

- 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
- COVID-19 Factor — Uncertainty of job markets post crises, delayed foreclosure and carrying costs, loss of property values and commercial real estate values due to vacancies.

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

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

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

An allowance for loan loss is established for an impaired loan if 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,

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (Continued)

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.

Income Recognition on Impaired and Nonaccrual Loans

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (Continued)

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 year ended December 31, 2020, $115,000 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. For the year ended December 31, 2020, a write down of $192,000 was recorded as foreclosed real estate expense. The Company had foreclosed real estate of $682,000 at December 31, 2020. The Company collected $15,000 in rents on foreclosed real estate for the year ended December 31, 2020. The Company did not have foreclosed real estate at December 31, 2019. The Company had residential real estate loans in the process of foreclosure of $222,000 and $673,000 at December 31, 2020 and 2019, respectively.

Premises and Equipment

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

Income Taxes

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

The Company's Federal and New York State tax returns, constituting the returns of the major taxing jurisdictions, are subject to examination by the authorities for 2018, 2019 and 2020 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, 2020 and 2019 was $259,000 and $210,000, 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (Continued)

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 $249,999. All residential loan appraisals are reviewed by an individual or third party who is independent of the loan origination or approval process and was not involved in the approval of appraisers or selection of the appraiser for the transaction, and has no direct or indirect interest, financial or otherwise in the property or the transaction. Note 3 discusses the types of securities that the Company invests in. Note 4 discusses the types of lending that the Company engages in. The Company does not have any significant concentrations to any one industry or customer.

Bank-owned life insurance

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

Pension and Postretirement Plans

The Company sponsors qualified defined benefit pension plan and supplemental executive retirement plan (SERP). The qualified defined benefit pension plan is funded with trust assets invested in a diversified portfolio of debt and equity securities. Accounting for pensions and other postretirement benefits involves estimating the cost of benefits to be provided well into the future and attributing that cost over the time period each employee works. To accomplish this, the Company makes extensive use of assumptions about

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (Continued)

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.

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.

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 Stock Option Plan that had 96,967 shares authorized for award. 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 ratable over a five-year period (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 for the options granted in August of 2019: 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 its 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 (See footnote 10).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (Continued)

Federal Home Loan Bank of New York advances and Payroll Protection Liquidity Facility

The Bank has secured a LOC from the FHLBNY to collateralize New York State deposits related to the Banking Development District Program. The program helps to give incentives for banks to open branches in communities with underserved banking resources. The Bridgeport branch will allow us to market our deposit products in Madison County and has been opened in the later part of 2019. The LOC is collateralized by one-to four- mortgage loans pledged to the FHLBNY. The Bank utilizes the Payroll Protection Liquidity Facility (PPLF) at the Federal Reserve Bank to fund PPP loans. Under the PPLF, the Federal Reserve Banks lend to banks on a non-recourse basis, taking PPP loans as collateral. Principal repayment of PPLF borrowings, if any, are made upon receipt of payment on the underlying PPP loans pledged as collateral and interest is charged at a rate of 0.35%. Not all loans are funded by the PPLF, some PPP loans are funded by the Bank depending on the cash position at the time of the PPP loan origination.

Earnings per Common Share

Basic net income per common share is calculated by dividing net income by the weighted-average number of common shares outstanding during the period. The Company has granted 5,000 and 47,500 stock options to directors and officers during the year ended December 31, 2020 and 2019, respectively, and had no potentially dilutive common stock equivalents. Unallocated common shares held by the ESOP are not included in the weighted-average number of common shares outstanding for purposes of calculating earnings per common share until they are committed to be released (See footnote 14) .

Reclassifications

Certain amounts in the 2019 consolidated financial statements have been reclassified to conform with the 2020 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 30, 2021, which is the date the consolidated financial statements were available to be issued.

Recent Accounting Pronouncements

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

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

For Public Business Entities ("PBEs") that are U.S. Securities and Exchange Commission (SEC) filers, such as the Company, the amendments in this update are effective for fiscal years beginning after December 15,

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (Continued)

2019, including interim periods within those fiscal years. All entities may adopt the amendments in this update earlier as of the fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. An entity will apply the amendments in this update through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. The Company has adopted the ASU in the first quarter of 2020 and has determined that there is no significant impact to consolidated financial statements.

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

In July 2019, the FASB decided to add a project to its technical agenda to propose staggered effective dates for certain accounting standards, including ASU 2016-13. The FASB has proposed an approach that ASU 2016-13 will be effective for Public Business Entities that are SEC filers, excluding smaller reporting companies such as the Company, for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years. For all other entities, ASU 2016-13 will be effective for fiscal years beginning after January 1, 2023, including interim periods within those fiscal years. For all entities, early adoption will continue to be permitted; that is, early adoption is allowed for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years (that is, effective January 1, 2019, for calendar-year-end companies). The FASB approved the proposal in October. The Company's expected adoption date for ASU 2016-13 will change from fiscal years beginning after December 15, 2019 to fiscal years beginning after January 1, 2023, including interim periods within those fiscal years. Management is evaluating the impact of ASU 2016-13 on its consolidated financial statements.

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

Under the new guidance, a lessee will be required to recognize assets and liabilities for leases with lease terms of more than 12 months. Consistent with current U.S. GAAP, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee will depend primarily on its classification as a finance or an operating lease (i.e., the classification criteria for distinguishing between finance leases and operating leases are substantially like the classification criteria for distinguishing between capital leases and operating leases under the previous guidance). However, unlike current U.S. GAAP,

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (Continued)

which requires only capital leases to be recognized on the consolidated statements of financial condition, ASU No. 2016-02 will require both operating and finance leases to be recognized on the consolidated statements of financial condition. Additionally, the ASU will require disclosures to help investors and other consolidated financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases, including qualitative and quantitative requirements. Lessor accounting will remain largely unchanged from current U.S. GAAP. However, the ASU contains some targeted improvements that are intended to align, where necessary, lessor accounting with the lessee accounting model and with the updated revenue recognition guidance issued in 2014.

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

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

In June 2020, the FASB issued No. ASU 2020-05, Coronavirus Disease 2019 (COVID-19) in response to the pandemic which has adversely affected the global economy and caused significant and widespread business and capital market disruptions. The FASB is committed to supporting and assisting stakeholders during this difficult time. The FASB is issuing this update as a limited deferral of the effective dates of the following updates (including amendments issued after the issuance of the original update) to provide immediate, near-term relief for certain entities for whom these updates are either currently effective or imminently effective: 1. Accounting Standards update No. 2014-09, Revenue from Contracts with Customers (Topic 606) (Revenue) 2. Accounting Standards Update No. 2016-02, Leases (Topic 842) (Leases). The Company plans to defer leases to fiscal years beginning after December 15, 2021. The Company currently does not lease equipment or buildings and does not anticipate a material effect on the Company's consolidated financial statements.

3. SECURITIES

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

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
		(In thousands)		
Available-for-sale securities:				
December 31, 2020:				
U.S. government agency securities	$ 3,014	$ 4	$ —	$ 3,018
Municipal securities	22,552	765	(14)	23,303
Mortgage-backed securities and collateralized mortgage obligations	8,038	143	(9)	8,172
Corporate securities	6,633	138	—	6,771
	$40,237	$1,050	$(23)	$41,264
December 31, 2019:				
U.S. government agency securities	$ 1,142	$ —	$(36)	$ 1,106
Municipal securities	10,454	174	(5)	10,623
Mortgage-backed securities and collateralized mortgage obligations	10,816	69	(33)	10,852
Corporate securities	5,311	68	(1)	5,378
	$27,723	$ 311	$(75)	$27,959

Government agency securities include notes and bonds with both fixed and variable 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 $10.3 million and $11.0 million were pledged to secure deposits and for other purposes required or permitted by law for the years ended December 31, 2020 and 2019, respectively.

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.

3. SECURITIES — (Continued)

	December 31, 2020		December 31, 2019	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			
Due in one year or less	$ 1,746	$ 1,747	$ —	$ —
Due after one year through five years	12,354	12,613	6,716	6,772
Due after five years through ten years	8,217	8,546	6,448	6,552
Due after ten years	9,882	10,186	3,743	3,783
Mortgage-backed securities and collateralized mortgage obligations	8,038	8,172	10,816	10,852
	$40,237	$41,264	$27,723	$27,959

During the year ended December 31, 2020, the Company sold $5.2 million of available-for-sale securities with a gross realized gain of $61,000 and gross realized loss of $12,000. During the year ended December 31, 2019, the Company sold $5.9 million of available-for-sale securities with a gross realized gain of $28,000 and gross realized loss of $21,000.

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

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

	Less than Twelve Months		Over Twelve Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
	(In thousands)			
December 31, 2020:				
Municipal securities	$(14)	$1,146	$ —	$ —
Mortgage-backed securities and collateralized mortgage obligations	(9)	1,047	—	—
	$(23)	$2,193	$ —	$ —
December 31, 2019:				
U.S. government agency securities	$(36)	$1,106	$ —	$ —
Municipal securities	(5)	1,885	—	—
Mortgage-backed securities and collateralized mortgage obligations	—	—	(33)	2,969
Corporate Securities	—	—	(1)	509
	$(41)	$2,991	$(34)	$3,478

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. For the years ended December 31, 2020 and 2019, the Company did not record an other-than-temporary impairment (OTTI) charge.

3. SECURITIES — (Continued)

At December 31, 2020, no securities, were in a continuous loss position for more than twelve months. At December 2020, three municipal securities, a mortgage back security and a collateralized mortgage obligation were at a loss position for less than one year.

At December 31, 2019, five collateralized mortgage obligations and a corporate security were in a continuous loss position for more than twelve months. At December 2019, one U.S. government agency security and three municipal securities were at a loss position for less than one year.

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

4. LOANS

Net loans for the period December 31, 2020 and 2019 are as follows:

	December 31, 2020	December 31, 2019
	(In thousands)	
Mortgage loans on real estate:		
One-to four-family first lien residential	$ 87,146	$ 99,248
Residential construction	2,476	3,710
Home equity loans and lines of credit	8,648	9,109
Commercial	34,922	34,432
Total mortgage loans on real estate	133,192	146,499
Commercial and industrial	25,203	16,814
Consumer loans	3,130	1,876
Total loans	161,525	165,189
Allowance for loan losses	(1,640)	(1,241)
Net deferred loan origination (fees) and costs	3	440
Net loans	$159,888	$164,388

Residential real estate loans serviced for others, not included in net loans, by the Company totaled $29.8 million and $26.4 million at December 31, 2020 and 2019, 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.

4. LOANS — (Continued)

Risk Characteristics of Portfolio Segments

The risk characteristics within the loan portfolio vary depending on the loan segment. Consumer loans generally are repaid from personal sources of income. Risks associated with consumer loans primarily include general economic risks such as declines in the local economy creating higher rates of unemployment. Those conditions may also lead to a decline in collateral values should the Company be required to repossess the collateral securing consumer loans. These economic risks also impact the commercial loan segment, however commercial loans are considered to have greater risk than consumer loans as the primary source of repayment is from the cash flow of the business customer. Real estate loans, including residential mortgages, manufactured housing, commercial and home equity loans, comprise approximately 82% and 89% of the portfolio at December 31, 2020 and 2019, respectively. Loans secured by real estate provide the best collateral protection and thus significantly reduce the inherent risk in the portfolio.

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

Description of Credit Quality Indicators

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

- Special Mention: The relationship is protected but are potentially weak. These assets may constitute an undue and unwarranted credit risk but not to the point of justifying a substandard rating. All loans 60 days past-due are classified Special Mention. The loan is not upgraded until it has been current for six consecutive months.
- Substandard: The relationship is inadequately protected by the current sound worth and paying capacity of the obligor or the collateral pledge, if any. Assets so classified have a well-defined weakness or a weakness that jeopardized the liquidation of the debt. All loans 90 days past-due are classified Substandard. The loan is not upgraded until it has been current for six consecutive months.
- Loss: Loans are considered uncollectible and of such little value that continuance as bankable assets are not warranted. It is not practicable or desirable to defer writing off this basically worthless asset even though partial recovery may be possible in the future.

The risk ratings are evaluated at least annually for commercial loans or when credit deficiencies arise, such as delinquent loan payments, for commercial, real estate or consumer loans. See further discussion of risk ratings in Note 2.

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, 2020 and 2019:

	December 31, 2020 (In thousands)				
	Pass	Special Mention	Substandard	Doubtful/Loss	Total
Mortgage loans on real estate:					
One-to four-family first lien residential	$ 87,146	$—	$ —	$—	$ 87,146
Residential construction	2,476	—	—	—	2,476
Home equity loans and lines of credit	8,648	—	—	—	8,648
Commercial	32,979	—	1,943	—	34,922
Total mortgage loans on real estate	131,249	—	1,943	—	133,192
Commercial and industrial	24,893	—	310	—	25,203
Consumer loans	3,130	—	—	—	3,130
Total loans	$159,272	$—	$2,253	$—	$161,525

	December 31, 2019 (In thousands)				
	Pass	Special Mention	Substandard	Doubtful/Loss	Total
Mortgage loans on real estate:					
One-to four-family first lien residential	$ 99,248	$ —	$ —	$ —	$ 99,248
Residential construction	3,710	—	—	—	3,710
Home equity loans and lines of credit	9,109	—	—	—	9,109
Commercial	31,072	58	3,302	—	34,432
Total mortgage loans on real estate	143,139	58	3,302	—	146,499
Commercial and industrial	16,214	565	35	16,814	
Consumer loans	1,876	—	—	—	1,876
Total loans	$161,229	$623	$3,337	$ —	$165,189

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, 2020 (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	$ 874	$ 32	$510	$1,416	$ 85,730	$ 87,146
Residential construction	—	—	—	—	2,476	2,476
Home equity loans and lines of credit	155	—	33	188	8,460	8,648
Commercial	—	119	—	119	34,803	34,922
Total mortgage loans on real estate	1,029	151	543	1,723	131,469	133,192
Commercial and industrial	—	—	14	14	25,189	25,203
Consumer loans	—	3	—	3	3,127	3,130
Total loans	$1,029	$154	$557	$1,740	$159,785	$161,525

	December 31, 2019 (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	$ 778	$ 946	$857	$2,581	$ 96,667	$ 99,248
Residential construction	—	—	—	—	3,710	3,710
Home equity loans and lines of credit	67	—	56	123	8,986	9,109
Commercial	245	120	—	365	34,067	34,432
Total mortgage loans on real estate	1,090	1,066	913	3,069	143,430	146,499
Commercial and industrial	52	—	—	52	16,762	16,814
Consumer loans	12	—	8	20	1,856	1,876
Total loans	$1,154	$1,066	$921	$3,141	$162,048	$165,189

Paycheck Protection Program

PPP loans have: (a) an interest rate of 1.0%, (b) a two-year or five-year loan term to maturity; and (c) principal and interest payments may be forgiven by the SBA under certain circumstances. The SBA will guarantee 100% of the PPP loans made to eligible borrowers.

During the year ended December 31, 2020, we disbursed 286 PPP loans totaling $18.7 million. We limited our investment in PPP loans to our current customers and to a lesser extent, non-customers in our local market area. At December 31, 2020, we had 207 PPP loans totaling $12.7 million.

4. LOANS — (Continued)

Payroll Protection Plans (PPP) Loans	Number of Loans	Balance	Deferred Fees
	(Dollars in thousands)		
PPP Loans disbursed in 2020	286	$18,700	$ 850
PPP Loans forgiven in 2020	(79)	(5,906)	(418)
Balance of PPP Loans 12-31-20	207	$12,794	$ 432

The Company received fees from the SBA for originating these loans totaling approximately $850,000. These fees have been deferred and will be recognized in income on a level-yield basis as the loans are repaid or forgiven by the SBA. At December 31, 2020, the remaining deferred fees balance totaled approximately $432,000.

Loan Modification/Troubled Debt Restructurings

Under Section 4013 of the CARES Act, loans less than 30 days past due as of December 31, 2019 will be considered current for COVID-19 modifications. A financial institution can then suspend the requirements under GAAP for loan modifications related to COVID-19 that would otherwise be categorized as a troubled debt restructuring ("TDR"), and suspend any determination of a loan modified as a result of COVID-19 as being a TDR, including the requirement to determine impairment for accounting purposes. Financial institutions wishing to utilize this authority must make a policy election, which applies to any COVID-19 modification made between March 1, 2020 and the earlier of either December 31, 2020 or the 60th day after the end of the COVID-19 national emergency. The 2021 Consolidated Appropriations Act extends this relief to earlier of 60 days after the national emergency termination date or January 1, 2022. Similarly, the Financial Accounting Standards Board has confirmed that short-term modifications made on a good-faith basis in response to COVID-19 to loan customers who were current prior to any relief are not TDRs. Lastly, prior to the enactment of the CARES Act, the banking regulatory agencies provided guidance as to how certain short-term modifications would not be considered TDRs, and have subsequently confirmed that such guidance could be applicable for loans that do not qualify for favorable accounting treatment under Section 4013 of the CARES Act.

During the year ended December 31, 2020, the Company received requests to modify 192 loans totaling $30.2 million, primarily consisting of the deferral of principal and interest payments for a 90-day period. As of December 31, 2020, we had 8 loans aggregating $1,590,000, remaining on payment deferral. Of these modifications, $1,590,000, or 100%, were performing in accordance with their modified terms. Details with respect to actual loan modifications are as follows:

4. LOANS — (Continued)

Type of Loan	Number of Loans	Balance	Weighted Average Interest Rate
	(Dollars in thousands)		
Mortgage loans on real estate:			
One-to four-family first lien residential	3	$ 702	4.27%
Residential construction	—	—	—
Home equity loans and lines of credit	—	—	—
Commercial	5	888	5.39%
Total mortgage loans on real estate	8	1,590	4.90%
Commercial and industrial	—	—	—
Consumer loans	—	—	—
Total loans	8	$1,590	4.90%

At December 31, 2020, we had $112,000 of loans past-due 90 days and still accruing and at December 31, 2019, we had $212,000 of loans past-due and still accruing. Nonaccrual loans, segregated by class of loan as of December 31, 2020 and 2019 are as follows:

	December 31, 2020	December 31, 2019
	(In thousands)	
Mortgage loans on real estate	$431	$1,671
Commercial and industrial	14	—
Consumer loans	—	—
Total nonaccrual loans	$445	$1,671

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

The Company had no loans that had been modified as TDRs during the year ended December 31, 2020 and 2019. During the year ended December 31, 2017, the Company modified two commercial mortgage loans valued at $1.0 million that are considered TDRs. We modified the terms to interest only for a two-year period. During the year ended December 31, 2020, the Company received a deed in lieu of foreclosure and the loans have been transferred into other real estate owned. A valuation allowance of $192,000 was recorded in December 2020 for the properties now owned by the Company.

The following table summarizes impaired loans information by portfolio class:

4. LOANS — (Continued)

	December 31, 2020 (In thousands)		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
With an allowance recorded:			
Mortgage loans on real estate	$156	$156	$25
Commercial and industrial loans	—	—	—
	156	156	25
With no allowance recorded:			
Mortgage loans on real estate	302	302	—
Commercial and industrial loans	—	—	—
	302	302	—
Total	$458	$458	$25

	December 31, 2019 (In thousands)		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
With an allowance recorded:			
Mortgage loans on real estate	$ 327	$ 327	$17
	327	327	17
With no allowance recorded:			
Mortgage loans on real estate	1,417	1,417	—
	1,417	1,417	—
Total	$1,744	$1,744	$17

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

	December 31,	
	2020	2019
	(In thousands)	
Mortgage loans on real estate	$1,101	$1,919
Commercial and industrial loans	—	—
Total	$1,101	$1,919

The following table presents interest income recognized on impaired loans for the years ended December 31, 2020 and 2019:

4. LOANS — (Continued)

	December 31, 2020	December 31, 2019
	(In thousands)	
Mortgage loans on real estate – commercial	$—	$38
Commercial and industrial loans	—	—
Total	$—	$38

The cash-basis interest income for the years ended December 31, 2020 and 2019 was nominal.

Changes in the allowance for loan losses for the years ended December 31, 2020 and 2019 are as follows:

	Mortgage Loans on Real Estate	Commercial and Industrial Loans	Consumer Loans	Unallocated	Total
Allowance for loan losses:					
Beginning balance	$ 945	$ 121	$ 17	$ 158	$ 1,241
Charge-offs	(115)	(204)(12)	—	(331)	
Recoveries	—	—	—	—	—
Provision	436	249	21	24	730
Ending balance	$ 1,266	$ 166	$ 26	$ 182	$ 1,640
Ending balance: individually evaluated for impairment	25	—	—	—	25
Ending balance: collectively evaluated for impairment	1,241	166	26	182	1,615
Ending balance	$ 1,266	$ 166	$ 26	$ 182	$ 1,640
Loans receivable balance:					
Ending balance: individually evaluated for impairment	458	—	—	—	458
Ending balance: collectively evaluated for impairment	132,734	25,203	3,130	—	161,067
Ending balance	$133,192	$25,203	$3,130	$ —	$161,525

	December 31, 2019				
	(In thousands)				
	Mortgage Loans on Real Estate	Commercial and Industrial Loans	Consumer Loans	Unallocated	Total
Allowance for loan losses:					
Beginning balance	$ 933	$ 132	$ 17	$152	$ 1,234
Charge-offs	(219)	—	(16)	—	(235)
Recoveries	—	—	—	—	—
Provision	231	(11)	16	6	242
Ending balance	$ 945	$ 121	$ 17	$158	$ 1,241

4. LOANS — (Continued)

	December 31, 2019 (In thousands)				
	Mortgage Loans on Real Estate	Commercial and Industrial Loans	Consumer Loans	Unallocated	Total
Ending balance: individually evaluated for impairment	17	—	—	—	17
Ending balance: collectively evaluated for impairment	928	121	17	158	1,224
Ending balance	$ 945	$ 121	$ 17	$158	$ 1,241
Loans receivable balance:					
Ending balance: individually evaluated for impairment	1,744	—	—	—	1,744
Ending balance: collectively evaluated for impairment	144,755	16,814	1,876	—	163,445
Ending balance	$146,499	$16,814	$1,876	$ —	$165,189

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, 2020	December 31, 2019
	(In thousands)	
Balance, beginning of period	$ 376	$420
Payments	(33)	(44)
Proceeds	137	—
Effect of change in composition of related parties	1,345	—
Balance, end of period	$1,825	$376

5. PREMISES AND EQUIPMENT

Premises and equipment at December 31, 2020 and 2019 are summarized as follows:

	December 31, 2020	December 31, 2019
	(Dollars in Thousands)	
Building and building improvements	$ 6,054	$ 4,638
Construction in progress	9	1,509
Furniture, fixture and equipment	2,084	1,908
	$ 8,147	$ 8,055
Accumulated depreciation	(2,937)	(2,641)
Total	$ 5,210	$ 5,414

5. PREMISES AND EQUIPMENT — (Continued)

Depreciation expense for the years ended December 31, 2020 and 2019 was $353,000 and $253,000, respectively.

6. DEPOSITS

The components of deposits for the years ended December 31, 2020 and 2019 consist of the following:

	December 31,	
	2020	2019
	(In thousands)	
Demand deposit	$ 25,144	$ 16,719
NOW accounts	22,946	14,961
Regular savings and demand clubs	26,763	22,275
Money markets	30,970	20,741
Certificates of deposit and retirement accounts	50,095	77,215
	$155,918	$151,911

As of December 31, 2020, certificates of deposit and retirement accounts have scheduled maturities as follows (dollars in thousands):

	December 31, 2020
2021	$39,368
2022	7,975
2023	1,065
2024	1,373
2025	314
Thereafter	—
	$50,095

The aggregate amount of time deposits in denominations of $250,000 or more were $15.4 million and $19.4 million at December 31, 2020 and 2019, respectively. Under the Dodd-Frank Act, deposit insurance per account owner is $250,000.

Interest expense on deposits for the years ended December 31, 2020 and 2019 are as follows:

	December 31,	
	2020	2019
	(Dollars in Thousands)	
NOW accounts	$ 25	$ 23
Regular savings and demand clubs	19	20
Money markets	263	169
Certificates of deposit and retirement accounts	763	1,509
	$1,070	$1,721

Related party deposits for the year ended December 31, 2020 was $2.1 million and immaterial for the year ended December 31, 2019.

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, 2020 and 2019 are summarized as follows:

	December 31,	
	2020	2019
	(Dollars in Thousands)	
Term Advances:		
Advanced September 28, 2015 – Due September 28, 2020 – bearing interest at 1.91% fixed rate	—	1,000
Advanced March 29, 2016 – Due March 29, 2021 – bearing interest at 1.81% fixed rate	2,000	2,000
Advanced December 9, 2016 – Due December 9, 2020 – bearing interest at 2.10% fixed rate	—	1,500
Advanced March 30, 2017 – Due March 30, 2022 – bearing interest at 2.33% fixed rate	3,000	3,000
Advanced June 29, 2017 – Due June 29, 2022 – bearing interest at 2.22% fixed rate	1,000	1,000
Advanced September 7, 2017 – Due September 7, 2022 – bearing interest at 2.03% fixed rate	1,650	1,650
Advanced December 29, 2017 – Due December 29, 2020 – bearing interest at 2.36% fixed rate	—	1,000
Advanced March 5, 2018 – Due March 5, 2021 – bearing interest at 2.74% fixed rate	1,250	1,250
Advanced September 26, 2018 – Due September 26, 2023 – bearing interest at 3.37% fixed rate	—	1,100
Advanced January 8, 2019 – Due January 8, 2024 – bearing interest at 2.97% fixed rate	2,000	2,000
Advanced April 1, 2019 – Due April 1, 2021 – bearing interest at 2.63% fixed rate	1,000	1,000
Advanced April 1, 2019 – Due April 1, 2022 – bearing interest at 2.60% fixed rate	1,000	1,000
Advanced May 13, 2019 – Due May 13, 2022 – bearing interest at 2.44% fixed rate	1,000	1,000
Advanced May 16, 2019 – Due May 16, 2021 – bearing interest at 2.49% fixed rate	1,000	1,000
Advanced May 16, 2019 – Due May 16, 2022 – bearing interest at 2.48% fixed rate	1,000	1,000
Advanced May 29, 2019 – Due May 30, 2023 – bearing interest at 2.38% fixed rate	1,500	1,500
Advanced September 25, 2019 – Due September 25, 2023 – bearing interest at 1.89% fixed rate	2,000	2,000
Advanced December 26, 2019 – Due January 2, 2020 – bearing interest at 1.81% fixed rate	—	2,900
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 December 30, 2019 – Due December 30, 2021 – bearing interest at 1.86% fixed rate	2,000	2,000

7. BORROWINGS — (Continued)

	December 31, 2020	December 31, 2019
	(Dollars in Thousands)	
Advanced February 25, 2020 – Due February 25, 2025 – bearing interest at 1.52% fixed rate	1,000	—
Advanced March 5, 2020 – Due March 5, 2025 – bearing interest at 1.12% fixed rate	3,500	—
Advanced March 12, 2020 – Due March 12, 2025 – bearing interest at 1.42% fixed rate	1,000	—
Total	$30,900	$32,900

The contractual maturities and weighted average rates of advances from FHLBNY at December 31, 2020 are as follows (dollars in thousands):

2021	$ 7,250	2.19%
2022	8,650	2.32%
2023	3,500	2.10%
2024	6,000	2.28%
2025	5,500	1.25%
	$30,900	1.89%

The Company has access to FHLBNY advances, under which it can borrow at various terms and interest rates. Residential and commercial mortgage loans of $70.7 million and $78.8 million at December 31, 2020 and 2019, respectively, and investment securities of $10.3 million and $10.9 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 $169,000 and a market value of $172,000 to a local municipality collateralizing their deposits. The Company has pledged a New York municipal bond with a book value of $328,000 and a market value of $329,000 to the link deposit program. The Company also has a $2.5 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.

At December 31, 2020, we had 78 Payroll Protection Liquidity Facility advances (PPLF) at the Federal Reserve Bank of New York with a balance of $7.2 million. The contractual maturities and weighted average rates of the PPLF borrowings are as follows:

	December 31, 2020	
	(Dollars in thousands)	
Paycheck Protection Plan Loans		
2022	$7,196	0.35%
	$7,196	0.35%

8. INCOME TAXES

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

	December 31, 2020	December 31, 2019
	(Dollars in thousands)	
Current:		
Federal	$ 39	$ 96
State	4	4
	43	100
Deferred:		
Federal	118	172
State	—	—
	118	172
Total provision for income taxes	$161	$272

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 in the consolidated statements of financial condition, are as follows:

	December 31, 2020	December 31, 2019
	(Dollars in thousands)	
Deferred tax assets:		
Allowance for loan losses	$ 424	$ 321
Net operating loss carryforward	404	356
Nonaccrual interest	28	24
Foreclosed real estate	50	—
Deferred loan costs	48	—
Other	90	67
Total deferred tax assets	1,044	768
Deferred tax liabilities:		
Net retirement plans	(1,032)	(839)
Deferred loan fees	—	(85)
Depreciation	(356)	(98)
Net unrealized gain on securities available-for-sale	(216)	(50)
Other	(1)	(1)
Total deferred tax liabilities	(1,605)	(1,073)
Valuation allowance	(263)	(172)

8. INCOME TAXES — (Continued)

	December 31, 2020	December 31, 2019
	(Dollars in thousands)	
Net deferred tax liabilities	$ (824)	$ (477)

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, 2020	Years Ended December 31, 2019
	(Dollars in thousands)	
Computed at the statutory rate	$223	$291
Change in valuation allowance	91	34
State deferred tax liability	(91)	(34)
Nontaxable interest and dividend	(64)	(40)
Income from bank owned life insurance	(11)	(11)
Other items	13	32
Income tax provision	$161	$272

The increase in the valuation allowance from $34,000 at December 31, 2019, to $91,000 at December 31, 2020, or $57,000, was due to bonus depreciation being taken for federal purposes on the various branch renovations and construction that took place during 2019 and 2020.

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

At December 31, 2020 and 2019, 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, 2020 and 2019, 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, 2020. 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, 2020		
	Unrealized Gains (Losses) on Available-for-Sale Securities	Net Gain on Pension Plan	Accumulated Other Comprehensive Income (Loss)
		(In thousands)	
Beginning balance	$186	$(2,284)	$(2,098)
Other comprehensive income	625	234	859
Ending balance	$811	$(2,050)	$(1,239)

	For the year ended December 31, 2019		
	Unrealized Gains on Available-for-Sale Securities	Net Gain on Pension Plan	Accumulated Other Comprehensive (Loss)
		(In thousands)	
Beginning balance	$(436)	$(2,748)	$(3,184)
Other comprehensive income (loss)	622	464	1,086
Ending balance	$ 186	$(2,284)	$(2,098)

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

	For the years ended					
	December 31, 2020			December 31, 2019		
	Before Tax Amount	Tax (Expense) Benefit	Net	Before Tax Amount	Tax (Expense) Benefit	Net
			(In thousands)			
Available for sale securities:						
Unrealized holding gains (loss) arising during period	$ 840	$(174)	$666	$ 794	$(166)	$ 628
Reclassification adjustment for net gains included in net income	(49)	8	(41)	(7)	1	(6)
Net unrealized gains (loss) on available-for-sale securities	791	(166)	625	787	(165)	622
Defined Benefit Pension Plan:						
Net gains arising during the period	118	(9)	109	484	(101)	383
Less reclassification of amortization of net losses recognized in net pension expense	180	(55)	125	103	(22)	81
Net changes in defined benefit pension plan	298	(64)	234	587	(123)	464
Other Comprehensive Income	$1,089	$(230)	$859	$1,374	$(288)	$1,086

9. COMPREHENSIVE LOSS — (Continued)

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

	Amount Reclassified from AOCL		
	For the years ended		
	December 31, 2020	December 31, 2019	Affected line item in the Statement of Income
	(In thousands)		
Available for sale securities:			
Realized gains on sale of available for sale securities	$49	$7	Net realized gains on sales of available-for-sale securities
Tax effect	(10)	(1)	Provision for income taxes
	39	6	Net income
Defined benefit pension plan:			
Retirement plan net losses recognized in net period pension cost	(180)	(103)	Compensation and employee benefits
Tax effect	55	22	Benefit for income taxes
	$(125)	$(81)	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, 2020 and 2019, the Company recorded $143,196 and $118,642, 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 $24,554 and $35,275, respectively, for the years ended December 31, 2020 and 2019.

Defined Benefit Plan

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

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

All plan provisions and actuarial methods used in 2020 are the same as those used in 2019, with the exception of the discount rate used to determine the benefit obligation which decreased to 3.78% from 4.17% and the discount rate used to determine net periodic pension cost which decreased to 4.17% from 5.00%. The mortality table used in 2020 was RP-2014 (adjusted) with MP-2019 mortality improvements.

10. EMPLOYEE BENEFIT PLANS — (Continued)

Information pertaining to the activity in the Pension Plan for the years ended December 31, 2020 and 2019 is as follows:

	December 31, 2020	December 31, 2019
	(Dollars in Thousands)	
Change in benefit obligation:		
Benefit obligation at beginning of year	$10,867	$ 9,789
Service cost	283	283
Interest cost	441	475
Actuarial (gain) loss	645	888
Benefits paid	(563)	(568)
Benefit obligation at end of year	11,673	10,867
Change in plan assets:		
Fair value of plan assets at beginning of year	$13,698	$11,039
Actual (loss) return on plan assets	1,697	2,227
Employer contributions	500	1,000
Benefits paid	(563)	(568)
Fair value of plan assets at end of year	15,332	13,698
Net amount recognized, funded status	$ 3,659	$ 2,831

The accumulated benefit obligation was $11.0 million and $10.4 million at December 31, 2020 and 2019, respectively.

The assumptions used to determine the benefit obligation at December 31, 2020 and 2019 are as follows:

	2020	2019
Discount rate	3.78%	4.17%
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, 2020 and 2019 are as follows:

	December 31, 2020	December 31, 2019
	(Dollars in Thousands)	
Service cost	$ 283	$ 283
Interest cost	441	475
Expected return on assets	(935)	(855)
Amortization of unrecognized loss	181	103
Net periodic pension cost	(30)	6
Total of amounts recognized in other comprehensive income loss	(298)	(587)

10. EMPLOYEE BENEFIT PLANS — (Continued)

	December 31, 2020	December 31, 2019
	(Dollars in Thousands)	
Total recognized in net periodic pension cost and other comprehensive income	$(328)	$(581)

The estimated net actuarial loss of $180,000 will be amortized from accumulated other comprehensive loss into net periodic pension cost during the next fiscal year.

The assumptions used to determine net periodic pension cost for the years ended December 31, 2020 and 2019 are as follows:

	December 31, 2020	December 31, 2019
Discount rate	4.17%	5.00%
Expected long-term rate of return on plan assets	7.00%	7.00%
Rate of increase in compensation levels	3.00%	3.00%

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

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

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

	Asset Category	Market Value of Assets – December 31, 2020 Total	Level 1	Level 2
	Equities & Commodities:			
(1)	Blackrock Dividend Equity	$ 804	$—	$ 804
(2)	Select S&P 500 Index	3,083	—	3,083
(3)	Select Blue Chip Growth	747	—	747
(4)	Select S&P Mid Cap Index	1,990	—	1,990
(5)	Select Small Cap Index	1,745	—	1,745
(6)	Premier Strategic Emerging Markets	819	—	819
(7)	Oppenheimer Real Estate	419	—	419
	Total Equities and Commodities	9,607		9,607
	Fixed Income:			
(8)	Premier Short-Duration Bond	1,420	—	1,420
(9)	Northern Bond Index	1,408	—	1,408
(10)	Select Western Strategic Bond	1,439	—	1,439
(11)	Premier Inflation Protected & Income Fund	713	—	713

10. EMPLOYEE BENEFIT PLANS — (Continued)

	Asset Category	Market Value of Assets – December 31, 2020 Total	Level 1	Level 2
(12)	Premier Babson High Yield Bond	745	—	745
	Total Fixed Income	5,725		5,725
	Total Market Value	$15,332	$—	$15,332

	Asset Category	Market Value of Assets – December 31, 2019 Total	Level 1	Level 2
	Equities & Commodities:			
(1)	Blackrock Dividend Equity	$ 708	$—	$ 708
(2)	Select S&P 500 Index	2,867	—	2,867
(3)	Select Blue Chip Growth	718	—	718
(4)	Select S&P Mid Cap Index	1,692	—	1,692
(5)	Select Small Cap Index	1,442	—	1,442
(6)	Premier Strategic Emerging Markets	726	—	726
(7)	Oppenheimer Real Estate	389	—	389
	Total Equities and Commodities	8,542		8,542
	Fixed Income:			—
(8)	Premier Short-Duration Bond	1,290	—	1,290
(9)	Northern Bond Index	1,278	—	1,278
(10)	Select Western Strategic Bond	1,291	—	1,291
(11)	Premier Inflation Protected & Income Fund	642	—	642
(12)	Premier Babson High Yield Bond	655	—	655
	Total Fixed Income	5,156		5,156
	Total Market Value	$13,698	$—	$13,698

Level 1 — Quoted Prices in Active Markets for Identical Assets

Level 2 — Significant Observable Inputs

Level 3 — Significant Unobservable Inputs

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, bur 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

10. EMPLOYEE BENEFIT PLANS — (Continued)

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).

(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.

10. EMPLOYEE BENEFIT PLANS — (Continued)

(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).

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 2020 but made a $500,000 contribution in the 1st quarter of 2020 and $1 million contribution in the 1st quarter of 2019.

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

2021	$ 555
2022	$ 545
2023	$ 569
2024	$ 592
2025	$ 583
2026 – 2030	$3,369

EMPLOYEE STOCK OWNERSHIP PLAN ("ESOP")

Effective upon the completion of the Company's initial public stock offering in October 2017, the Bank established an Employee Stock Ownership Plan ("ESOP") for all eligible employees. The ESOP used $775,740 in proceeds from a term loan obtained from the Company to purchase 77,574 shares of common stock on the open market at an average price of $10.00 per share. The ESOP loan will be repaid principally from the Bank's contribution to the ESOP in annual payments through 2047 at a fixed interest rate of 4.25%. Shares are released to participants on a straight-line basis over the loan term and allocated based on participant compensation. The Bank recognizes compensation benefit expense as shares are committed for release at their current market price. The difference between the market price and the cost of shares committed to be released is recorded as an adjustment to additional paid-in capital. Dividends on allocated shares are recorded as a reduction of retained earnings and dividends on unallocated shares are recorded as a reduction of debt. The Company recognized $22,782 of compensation expense related to this plan for the year ended December 31, 2020 and $22,781 for the year ended December 31, 2019. At December 31, 2020, there were 70,182 shares not yet released having an aggregate market value of approximately $539,700. 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

A summary of the Company's stock option activity and related information for its equity incentive plan for the years ended December 31, 2020 and 2019 is as follows:

	For the year ended December 31,			
	2020		2019	
	Options	Weighted Average Exercise Price Per Share	Options	Weighted Average Exercise Price Per Share
Outstanding at the beginning of the period	47,500	$9.20	—	$ —
Grants	5,000	6.52	47,500	9.20
Exercised	—	—	—	—
Forfeitures	(4,000)	—	—	—
Outstanding at period end	48,500	$9.68	47,500	$9.20

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 2024.

The compensation expense of the awards is based on the fair value of the instruments on the date of the grant.

The Company recorded compensation expense in the amount of $25,643 for the year ended December 31, 2020 and $11,970 for the year ended December 31, 2019. The Company has $93,000 of compensation expense remaining to be recognized at December 31, 2020.

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 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

10. EMPLOYEE BENEFIT PLANS — (Continued)

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.

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:

	Total	Level 1	Level 2	Level 3
		(In thousands)		
Available-for-sale Securities:				
December 31, 2020:				
U.S. Government Agency Securities	$ 3,018	$—	$ 3,018	$—
Municipal securities	23,303	—	23,303	—
Mortgage-backed securities and collateralized mortgage obligations	8,172	—	8,172	—
Corporate securities	6,771	—	6,771	—
	$41,264	$—	$41,264	$—
December 31, 2019:				
U.S. Government Agency Securities	$ 1,106	$—	$ 1,106	$—
Municipal securities	10,623	—	10,623	—

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

	Total	Level 1	Level 2	Level 3
		(In thousands)		
Mortgage-backed securities and collateralized mortgage obligations	10,852	—	10,852	—
Corporate securities	5,378	—	5,378	—
	$27,959	$—	$27,959	$—

There were no securities transferred out of Level 2 securities available-for-sale during the twelve months ended December 31, 2020 and 2019.

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, 2020 and 2019.

Cash and due from banks

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.

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

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 and the PPLF

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.

The carrying amounts and estimated fair values of the Company's financial instruments at December 31, 2020 and 2019 are as follows:

	Fair Value Hierarchy	Carrying Amount	Fair Value
		(In thousands)	
December 31, 2020:			
Financial assets:			
Cash and due from banks	Level 1	$ 3,977	$ 3,977
Securities available-for-sale	Level 2	41,264	41,264
Investment in FHLB stock	Level 2	2,884	2,884
Loans, net	Level 3	159,888	162,102
Accrued interest receivable	Level 1	992	992

The carrying amounts and estimated fair values of the Company's financial instruments at December 31, 2020 and 2019 are as follows:

	Fair Value Hierarchy	Carrying Amount	Fair Value
		(In thousands)	
Financial liabilities:			
Deposits	Level 1/2	155,918	155,191
Advances and borrowings from FHLB and PPLF	Level 2	38,096	38,096
Accrued interest payable	Level 1	74	74
Advances from borrowers for taxes and insurance	Level 1	2,002	2,002

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

	Fair Value Hierarchy	Carrying Amount	Fair Value
		(In thousands)	
December 31, 2019:			
Financial assets:			
Cash and due from banks	Level 1	$ 3,094	$ 3,094
Securities available-for-sale	Level 2	27,959	27,959
Investment in FHLB stock	Level 2	2,820	2,820
Loans, net	Level 3	164,388	160,972
Accrued interest receivable	Level 1	799	799
Financial liabilities:			
Deposits	Level 1/2	151,911	150,792
Advances and borrowings from FHLB	Level 2	32,900	32,900
Payroll Protection Liquidity Facility	Level 2	7,196	7,196
Accrued interest payable	Level 1	106	106
Advances from borrowers for taxes and insurance	Level 1	2,234	2,234

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.

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.

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

For assets measured at fair value on a nonrecurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2020 and 2019 were as follows:

	Total	Level 1	Level 2	Level 3
		(In thousands)		
December 31, 2020:				
Impaired loans	$131	$ —	$—	$131
Foreclosed real estate	682	682		
	$813	$ —	$—	$813
December 31, 2019:				
Impaired loans	$310	$ —	$—	$310

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

	Quantitative Information about Level 3 Fair Value Measurements		
	Valuation Techniques	Unobservable Input	Adjustment
Impaired loans	Lower of appraisal of collateral or asking price less selling costs	Appraisal adjustments	10%
		Costs to sell	10%
Foreclosed real estate	Market valuation of property	Costs to sell	5%
	Lower of appraisal of collateral or asking price less selling costs	Appraisal adjustments	3%−7%

At December 31, 2020 and 2019, the fair value consists of loan balances of $156,000 and $327,000, respectively, net of a valuation allowance of $25,000 and $17,000, respectively.

At December 31, 2020, other foreclosed real estate property obtained by deed in lieu of foreclosure was written down by $192,000 utilizing Level 3 inputs. At December 31, 2019, there was no foreclosed real estate whose value was written down utilizing Level 3 inputs.

	Foreclosed real estate
At December 31, 2019	$ —
Additions to foreclosed real estate	874
Write-down of foreclosed real estate	(192)
At December 31, 2020	$ 682

Once a loan is foreclosed, the fair value of the real estate continues to be evaluated based upon the market value of the repossessed real estate originally securing the loan. At December 31, 2020, the company had other real estate owned net of valuation allowance of $682,000. At December 31, 2019, the Company did not have foreclosed real estate.

12. COMMITMENTS AND CONTINGENCIES

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

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

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

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

	December 31,	
	2020	2019
	(In thousands)	
Commitments to Grant Loans	$ 356	$ 816
Unfunded Commitments Under Lines of Credit	$5,871	$5,887

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.

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

13. REGULATORY CAPITAL REQUIREMENTS — (Continued)

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, 2020 and 2019, that the Bank met all capital adequacy requirements to which it is subject.

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

As a result of the recently enacted Economic Growth, Regulatory Relief, and Consumer Protection Act, the federal banking agencies 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 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 will increase to 8.5% for the calendar year. Community banks will have until January 1, 2022, before the Community Bank Leverage Ratio requirement will return to 9%. The Bank elected to adopt the Community Bank Leverage Ratio as of June 30, 2020.

As of December 31, 2019, the most recent notification from the Office of the Comptroller of the Currency categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based, Tier 1 common equity risk-based and Tier 1 leverage ratios as set forth in the table below. There are no conditions or events since that notification that management believes have changed the Bank's category. The Bank's actual capital amounts and ratios as of December 31, 2020 and 2019, 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, 2020:								
Tier 1 capital to assets	$22,248	10.25%	$15,198	7.00%	$17,369	8.00%	N/A	N/A
As of December 31, 2019:								
Total core capital to risk weighted assets	$22,427	16.32%	$10,992	8.00%	$13,740	10.00%	$14,427	10.50%
Tier 1 capital to risk weighted assets	21,186	15.42%	8,244	6.00%	10,992	8.00%	11,679	8.50%
Tier 1 common equity to risk weighted assets	21,186	15.42%	6,183	4.50%	8,931	6.50%	9,618	7.00%
Tier 1 capital to assets	21,186	10.10%	8,394	4.00%	10,493	5.00%	10,493	5.00%

14. EARNINGS PER SHARE COMMON

Basic earnings per share is calculated by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period. Net income available to common stockholders is net income to the Company. The Company has granted 47,500 stock options to Directors and Officers and, during the twelve months ended December 31, 2020 and 2019, had no potentially dilutive common stock equivalents. Unallocated common shares held by the ESOP are not included in the weighted-average number of common shares outstanding for purposes of calculating earnings per common share until they are committed to be released.

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

	Year ended December 31,	
(Dollars in Thousands Except per Share Data)	**2020**	**2019**
Basic earnings per common share:		
Net income available to common stockholders	$ 902	$ 1,117
Weighted average common shares outstanding basic	1,852,848	1,863,957
Weighted average common shares outstanding dilutive	1,852,848	1,863,957
Earnings per share basic and dilutive	$ 0.49	$ 0.60

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,	
	2020	**2019**
	(In thousands)	
Service fees		
Deposit related fees	$ 27	$ 38
Loan servicing income	95	94
Total service fees	122	132
Income from financial services		
Securities commission income	260	285
Insurance commission income	11	15
Total insurance and securities commission income	271	300
Card income		
Debit card interchange fee income	121	94
ATM fees	22	19
Insufficient fund fees	125	154
Total card and insufficient funds income	268	267
Realized gain on sale of residential mortgage loans, available for sale securities and fixed assets		
Realized gain on sales of residential mortgage loans	217	60
Realized net gain on available-for-sales securities	49	7
Realized (loss) on disposal and gain on sale of fixed assets	(13)	9

15. NON-INTEREST INCOME — (Continued)

	For the years ended December 31,	
	2020	2019
	(In thousands)	
Income from foreclosed real estate	15	—
Bank owned life insurance	53	54
Other miscellaneous income	22	26
Total non-interest income	$1,004	$855

The following is a discussion of key revenues within the scope of the new revenue guidance:

- Service fees — Revenue from fees on deposit accounts is earned at the time that the charge is assessed to the customer's account. Fee waivers are discretionary and usually reversed within the same reporting period as assessed.
- Fee income — Fee income is earned through commissions and is satisfied over the time which the fee has been assessed.
- Card income and insufficient funds fees — Card income consists of interchange fees from consumer debit card networks and other card related services. Interchange rates are set by the card networks. Interchange fees are based on purchase volumes and other factors and are recognized as transactions occur. Insufficient funds fees are satisfied at the time the charge is assessed to the customer's account.
- Realized gains on sale of residential mortgage loans and available-for-sale securities are realized at the time the transaction occurs.

16. PARENT COMPANY ONLY FINANCIAL INFORMATION

The following condensed financial statements summarize the financial position and results of operations and cash flows of the parent savings and loan holding company, Seneca Financial Corp., as of December 31, 2020, and 2019 and for the years then ended.

Parent Only Condensed Balance Sheets

	December 31	
	2020	2019
	(In Thousands of Dollars)	
Assets		
Cash in bank subsidiary	$ 1,094	$ 1,215
Investments in subsidiaries, at underlying equity	21,008	19,088
Loan receivable – ESOP	731	745
Other assets	45	63
Total assets	$22,878	$21,111

16. PARENT COMPANY ONLY FINANCIAL INFORMATION — (Continued)

	December 31	
	2020	2019
	(In Thousands of Dollars)	
Liabilities and Stockholders' Equity		
Liabilities:		
Other liabilities	$ —	$ 42
Total liabilities	—	42
Stockholders' equity:		
Total stockholders' equity	22,878	21,069
Total liabilities and stockholders' equity	$22,878	$21,111

Parent Only Condensed Statements of Income

	Year Ended December 31	
	2020	2019
	(In Thousands of Dollars)	
Interest income:		
Income on ESOP loan	$ 30	$ 31
Total interest income	30	31
Non-interest expenses:		
Professional fees	140	151
Other non-interest expense	48	12
Total non-interest expense	188	163
Loss before taxes	(158)	(132)
Income tax expense	(21)	(21)
Earnings before equity in undistributed earnings of Bank	(179)	(153)
Equity in undistributed earnings of Bank	1,081	1,270
Net income	$ 902	$1,117

Parent Only Statement of Cash Flows

	Year Ended December 31	
	2020	2019
	(In Thousands of Dollars)	
Cash flows from operating activities:	$ 902	$ 1,117
Net income		
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed income of Bank	(1,081)	(1,270)
Decrease (increase) in other assets	18	(16)

16. PARENT COMPANY ONLY FINANCIAL INFORMATION — (Continued)

	Year Ended December 31	
	2020	2019
	(In Thousands of Dollars)	
Stock based compensation expense	26	12
Increase in other liabilities	—	42
Net used in operating activities	(135)	(115)
Cash flows from investing activities:		
Payments received on ESOP loan	14	14
Net cash used in investing activities	14	14
Cash flows from financing activities:		
Repurchase of shares into treasury stock	—	(579)
Net cash provided by financing activities	—	(579)
Net change in cash and cash equivalents	(121)	(680)
Cash and cash equivalents – beginning of year	1,215	1,895
Cash and cash equivalents – end of year	$ 1,094	$ 1,215

Corporate and Shareholder Information

CORPORATE HEADQUARTERS

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Financial Quest

TRANSFER AGENT

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Phone: 718-921-8300

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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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, Chairman

Vincent Fazio

James Hickey

Francis Marlowe

Robert Savicki

Joseph G. Vitale

Mark Zames

Seneca Savings

Senior Management

Joseph G. Vitale
President & Chief Executive Officer

Vincent Fazio
EVP & Chief Financial Officer

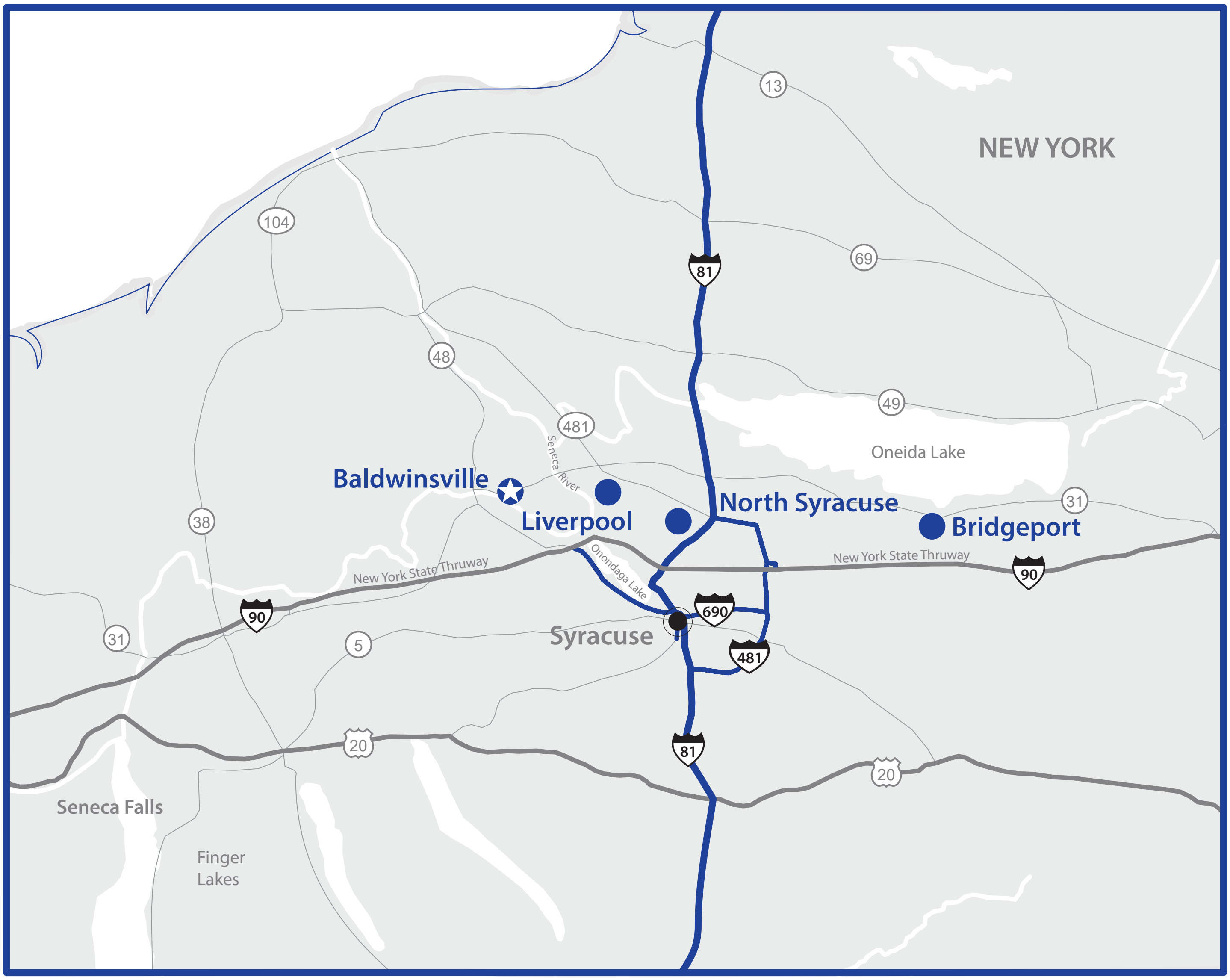
Angelo Testani
SVP Commercial Lending

Laurie L. Ucher
SVP Retail Banking

Gregory Boshart
SVP Financial Quest

ANNUAL MEETING OF SHAREHOLDERS

Tuesday, May 18, 2021
10:00 AM EST
Seneca Financial Corp.
35 Oswego Street
Baldwinsville, NY 13027



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