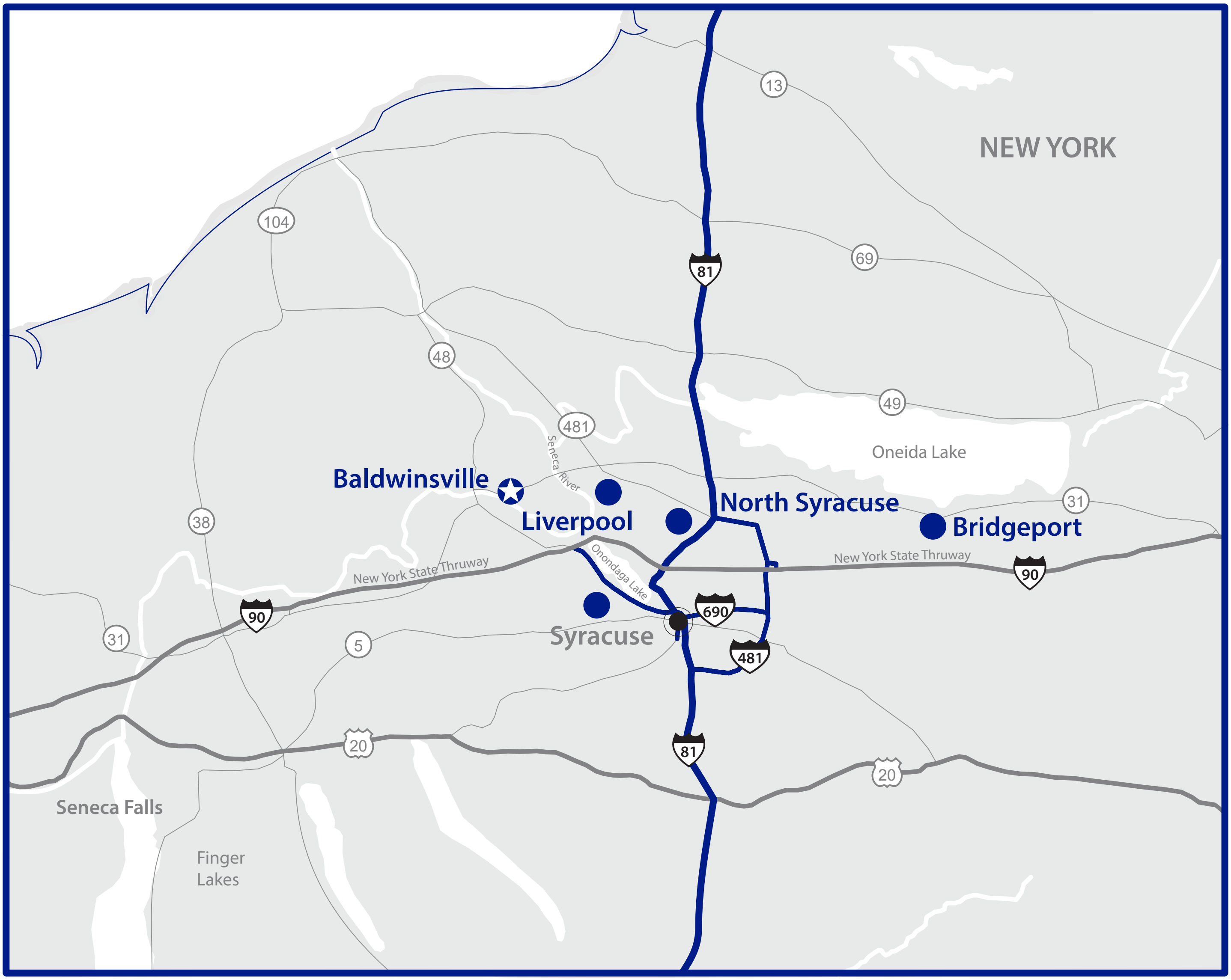
SENECA FINANCIAL CORP.

2021 Annual Report



SENECA SAVINGS

Main Office:
35 Oswego Street
Baldwinsville, New York 13027

Other Properties:
Liverpool Branch
7799 Oswego Road
Liverpool, New York 13089

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

Bridgeport Branch
584 NY Rt. 31
Bridgeport, NY 13030

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

President's Message

This year proved to be a year of milestones as Seneca Savings had an outsized performance in 2021 due in part to its participation in the Paycheck Protection Program (PPP). Seneca Savings made 195 PPP loans totaling $11.1 million in 2021. We limited our investment in PPP loans to our current customers, and to a lesser extent, non-customers in our local market area.

During the year ended December 31, 2021, the SBA forgave 326 PPP loans (including PPP loans made in 2020) totaling $19.3 million and we recognized fees of $917,000 into income on the forgiven PPP loans. As such, we intend to strategically use this influx of added resources to grow the organization. We will grow the organization by expanding digital services, digital marketing efforts, social media, financial literacy efforts, employee engagement, and by growing our commercial and retail lending sales teams.

We have expanded the suite of consumer lending products that we offer. We continue to perform our due diligence in obtaining partnerships where we can purchase quality consumer loans that fitour risk profile.

The commitment to financial literacy programs continues to expand with our addition of EverFi's Adult Literacy program that we've branded as Seneca Savings University. Consumers, both banking customers and non-banking customers, have 24/7 online access to the learning portal on SenecaSavings.com. Recently expanding our reach into the Syracuse City school districts, our student financial literacy programs continue to impact hundreds of students across Central NY with online learning modules integrated into their school curriculum. The Seneca Savings partnership with EverFi makes all of this financial learning for our K-12 students possible.

As so many people around the world face incredible difficulties, and for those in the communities we serve who are impacted emotionally, economically or otherwise... We turn to our talented team, customers and partners and fortify our commitment to one another.

When customers face uncertainty, we have the honor and great responsibility to reassure and fortify them. A large part of their well-being rests in their sense of home, their transportation, their business, their insurance, their bank accounts. We touch all of those, and act as guide, mentor, confidante, connector, and coach. We have the Team in place to do this and to help navigate that journey with them.

Technology | Customer Engagement & Services

The ability for our customers to more readily track and manage their credit score is now being offered through our web site. With Credit Sense customers can conveniently access and monitortheir credit scores. Credit Sense also provides tips to improve the score or offer money-saving products and services unique to Seneca Savings. We launched an automated virtual financial 'Coach Lea' powered by GreenPath, a non-profit organization that has been helping people improve their financial health for 60 years. Round Up is a program allowing our customers to round up their debit card purchases to the nearest dollar and deposit the difference to savings. Transfer now is an account-to-account transfer service for use between a customer's outside accounts and Seneca. Adding a digital wallet option for our consumers is timely and relevant including Apple™, Samsung™ and Google Pay™ (for consumers ease of payment). Our website now features the ability to schedule an appointment either in person, video conference or by phone for those who prefer appointments. We also have added an ability to Live Chat with our customers from our website or online banking and soon we will be enhancing this chat function as we add in 'Stella,' our ChatBot who can answer quick FAQ questions 24 hours a day.

Seneca Savings Insurance Agency | Financial Quest

Seneca Savings Insurance Agency

There's an exciting new offering that all Seneca Savings customers now have the opportunity to take advantage of. Seneca Savings Insurance Agency, headquartered at our new offices at 925 State Fair Boulevard, Syracuse offers personal and commercial insurance products. Enhancements to our SenecaSavings.com website and social media are beginning to incorporate this offering as we work to educate our employees, current customers and potential customers about the cost-efficient options available to them through Seneca Savings Insurance Agency.

Financial Quest

Financial Quest, a wholly owned subsidiary of Seneca Savings, opened their new location at 925 State Fair Boulevard, Syracuse with our new financial broker-dealer, LPL Financial. LPL Financial (Nasdaq: LPLA) is a leader in the markets they serve, supporting more than 18,000 financial advisors, 800 institution-based investment programs and 450 independent RIA firms nationwide. They are steadfast in their commitment to the advisor-centered model and the belief that Americans deserve access to personalized guidance from a financial advisor. For more information about LPL Financial, visit LPL.com. New hires, one of which is in the process of going through the licensing process in 2022, along with a new more efficient and effective website, digital marketing including geo- fencing/mobile marketing, podcasting, news-focused radio programming and community-focused sports sponsorships, is expected to provide for revenue growth in 2022 and 2023.

Community

2021 saw many challenges for many different businesses and families throughout the communities weserve. As a local bank, when the times get the toughest, that's when we have the opportunity to shine the brightest. We accomplished many notable things in 2021, to include many technological advances.But perhaps the proudest moment of all, was seeing the collective story of the impact we had across our neighborhoods... working hand-in-hand with some of the finest charitable organizations and efforts in Central New York. With over 31 organizations and over 530 volunteer hours, the Seneca Savings Team devoted themselves to making a difference. One organization in particular that Seneca Savings has supported each year and will be doing so again in May 2022, is the CNY Diaper Bank's Make A Mother's Day Diaper Drive.

Talent Development & Employee Engagement

Employee engagement on all levels is key as we launched an internal Employee Newsletter "Your Story" as well as Incentive Programs for garnering Online Reviews (an important tool for customer acquisition and online reputation management), the 'Trailblazer' Employee of the Month program. In addition, 2021 saw us implement our new employee engagement software. It operates as a performance development tool. We made this investment to create personalized, authentic, and motivating experiences to strengthen the culture of the bank. As a next generation performance tool, including as a benefit to present to prospective talent, this investment is designed to assist in assessing and re-balancing talent resources and mapping talent to value - helping our employees get to next level as we guide their career path within Seneca Savings. Specifically, driving strategic workforce planning, providing regular feedback and recognition, pulse surveys taking employee experience to the next level and establishing and radiating the organizations' purpose.

Marketing

Marketing and storytelling efforts intensified exponentially in 2021, proving to put the bank's brand awareness across the communities we serve, on a whole new level. Concerted effort has been devoted to the development of our new branding platforms, brand promise and purpose statement, customer testimonials and vital storytelling that resonates with our identified target markets. We've rolled out our all-important brand promise "For Life's Journeys" – a culmination of input and insight fromevery member on the team through a series of focused employee workshops and review of true customers' stories.

Word of mouth is the most effective means by which any community bank can share its best stories. This quarter we took great strides to implement an initiative to encourage online reviews – true Business-to-Business testimonial-based publication "JOURNEYS" saw its' first issue come together in

2021 and launching in early 2022. Featuring several of our key commercial client stories, along with educational and advocational resources, our personalized and localized publication generated incredibly positive feedback from many members across the community, from businesses, partners, customers, employees alike. It's being utilized as a prospecting B2B tool as well as a credibility and awareness piece throughout the community. JOURNEYS will be published quarterly with the next issue due out in Spring 2022.

Forging Ahead in 2022

Understanding that 2021 was enhanced by factors that are not anticipated for 2022, we forge ahead with optimism and enthusiasm for continuous growth and strategic investments of our resources. Several new initiatives are already being implemented including a brand new, fully optimized and modernized website to ensure customer ease, engagement and superior online experience. We will also be going to a single log-in enhanced online banking and mobile banking platform.

We have opened our media center that will be used for a myriad of content development, educational, and public relations purposes. We look to develop informational podcasts foremployees and customers alike. We seek to perform client interviews, product education, as well as useful, employee onboarding videos at this location.

The intention is to increase our impact for those interested in improving their investment strategies for their future and for their children's futures. Through expansion of offerings with Financial Quest and Seneca Savings Insurance, we can fully serve our retail and commercial customers on a whole new level.

We look forward to a great year in 2022 with all the previously discussed initiatives we are moving forward with. Customer and employee engagement is a priority for the organization as this is the lifeblood of the organization. We hope to prove that Seneca is truly here for our customers, employees, and community for all of Life's Journeys. If we succeed in this goal, our success will also tie directly to the organizations' success and ultimately, returns for our shareholders.

If you have the opportunity, I encourage you to read our PURPOSE STATEMENT online. It reaffirms why we are all here. Our Brand Promise "For Life's Journeys" is truly showing us the best of ourselves and what we're capable of, TOGETHER.

Sincerely,

Joseph G. Vitale
President, CEO and Director

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The summary information presented below at each date or for each of the years presented is derived in part from the audited consolidated financial statements of Seneca Financial Corp. and Seneca Savings. The financial condition data at December 31, 2021 and 2020, and the operating data for the years ended December 31, 2021, and 2020, 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, 2019, 2018, and 2017 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,				
	2021	2020	2019	2018	2017
	(Dollars in Thousands)				
Selected Financial Condition Data:					
Total assets	$ 214,939	$ 221,525	$ 210,238	$ 195,307	$ 176,174
Cash and due from banks	3,526	3,977	3,094	3,470	4,375
Available-for-sale securities	43,800	41,264	27,959	26,174	22,097
Loans, net	150,042	159,888	164,388	154,650	141,150
FHLB stock, at cost	2,619	2,884	2,820	2,622	2,340
Total liabilities	190,582	198,647	189,169	175,896	157,772
Deposits	160,067	155,918	151,911	143,975	129,596
FHLB advances and borrowings	24,950	38,096	32,900	28,350	24,500
Total stockholders' equity	24,357	22,878	21,069	19,411	18,402

	For the Years Ended December 31,				
	2021	2020	2019	2018	2017
	(Dollars in Thousands, except per share data)				
Selected Data:					
Interest income	$ 8,511	$ 8,750	$ 8,769	$ 7,702	$ 6,828
Interest expense	940	1,830	2,573	1,918	1437
Net interest income	7,571	6,920	6,196	5,784	5,391
Provision for loan losses	300	730	242	10	180
Net interest income after provision for loan losses	7,271	6,190	5,954	5,774	5,211
Noninterest income	1,158	1,004	855	597	626
Noninterest expense	6,277	6,131	5,420	5,340	5,049
Earnings before provision for income taxes	2,152	1,063	1,389	1031	788
Provision for income taxes	372	161	272	181	264
Net income	$ 1,780	$ 902	$ 1,117	$ 850	$ 524
Earnings per common share	$ 0.97	$ 0.49	$ 0.60	$ 0.45	$ 0.28

	At or For the Years Ended December 31,				
	2021	2020	2019	2018	2017
Selected Financial Ratios and Other Data:					
Performance Ratios:					
Return on average assets	0.80 %	0.40 %	0.54 %	0.46 %	0.31 %
Return on average equity	7.73 %	4.19 %	5.76 %	4.67 %	4.14 %
Interest rate spread(1)	3.55 %	3.08 %	2.93 %	3.04 %	3.17 %
Net interest margin(2)	3.66 %	3.25 %	3.17 %	3.23 %	3.30 %
Efficiency ratio(3)	71.91 %	77.37 %	76.87 %	83.69 %	83.91 %
Noninterest expense to average total assets	2.84 %	2.71 %	2.64 %	2.87 %	2.96 %
Average interest-earning assets to average interest-bearing liabilities	125 %	120 %	118 %	118 %	115 %
Asset Quality Ratios:					
Non-performing assets as a percent of total assets	0.15 %	0.56 %	0.92 %	0.62 %	0.67 %
Non-performing loans as a percent of total loans	0.18 %	0.34 %	1.18 %	0.78 %	0.83 %
Allowance for loan losses as a percent of non-performing loans	697.06 %	294.43 %	63.94 %	101.65 %	105.44 %
Allowance for loan losses as a percent of total loans	1.25 %	1.02 %	0.75 %	0.79 %	0.88 %
Net charge-offs to average outstanding loans during the period	0.03 %	0.19 %	0.14 %	0.01 %	0.08 %
Capital Ratios(4):					
Common equity tier 1 capital (to risk weighted assets)	N/A %	N/A %	15.42 %	16.48 %	17.39 %
Tier 1 leverage (core) capital (to adjusted tangible assets)	11.18 %	10.25 %	10.10 %	10.27 %	10.7 %
Tier 1 risk-based capital (to risk weighted assets)	N/A %	N/A %	15.42 %	16.48 %	17.39 %
Total risk-based capital (to risk weighted assets)	N/A %	N/A %	16.32 %	17.51 %	18.53 %
Average equity to average total assets	10.41 %	9.50 %	9.46 %	9.79 %	7.42 %
Other Data:					
Number of full-service offices	4	4	4	3	3
Number of full-time equivalent employees	50	49	43	46	40

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

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

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

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

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

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,								
	2021			2020			2019		
	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	$ 160,880	$ 7,573	4.71%	$ 170,296	$ 7,806	4.58%	$ 163,901	$ 7,862	4.80%
Available-for-sale securities	40,230	811	2.02%	35,092	751	2.14%	26,804	694	2.60%
FHLB Stock	2,733	124	4.54%	2,953	183	6.20%	2,967	189	6.37%
Other interest-earning assets	2,839	3	0.11%	4,464	10	0.22%	1,559	24	1.54%
Total interest-earning assets	206,682	8,511	4.12%	212,805	8,750	4.11%	195,231	8,769	4.49%
Noninterest-earning assets	14,512			13,749			9,787		
Total assets	$ 221,194			$226,554			$ 205,018		
Interest-bearing liabilities:									
NOW accounts	$ 25,369	$ 28	0.11%	$ 19,144	$ 25	0.13%	$ 14,469	$ 23	0.16%
Regular savings and demand club accounts	28,542	18	0.06%	24,207	19	0.08%	22,189	20	0.09%
Money market accounts	46,836	72	0.15%	28,232	263	0.93%	16,817	169	1.00%
Certificates of deposit and retirement accounts	33,545	263	0.78%	61,863	763	1.23%	76,320	1,509	1.98%
Total interest-bearing deposits	134,292	381	0.28%	133,446	1,070	0.80%	129,795	1,721	1.33%
FHLB and PPLF Borrowings	30,407	559	1.84%	43,358	760	1.75%	35,497	852	2.40%
Total interest-bearing liabilities	164,799	940	0.57%	176,804	1,830	1.04%	165,292	2,573	1.56%
Noninterest-bearing deposits	27,804			23,405			16,291		
Other noninterest-bearing liabilities	5,671			4,833			4,039		
Total liabilities	198,274			205,042			185,622		
Stockholders' equity	23,020			21,512			19,396		
Total liabilities and stockholders' equity	$ 221,194			$226,554			$ 205,018		
Net interest income		$ 7,571			$ 6,920			$ 6,196	
Net interest rate spread [(1)]			3.55%			3.08%			2.93%
Net interest-earning assets [(2)]	$ 41,883			$ 36,001			$ 29,939		
Net interest margin [(3)]			3.66%			3.25%			3.17%
Average interest-earning assets to average interest-bearing liabilities	125%			120%			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.

Rate/Volume Analysis

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

	Year Ended December 31, 2021 vs. 2020			Year Ended December 31, 2020 vs. 2019		
	Increase (Decrease) Due to			Increase (Decrease) Due to		
	Volume	Rate	Total Increase (Decrease)	Volume	Rate	Total Increase (Decrease)
			(In thousands)			
Interest-earning assets:						
Loans	$ (432)	$ 199	$ (233)	$ 307	$ (363)	$ (56)
Available-for-sale securities	110	(50)	60	215	(158)	57
FHLB Stock	(14)	(45)	(59)	(1)	(5)	(6)
Other interest-earning assets	(4)	(3)	(7)	45	(59)	(14)
Total interest-earning assets	$ (340)	$ 101	$ (239)	$ 566	$ (585)	$ (19)
Interest-bearing liabilities:						
NOW accounts	$ 8	$ (5)	$ 3	$ 7	$ (5)	$ 2
Regular savings and demand club accounts	3	(4)	(1)	2	(3)	(1)
Money market accounts	173	(364)	(191)	114	(20)	94
Certificates of deposit and retirement accounts	(349)	(151)	(500)	(286)	(460)	(746)
Total deposits	(165)	(524)	(689)	(163)	(488)	(651)
FHLB and PPLF Borrowings	(227)	26	(201)	189	(281)	(92)
Total interest-bearing liabilities	(392)	(498)	(890)	26	(769)	(743)
Change in net interest income	$ 52	$ 599	$ 651	$ 540	$ 184	$ 724

Comparison of Financial Condition at December 31, 2021 and December 31, 2020

Total assets decreased $6.6 million, or 2.9%, to $214.9 million at December 31, 2021 from $221.5 million at December 31, 2020. The decrease in assets was primarily due to Paycheck Protection Program loan ("PPP Loans") forgiveness partially offset by increases in securities available-for-sale, fixed assets and pension assets.

Securities available-for-sale increased by $2.5 million, or 6.2%, to $43.8 million at December 31, 2021 from $41.3 million at December 31, 2020. The increase was primarily due to the purchase of securities of $15.4 million, partially offset by principal repayments, amortization of premiums of $4.0 million, maturities and calls of $3.3 million, and proceeds from sales of $5.6 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 COVID-19 pandemic. A portion of our securities portfolio is used to collateralize FHLB advances.

Loans, net of allowance for loan losses, decreased $9.8 million, or 6.2%, to $150.0 million at December 31, 2021 from $159.9 million at December 31, 2020, reflecting decreases in one- to four-family residential real estate mortgage loans and commercial business loans. One- to four-family residential real estate mortgage loans decreased $4.9 million, or 5.7%, to $82.2 million at December 31, 2021 from $87.1 million at December 31, 2020, as principal payments outpaced originations and we sold million at December 31, 2021 from $87.1 million at December 31, 2020, as principal payments outpaced originations and we sold 33.6% of our loans originated during the year ended December 31, 2021, without recourse while maintaining the servicing rights. Commercial and industrial loans decreased $9.6 million, or 38.8%, to $15.6 million at December 31, 2021 from $25.2 million at December 31, 2020 as our portfolio of commercial business loans decreased primarily due to PPP Loan forgiveness. At December 31, 2021, we had $4.7 million in PPP Loans outstanding as compared to $12.7 million in PPP Loans outstanding at December 31, 2020. Commercial real estate loans increased $3.9 million, or 11.1%, to $38.1 million at December 31, 2021 from $34.9 million at December 31, 2020. Throughout the year of 2021, we increased our portfolio of commercial real estate loans to increase earnings and to continue to manage interest rate risk.

Total deposits increased $4.1 million, or 2.7%, to $160.1 million at December 31, 2021 from $155.9 million at December 31, 2020. The increase was primarily due to increases in demand deposits and money market accounts. Demand deposits increased $1.4 million, or 5.6%, to $26.4 million at December 31, 2021 from $25.0 million at December 31, 2020. The increase in demand deposits was due to our marketing efforts to increase transaction accounts in our primary market area. We are offering products and services to attract new commercial checking accounts such as 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. These products are contributing to the growth of our business deposit accounts. Money market accounts increased $5.4 million, or 17.5%, to $36.4 million at December 31, 2021 from $31.0 million at December 31, 2020. 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 $8.7 million as we reduced our dependence on jumbo certificates of deposit and CDARS during 2021.

Total borrowings from the FHLB of New York decreased $5.9 million, or 19.3%, from $30.9 million at December 31, 2020 to $24.9 million at December 31, 2021 as we took advantage of lower cost deposits to payoff higher cost borrowings. At December 31, 2021 we had no advances from the Paycheck Protection Program Liquidity Facility (PPLF) at the Federal Reserve Bank of New York. At December 31, 2020, $7.2 million of PPLF advances were used to fund PPP loans.

Total stockholders' equity increased $1.5 million, or 6.5%, to $24.4 million at December 31, 2021 from $22.9 million at December 31, 2020. The increase was due to the combined effect of our net income of $1.8 million and a decrease in accumulated other comprehensive loss of $34,000, an increase in the stock-based compensation valuation of $34,000 and a decrease in the unearned ESOP shares of $20,000, partially offset by purchases of treasury stock of $390,000.

Comparison of Operating Results for the Years Ended December 31, 2021 and 2020

General. Net income increased $878,000, or 97.3%, to $1.8 million for the year ended December 31, 2021, compared to $902,000 for the year ended December 31, 2020. The increase was primarily due to increases in net interest income and non-interest income and a decrease in the provision for loan losses, partially offset by an increase in non-interest expense.

Interest Income. Interest income decreased $239,000, or 2.7%, to $8.5 million for the year ended December 31, 2021 from $8.8 million for the year ended December 31, 2020. Our average balance of interest-earning assets decreased $6.1 million, or 2.9%, to $206.7 million for the year ended December 31, 2021, from $212.8 million for the year ended December 31, 2020, due primarily to the forgiveness of PPP Loans. Our average yield of interest-earning assets increased one basis point to 4.12%, for the year ended December 31, 2021 from 4.11% for the year ended December 31, 2020.

Interest income on loans decreased $233,000, or 3.0%, to $7.6 million for the year ended December 31, 2021 from $7.8 million for the year ended December 31, 2020 due primarily to the decrease in the average balance on loans. Our average balance of loans decreased $9.4 million, or 5.5%, to $160.9 million for the year ended December 31, 2021 from $170.3 million for the year ended December 31, 2020. The decrease in the average balance of loans resulted from forgiveness of PPP Loans by the SBA. Our average yield on loans increased by 12 basis points to 4.71% for the year ended December 31, 2021 from 4.58% for the year ended December 31, 2020, primarily due to the recognition of PPP Loan fee income due to PPP Loan forgiveness.

Interest income on securities increased $60,000, or 8.0%, to $811,000 for the year ended December 31, 2021 from $751,000 for the year ended December 31, 2020. The average balance of available-for-sale securities increased $5.1 million, or 14.6%, to $40.2 million in 2021 from $35.1 million in 2020 due to securities purchases. The average yield we earned on available-for-sale securities decreased by 12 basis points to 2.02% for the year ended December 31, 2021 from 2.14% for the year ended December 31, 2020 as yields on available-for- sale securities decreased in a declining rate environment.

Interest Expense. Interest expense decreased $890,000, or 48.6%, to $940,000 for the year ended December 31, 2021 from $1.8 million for the year ended December 31, 2020, due to a decrease in interest expense on deposits of $689,000 and a decrease in interest expense on borrowings of $201,000. Our average rate on interest-bearing liabilities decreased 47 basis points to 0.57% for the year ended December 31, 2021 from 1.04% for the year ended December 31, 2020, 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 decreased $12.0 million, or 6.8%, to $164.8 million for the year ended December 31, 2021 from $176.8 million for the year ended December 31, 2020 due primarily to decreases in the average balances of certificates of deposit and PPLF advances.

Interest expense on deposits decreased $689,000, or 64.4%, to $381,000 for 2021 from $1.1 million for 2020 due to a decrease in the average rate paid on deposits. The average rate paid on deposits decreased to 0.28% for 2021 from 0.80% for 2020, primarily reflecting lower rates paid on certificates of deposit and CDARS certificates of deposit. The average rate of certificates of deposit decreased by 45 basis points to 0.78% in 2021 from 1.23% in 2020. The average rate of money market deposits decreased by 78 basis points to 0.15% in 2021 from 0.93% in 2020. The average balance of deposits increased $846,000, or 0.6%, to $134.3 million for the year ended December 31, 2021 from $133.4 million for the year ended December 31, 2020 due primarily to the increase in the average balance of money market accounts which increased by $18.6 million to $46.8 million in 2021 from $28.2 million in 2020 and reflected the majority of the growth in the average balance of deposits. The average balance of certificates of deposit decreased by $28.3 million to $33.5 million in 2021 from $61.9 million in 2020.

Interest expense on borrowings decreased $201,000, or 26.5%, to $559,000 for the year ended December 31, 2021 from $760,000 for the year ended December 31, 2020. The decrease in interest expense on borrowings reflected a decrease in the average balance of borrowings. The average balance of borrowings decreased $12.9 million or 29.9%, from $43.4 million in 2020 to $30.5 million in 2021. The average rate on borrowings increased in 2021 as compared to the prior year due to maturing PPLF borrowings in 2021 that had a 1.0% interest rate.

Net Interest Income. Net interest income increased $651,000, or 9.4%, to $7.6 million for the year ended December 31, 2021 from $6.9 million for the year ended December 31, 2020, primarily as a result of the purchase of securities and a decrease in the average rate paid on interest bearing liabilities and an increase in the average yield earned on loans, partially offset by a decrease in the average balance on loans. Our average net interest-earning assets increased $6.1 million primarily due to the $5.1 million increase in the average balance of investments offset by PPP Loans forgiveness. Our net interest rate spread increased by 47 basis points to 3.55% for the year ended December 31, 2021 from 3.08% for the year ended December 31, 2020. Our net interest margin increased by 41 basis points to 3.66% for the year ended December 31, 2021 from 3.25% for the year ended December 31, 2020.

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 $300,000 provision to the allowance for loan losses for the year ended December 31, 2021 compared to a $730,000 provision for loan losses for the year ended December 31, 2020. The decrease in the provision for 2021 was the result of increased credit quality and a decrease in net charge-offs. The addition of Covid-19 factors increased our provision for the year ended December 31, 2020. Net charge-offs decreased to $44,000 in 2021 as compared to $331,000 in 2020. The decrease in charge-offs were due to increased credit quality in our loan portfolio. The allowance for loan losses was $1.9 million, or 1.25% of net loans outstanding at December 31, 2021 as compared to $1.6 million, and 1.02% of net loans outstanding at December 31, 2020.

To the best of our knowledge, we have recorded all loan losses that are both probable and reasonable to estimate at December 31, 2021 and December 31, 2020. 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 $154,000, or 15.3%, to $1.2 million for the year ended December 31, 2021 from $1.0 million for the year ended December 31, 2020. The increase was primarily due to an increase in income from financial services of $140,000, increase in fee income of $132,000 offset by a decrease in net gains on sale of residential mortgage loans of $98,000. We sold and serviced approximately 33.6% of the residential mortgages we originated and refinanced in 2021 to mitigate interest rate risk and to increase non-interest income.

Non-Interest Expense. Non-interest expense increased by $146,000, or 2.4%, to $6.3 million for the year ended December 31, 2021 as compared to $6.1 million for the year ended December 31, 2020. The increase was due primarily to increases in compensation and employee benefits of $306,000 and an increase in core processing expenses of $104,000. Offsetting the increase in non-interest expense was a decrease in foreclosed real estate expense of $173,000, a decrease in professional fees of $151,000 and a decrease in the prepayment of a federal home loan bank advance of $108,000. The increase in compensation and employee benefits expense was due to salary increases and commissions due to increased financial services income. Core processing expenses increased as we continued to focus on network security, added new software to increase our efficiencies and expanded our digital channels. Foreclosed real estate expense decreased due to a write down of foreclosed real estate of $156,000 for the year ended December 31, 2020. Professional fees decreased as a result of deregistering from the SEC. For the year ended December 31, 2020, 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.

Income Tax Expense. We incurred income tax expense of $372,000 and $161,000 for the years ended December 31, 2021 and 2020, respectively, resulting in effective tax rates of 17.29% and 15.15%, respectively. The increase in income tax expense resulted from the increase in income before tax.

Bonadio & Co., LLP
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

March 30, 2022

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

Opinion

We have audited the accompanying consolidated financial statements of Seneca Financial Corp. and subsidiaries (the "Company"), which comprise the consolidated statements of financial condition as of December 31, 2021 and 2020, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Seneca Financial Corp. and subsidiaries as of December 31, 2021 and 2020, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

Other Information Included in the Annual Report

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

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

Bonadio & Co., LLP

SENECA FINANCIAL CORP. AND SUBSIDIARIES

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

	Years Ended December 31, 2021	2020
ASSETS		
Cash and cash equivalents	$ 3,526	$ 3,977
Securities, available-for-sale	43,800	41,264
Loans, net of allowance for loan losses of $1,896 and $1,640	150,042	159,888
Federal Home Loan Bank of New York stock, at cost	2,619	2,884
Premises and equipment, net	5,801	5,210
Foreclosed real estate	40	682
Bank owned life insurance	2,592	2,545
Pension assets	4,966	3,659
Accrued interest receivable	921	992
Other assets	632	424
Total assets	$ 214,939	$ 221,525
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Noninterest-bearing	$ 26,390	$ 24,996
Interest-bearing	133,677	130,922
Total Deposits	160,067	155,918
Federal Home Loan Bank advances and Paycheck Protection Liquidity Facility	24,950	38,096
Advances from borrowers for taxes and insurance	2,162	2,002
Other liabilities	3,403	2,630
Total liabilities	190,582	198,646
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 1,879,977 shares outstanding at December 31, 2021 and 1,978,923 shares issued and 1,912,959 shares outstanding at December 31, 2020	9	9
Additional paid-in capital	7,917	7,883
Treasury stock, at cost (98,946 shares at December 31, 2021 and 65,964 at December 31, 2020)	(969)	(579)
Retained earnings	19,287	17,507
Unearned ESOP shares, at cost	(682)	(702)
Accumulated other comprehensive loss	(1,205)	(1,239)
Total stockholders' equity	24,357	22,879
Total liabilities and stockholders' equity	$ 214,939	$ 221,525

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, 2021	2020
INTEREST INCOME		
Loans, including fees	$ 7,573	$ 7,806
Securities	935	934
Other	3	10
Total interest income	8,511	8,750
INTEREST EXPENSE		
Deposits	381	1,070
Advances and borrowings	559	760
Total interest expense	940	1,830
Net interest income	7,571	6,920
PROVISION FOR LOAN LOSSES	300	730
Net interest income after provision for loan losses	7,271	6,190
NONINTEREST INCOME		
Service fees	125	122
Income from financial services	411	271
Fee income	422	290
Foreclosed real estate income	19	15
Earnings on bank-owned life insurance	47	53
Net loss on disposal of fixed assets	(5)	(13)
Loss on sale of foreclosed real estate	(13)	-
Net gains on sales of available-for-sale securities	33	49
Net gains on sale of residential mortgage loans	119	217
Total non-interest income	1,158	1,004
NONINTEREST EXPENSE		
Compensation and employee benefits	3,500	3,194
Core processing	776	672
Premises and equipment	744	661
Foreclosed real estate expense	-	173
Professional fees	228	379
Postage & office supplies	138	120
FDIC premiums	40	84
Advertising	309	259
Director fees	133	131
FHLB pre-payment penalty on term advance	-	108
Other	409	350
Total noninterest expense	6,277	6,131
Income before provision for income taxes	2,152	1,063
PROVISION FOR INCOME TAXES	372	161
Net income	$ 1,780	$ 902
Net income per common shares - basic and diluted	$ 0.97	$ 0.49

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, 2021	Years Ended December 31, 2020
NET INCOME	$ 1,780	$ 902
OTHER COMPREHENSIVE INCOME, BEFORE TAX		
Available-for-sale securities:		
Unrealized holding (losses) gains arising during period	(664)	840
Less reclassification adjustment for net gains included in net income	(33)	(49)
Net unrealized (losses) gains on available-for-sale securities	(697)	791
Defined benefit pension plan:		
Net gains arising during the period	533	118
Less reclassification of amortization of net losses recognized in net pension expense	206	180
Net changes in defined benefit pension plan	739	298
OTHER COMPREHENSIVE INCOME, BEFORE TAX	42	1,089
Tax effect	8	230
OTHER COMPREHENSIVE INCOME, NET OF TAX	34	859
TOTAL COMPREHENSIVE INCOME	$ 1,814	$ 1,761

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, 2021 AND 2020
(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, 2020	$ 9	$ 7,858	$ (579)	$ 16,605	$ (725)	$ (2,098)	$ 21,070
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)	$ 17,507	$ (702)	$ (1,239)	$ 22,879
Net income	-	-	-	1,780	-	-	1,780
Other comprehensive income	-	-	-	-	-	34	34
ESOP shares committed to be released (2,586 shares)	-	-	-	-	20	-	20
Stock-based compensation	-	34	-	-	-	-	34
Purchase of treasury shares at cost (32,982 shares)	-	-	(390)	-	-	-	(390)
BALANCE, DECEMBER 31, 2021	$ 9	$ 7,917	$ (969)	$ 19,287	$ (682)	$ (1,205)	$ 24,357

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, 2021	Year Ended December 31, 2020
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 1,780	$ 902
Adjustments to reconcile net income to net cash flow from operating activities:		
Depreciation and amortization	390	351
Provision for loan losses	300	730
Net amortization of premiums and discounts on securities	338	300
Gain on sale of residential mortgage loans	(119)	(217)
Proceeds from sale of residential mortgage loans	5,996	8,250
Loans originated and sold	(5,877)	(8,033)
Deferred income tax expense	174	118
Gain on sale of available-for-sale securities	(33)	(49)
Loss on disposal on sale of fixed assets	5	13
Amortization and (accretion) of deferred loan fees	342	(437)
ESOP compensation expense	20	23
Stock based compensation expense	34	25
Earnings on investment in bank owned life insurance	(47)	(53)
Decrease (increase) in accrued interest receivable	71	(193)
(Increase) decrease in other assets	(208)	17
Write-down of foreclosed real estate	-	192
Loss on sale of foreclosed real estate	13	-
Increase in pension assets	(568)	(530)
Increase in other liabilities	591	160
Net cash flow provided by operating activities	3,202	1,569
CASH FLOWS FROM INVESTING ACTIVITIES:		
Activity in securities available-for-sale:		
Proceeds from calls and maturities	3,281	7,470
Proceeds from sales	5,634	5,167
Principal repayments	2,925	2,823
Purchases	(15,378)	(28,226)
Proceeds from sale of foreclosed real estate	369	-
Purchase of Federal Home Loan Bank of New York stock	(878)	(1,240)
Redemption of Federal Home Loan Bank of New York stock	1,143	1,176
Loan originations and principal collections, net	9,164	3,333
Purchases of premises and equipment	(686)	(160)
Net cash flow used in investing activities	5,574	(9,657)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in deposits	4,149	4,007
Increase (decrease) increase in advances from borrowers for taxes and insurance	160	(232)
Purchase of treasury stock	(390)	-
(Payment) proceeds from the Paycheck Protection Liquidity Facility	(7,196)	7,196
Repayment of long-term FHLB advances	(7,250)	(6,100)
Proceeds from long-term FHLB advances	-	7,000
Increase (decrease) in short-term FHLB advances	1,300	(2,900)
Net cash flow provided by financing activities	(9,227)	8,971
Net change in cash and cash equivalents	(451)	883
CASH AND CASH EQUIVALENTS - beginning of year	3,977	3,094
CASH AND CASH EQUIVALENTS - end of year	$ 3,526	$ 3,977
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for:		
Interest on deposits and borrowed funds	$ 971	$ 1,834
Income taxes	$ 372	$ 106
SUPPLEMENTAL NONCASH DISCLOSURES		
Transfer of loans to foreclosed real estate	$ 40	$ 874
Transfer from foreclosed real estate to premises and equipment	$ 300	$ -

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

1. THE ORGANIZATION

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

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

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. declared states of emergency, soon thereafter and continued throughout 2020, and ultimately led to shelter in place orders, school closures, and strict social distancing and sanitization protocols. Most of these mandated curtailments of social and economic activity became significantly relaxed during the first half of 2021 due to the increasingly widespread availability of vaccines. However, the percentage of unvaccinated individuals in the United States and the potential for future mutations of the coronavirus remain significant long-term public health and economic concerns.

Concerns about the spread of COVID-19 and its anticipated negative impact on economic activity severely disrupted both domestic and international financial markets, prompting the world's central banks to inject significant amounts of monetary stimulus into their respective economies. In the United States, the Federal Reserve System's Federal Open Market Committee swiftly cut the target Federal Funds rate to a range of 0% to 0.25%, where it remained as of December 31, 2021. The reductions in the Fed funds target rate included a 50 basis point reduction in the target federal funds rate on March 3, 2020 and an additional 100 basis point reduction on March 15, 2020. In addition, the Federal Reserve initiated various market support programs to ease the stress on financial markets. This significant reduction in short-term interest rates has reduced, and will continue to reduce, the Company's cost of funds and interest earning-asset yields, as long as these central bank monetary policies remain in effect. The long-term effects of the current interest rate environment, resulting from government and central bank responses to the pandemic, on the Company's net interest margin cannot be predicted with certainty at this time. However, it is likely that a prolonged period of the current monetary policy will result in the reduction of the Company's net interest margin.

During 2021, variants of the coronavirus caused previously-relaxed social distancing and safety protocols to be reinstated in some areas of the country. The economic effects of these varying protocol reinstatement actions on the Company's operations cannot be determined with certainty at this time. Currently, supply chain disruptions resulting from the pandemic and an inflationary period during 2021 that has not been experienced in the United States in nearly 40 years add significant macroeconomic uncertainty and the economic impact of these events on the Company's operations and financial condition cannot be determined.

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 accordance with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates, 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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (Continued)

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 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (Continued)

Mortgage loans on real estate:

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

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

- 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 Central New York region. These loans can also be affected by economic conditions and the values of underlying properties.

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

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

Commercial and industrial loans:

Includes business installment loans, lines of credit, 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (Continued)

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, 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 no loans held for sale at December 31, 2021 and $832,000 of loans held for sale at December 31, 2020.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (Continued)

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (Continued)

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

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

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

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

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

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, 2021, $80,000 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. The Company had foreclosed real estate of $40,000 and $682,000 at December 31, 2021 and December 31, 2020 respectively. The Company had residential real estate loans in the process of foreclosure of $224,000 and $222,000 at December 31, 2021 and 2020, respectively. The Company transferred $300,000 of foreclosed real estate to property and equipment during the year ended December 31, 2021.

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 2019, 2020 and 2021 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, 2021 and 2020 was $309,000 and $259,000, 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 $500,000. All residential loan appraisals are reviewed by an individual or third party who is independent of the loan origination or approval process and was not involved in the approval of appraisers or selection of the appraiser for the transaction, and has no direct or indirect interest, financial or otherwise in the property or the transaction. Note 3 discusses the types of securities that the Company invests in. Note 4 discusses the types of lending that the Company engages in. The Company does not have any significant concentrations to any one industry or customer.

Bank-owned life insurance

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

Pension and Postretirement Plans

The Company sponsors qualified defined benefit pension plan and supplemental executive retirement plan (SERP). The qualified defined benefit pension plan is funded with trust assets invested in a diversified portfolio of debt and equity securities. Accounting for pensions and other postretirement benefits involves estimating the cost of benefits to be provided well into the future and attributing that cost over the time period each employee works. To accomplish this, the Company makes extensive use of assumptions about inflation, investment returns, mortality, turnover, and discount rates. The Company has established a process by which management reviews and selects these assumptions annually. Among other factors, changes in interest rates, investment returns and the market value of plan assets can (i) affect the level of plan funding; (ii) cause volatility in the net periodic pension cost; and (iii) increase our future contribution requirements. A significant decrease in investment returns or the market value of plan assets or a significant decrease in interest rates could increase the Company's net periodic pension costs and adversely affect the Company's results of operations. A significant increase in the Company's contribution requirements with respect to the Company's qualified defined benefit pension plan could have an adverse impact on the Company's cash flow. Changes in the key actuarial assumptions would impact net periodic benefit expense and the projected benefit obligation for the Company's defined benefit and other postretirement benefit plan. See Note 10, "Employee Benefit Plans," for information on these plans and the assumptions used.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (Continued)

Employee Stock Ownership Plan ("ESOP")

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

Stock-Based Compensation

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

Federal Home Loan Bank of New York advances and Paycheck 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 allows us to market our deposit products in Madison County. The LOC is collateralized by one-to four- mortgage loans pledged to the FHLBNY. The Bank utilizes the Paycheck 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, were 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 were funded by the PPLF, some PPP loans were funded by the Bank depending on the cash position at the time of the PPP loan origination. At December 31, 2021, the Company did not borrow from the PPLF. At December 31, 2020, the Company had a borrowing of $7.2 million at the PPLF.

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 grant 15,900 stock options to directors and officers during the year ended December 31, 2021 and had 1,176 of potentially dilutive common stock equivalents. The Company has granted 5,000 stock options to directors and officers during the year ended December 31, 2020 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).

Subsequent Events

The Company has evaluated subsequent events for recognition and disclosure through March 30, 2022, which is the date the consolidated financial statements were available to be issued.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — (Continued)

Recent Accounting Pronouncements

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.

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, 2021:				
U.S. Treasury securities	$ 2,964	$ -	$ (49)	$ 2,916
U.S. Government Agency securities	1,002	-	(12)	990
Municipal securities	22,921	523	(152)	23,292
Mortgage-backed securities and collateralized mortgage obligations	7,813	60	(132)	7,740
Corporate securities	8,770	118	(26)	8,862
	$ 43,470	$ 701	$ (371)	$ 43,800
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

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

Investment securities with carrying amounts of $10.8 million and $10.3 million were pledged to secure deposits and for other purposes required or permitted by law for the years ended December 31, 2021and 2020, respectively.

3. SECURITIES — (Continued)

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

	December 31, 2021		December 31, 2020	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			
Due in one year or less	$ 2,060	$ 2,073	$ 1,746	$ 1,747
Due after one year through five years	13,205	13,333	12,354	12,613
Due after five years through ten years	8,728	8,941	8,217	8,546
Due after ten years	11,664	11,713	9,882	10,186
Mortgage-backed securities and collateralized mortgage obligations	7,813	7,740	8,038	8,172
	$ 43,470	$ 43,800	$ 40,237	$ 41,264

During the year ended December 31, 2021, the Company sold $5.6 million of available-for-sale securities with a gross realized gain of $41,000 and gross realized loss of $8,000. 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.

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, 2021:				
U.S. Treasury securities	$ (49)	$ 2,916	$ -	$ -
U.S. Government Agency securities	(12)	990	-	-
Municipal securities	(102)	6,278	(50)	1,408
Mortgage-backed securities and collateralized mortgage obligations	(121)	4,859	(11)	577
Corporate securities	(26)	1,760	-	-
	$ (310)	$ 16,803	$ (61)	$ 1,985
December 31, 2020:				
Municipal securities	$ (14)	$ 1,146	$ -	$ -
Mortgage-backed securities and collateralized mortgage obligations	(9)	1,047	-	-
	$ (23)	$ 2,193	$ -	$ -

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, 2021 and 2020, the Company did not record an other-than-temporary impairment (OTTI) charge.

3. SECURITIES — (Continued)

At December 31, 2021, one U.S. treasury, one government agency, thirteen municipal securities, one mortgage-back securities, three collateralized mortgage obligations and two corporate securities were in a loss position for less than one year. At December 31, 2021, three municipal securities and one mortgage-backed securities were in a continuous loss position for more than twelve months.

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 a loss position for less than one year.

The mortgage-backed securities and collateralized mortgage obligations were issued by U.S. Government sponsored or guaranteed 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 U.S treasury securities, government agency securities, 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, 2021 and 2020 are as follows:

	December 31, 2021	December 31, 2020
	(In thousands)	
Mortgage loans on real estate:		
One-to four-family first lien residential	$ 82,174	$ 87,146
Residential construction	1,885	2,476
Home equity loans and lines of credit	8,526	8,648
Commercial	38,813	34,922
Total mortgage loans on real estate	131,398	133,192
Commercial and industrial	15,603	25,203
Consumer loans	4,592	3,130
Total loans	151,593	161,525
Allowance for loan losses	(1,896)	(1,640)
Net deferred loan origination (fees) and costs	345	3
Net loans	$ 150,042	$ 159,888

Residential real estate loans serviced for others, not included in net loans, by the Company totaled $29.9 million and $30.0 million at December 31, 2021 and 2020, 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 87% and 82% of the portfolio at December 31, 2021 and 2020, 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.

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

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

4. LOANS — (Continued)

The following table presents the classes of the loan portfolio, not including net deferred loan costs, summarized by the aggregate pass rating and the classified ratings within the Company's internal risk rating system as of December 31, 2021 and 2020:

	December 31, 2021 (In thousands)				
	Pass	Special Mention	Substandard	Doubtful/Loss	Total
Mortgage loans on real estate:					
One-to four-family first lien residential	$ 82,174	$ -	$ -	$ -	$ 82,174
Residential construction	1,885	-	-	-	1,885
Home equity loans and lines of credit	8,526	-	-	-	8,526
Commercial	35,158	283	3,372	-	38,813
Total mortgage loans on real estate	127,743	283	3,372	-	131,398
Commercial and industrial	15,533	37	33	-	15,603
Consumer loans	4,592	-	-	-	4,592
Total loans	$ 147,868	$ 320	$ 3,405	$ -	$151,593

	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

Two commercial real estate loan relationships aggregating $1.4 million were downgraded to substandard and one commercial real estate loan relationship aggregating $320,000 was downgraded to special mention during the year ended December 31, 2021. These commercial loan relationships were classified from pass to substandard and special mention due to insufficient cash flows at the time of their annual reviews. All commercial loan relationships are current and paying as agreed.

4. LOANS — (Continued)

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

	December 31, 2021 (In thousands)					
	30-59 Days Past-Due	60-89 Days Past-Due	90 Days Past-Due	Total Past-Due	Current	Total Loans Receivable
Mortgage loans on real estate:						
One-to four-family first lien residential	$ 1,083	$ 107	$ 191	$ 1,381	$ 80,793	$ 82,174
Residential construction	-	-	-	-	1,885	1,885
Home equity loans and lines of credit	-	14	33	47	8,479	8,526
Commercial	-	-	-	-	38,813	38,813
Total mortgage loans on real estate	1,083	121	224	1,428	129,970	131,398
Commercial and industrial	-	-	8	8	15,595	15,603
Consumer loans	-	5	-	5	4,587	4,592
Total loans	$ 1,083	$ 126	$ 232	$ 1,441	$150,152	$ 151,593

	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

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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. We limited our investment in PPP loans to our current customers and to a lesser extent, non-customers in our local market area.

4. LOANS — (Continued)

Payroll Protection Plans (PPP) Loans	Number of Loans	Balance	Deferred Fees
		(Dollars in thousands)	
Balance of PPP Loans 1-1-20	-	$ -	$ -
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
PPP Loans disbursed in 2021	195	11,100	702
PPP Loans forgiven in 2021	(326)	(19,195)	(917)
Balance of PPP Loans 12-31-21	76	$ 4,699	$ 217

SBA loan origination fees associated with loans under the Paycheck Protection Program are deferred and amortized over the life of the loan on a level-yield basis as an adjustment to interest income over the contractual life of the loan.

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, 2021, the Company received requests to modified nineteen loans totaling $3.8 million, primarily consisting of the deferral of principal and interest for a 90-day period. As of December 31, 2021, we had one loan with a balance of $234,000 remaining on payment deferral and was performing in in accordance with the modified terms. 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.

4. LOANS — (Continued)

At December 31, 2021, we had a $33,000 loan past-due 90 days and still accruing and at December 31, 2020, we had $112,000 of loans past-due and still accruing. Nonaccrual loans, segregated by class of loan as of December 31, 2021 and 2020 are as follows:

	December 31, 2021	December 31, 2020
	(In thousands)	
Mortgage loans on real estate	$ 239	$ 431
Commercial and industrial	9	14
Total nonaccrual loans	$ 248	$ 445

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 one commercial real estate loan classified as a TDR during the year ended December 31, 2021, with a balance of $273,000. The original loan was a seven-year term loan secured by all business assets for a medical practice. In December of 2020 the Company was notified that the medical practice was closing. This left the term loan unsecured and without a source of repayment. We restructured the term loan and secured it with two real estate parcels with an agreement that when the properties are sold the proceeds would be used to pay the real estate loan. We were able to secure a 1st position lien on vacant land, that was subsequently sold, and the proceeds used to reduce the loan, and 2nd position lien on rental property. An evaluation was done on the rental property and its was determined that the loan-to-value was excess of 90%. Based on re-structuring the term loan to a real estate loan, lowering the rate, and the excessive loan to value, we deemed the loan a TDR.

4. LOANS — (Continued)

The following table summarizes impaired loans information by portfolio class:

	December 31, 2021 (In thousands)		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
With an allowance recorded:			
Mortgage loans on real estate	$ 273	$ 273	$ 25
	273	273	25
With no allowance recorded:			
Mortgage loans on real estate	224	224	-
	224	224	-
Total	$ 497	$ 497	$ 25

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

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

	December 31,	
	2021	2020
	(In thousands)	
Mortgage loans on real estate	$ 478	$ 1,101
Total	$ 478	$ 1,101

No interest income was recognized on impaired loans for the years ended December 31, 2021 and 2020.

4. LOANS — (Continued)

Changes in the allowance for loan losses for the years ended December 31, 2021 and 2020 are as follows:

	December 31, 2021 (In thousands)				
	Mortgage Loans on Real Estate	**Commercial and Industrial Loans**	**Consumer Loans**	**Unallocated**	**Total**
Allowance for loan losses:					
Beginning balance	$ 1,266	$ 166	$ 26	$ 182	$ 1,640
Charge-offs	-	(80)	(5)	-	(85)
Recoveries	-	41	-	-	41
Provision	181	70	(4)	53	300
Ending balance	$ 1,447	$ 197	$ 17	$ 235	$ 1,896
Ending balance: individually evaluated for impairment	25	-	-	-	25
Ending balance: collectively evaluated for impairment	1,422	197	17	235	1,871
Ending balance	$ 1,447	$ 197	$ 17	$ 235	$ 1,896
Loans receivable balance:					
Ending balance: individually evaluated for impairment	497	-	-	-	497
Ending balance: collectively evaluated for impairment	130,901	15,603	4,592	-	151,096
Ending balance	$ 131,398	$ 15,603	$ 4,592	$ -	$ 151,593

	December 31, 2020 (In thousands)				
	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

4. LOANS — (Continued)

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

	December 31,	
	2021	2020
	(In thousands)	
Balance, beginning of period	$ 1,825	$ 376
Payments	(493)	(33)
Proceeds	137	137
Effect of change in composition of related parties	-	1,345
Balance, end of period	$ 1,469	$ 1,825

5. PREMISES AND EQUIPMENT

Premises and equipment at December 31, 2021 and 2020 are summarized as follows:

	December 31,	
	2021	2020
	(Dollars in Thousands)	
Building and building improvements	$ 6,061	$ 6,054
Construction in progress	894	9
Furniture, fixtures and equipment	2,136	2,084
	9,091	8,147
Accumulated depreciation	(3,290)	(2,937)
Total	$ 5,801	$ 5,210

Construction in progress is composed of the transfer from foreclosed property to premises and equipment and improvements made to the real estate. Depreciation expense for the years ended December 31, 2021 and 2020 was $390,000 and $351,000, respectively.

6. DEPOSITS

The components of deposits for the years ended December 31, 2021 and 2020 consist of the following:

	December 31,	
	2021	2020
	(In thousands)	
Demand deposits	$ 26,390	$ 24,996
NOW accounts	27,107	23,094
Regular savings and demand clubs	28,747	26,763
Money markets	36,388	30,970
Certificates of deposit and retirement accounts	41,435	50,095
	$ 160,067	$ 155,918

6. DEPOSITS — (Continued)

As of December 31, 2021, certificates of deposit and retirement accounts have scheduled maturities as follows (dollars in thousands):

	December 31, 2021
2022	$ 32,675
2023	2,306
2024	3,778
2025	1,034
2026	1,642
Thereafter	-
	$ 41,435

The aggregate amount of time deposits in denominations of $250,000 or more were $14.6 million and $15.4 million at December 31, 2021 and 2020, respectively. Under the Dodd-Frank Act, deposit insurance per account owner is $250,000.

Interest expense on deposits for the years ended December 31, 2021 and 2020 are as follows:

	December 31, 2021	December 31, 2020
	(Dollars in Thousands)	
NOW accounts	$ 28	$ 25
Regular savings and demand clubs	18	19
Money markets	72	263
Certificates of deposit and retirement accounts	263	763
	$ 381	$ 1,070

Related party deposits for the year ended December 31, 2021 was $1.5 million and $2.1 million for the year ended December 31, 2020.

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, 2021 and 2020 are summarized as follows:

	December 31, 2021	December 31, 2020
	(Dollars in Thousands)	
Term Advances:		
Advanced March 29, 2016 - Due March 29, 2021 - bearing interest at 1.81% fixed rate	-	2,000
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 March 5, 2018 - Due March 5, 2021 - bearing interest at 2.74% fixed rate	-	1,250
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
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
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 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
Advanced February 25, 2020 - Due February 25, 2025 - bearing interest at 1.52% fixed rate	1,000	1,000
Advanced March 5, 2020 - Due March 5, 2025 - bearing interest at 1.12% fixed rate	3,500	3,500
Advanced March 12, 2020 - Due March 12, 2025 - bearing interest at 1.42% fixed rate	1,000	1,000
Total Term Advances	23,650	30,900
Repurchase Advances:		
Advanced December 30, 2021 - Due January 6, 2022 - bearing interest at 0.33% fixed rate	1,300	-
Total Advances	$ 24,950	$ 30,900

The contractual maturities and weighted average rates of advances from FHLBNY at December 31, 2021 are as follows (dollars in thousands):

2022	$ 9,950	2.06%
2023	3,500	2.10%
2024	6,000	2.28%
2025	5,500	1.25%
	$ 24,950	1.89%

7. BORROWINGS — (Continued)

The Company has access to FHLBNY advances, under which it can borrow at various terms and interest rates. Residential and commercial mortgage loans of $72.0 million and $70.7 million at December 31, 2021 and 2020, respectively, and investment securities of $10.8 million and $10.3 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 $71,000 and a market value of $72,000 to a local municipality collateralizing their deposits. The Company has pledged a New York municipal bond with a book value of $344,000 and a market value of $343,000 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, 2021, there were no outstanding Paycheck Protection Liquidity Facility advances (PPLF) at the Federal Reserve Bank of New York. At December 31, 2020, we had 78 Paycheck Protection Liquidity Facility advances (PPLF) at the Federal Reserve bank of New York with a balance of $7.2 million.

8. INCOME TAXES

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

	December 31,	
	2021	2020
	(Dollars in thousands)	
Current:		
Federal	$ 193	$ 39
State	5	4
	198	43
Deferred:		
Federal	174	118
State	-	-
	174	118
Total provision for income taxes	$ 372	$ 161

8. INCOME TAXES (Continued)

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

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

	December 31,	
	2021	2020
	(Dollars in thousands)	
Deferred tax assets:		
Allowance for loan losses	$ 490	$ 424
Net operating loss carryforward	463	404
Nonaccrual interest	9	28
Other real estate owned	-	50
Deferred loan fees	-	48
Other	80	90
Total deferred tax assets	1,042	1,044
Deferred tax liabilities:		
Net retirement plans	(1,327)	(1,032)
Depreciation	(378)	(356)
Net unrealized gain on securities available-for-sale	(69)	(216)
Other	(1)	(1)
Total deferred tax liabilities	(1,775)	(1,605)
Valuation allowance	(274)	(263)
Net deferred tax liabilities	$ (1,007)	$ (824)

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,	
	2021	2020
	(Dollars in thousands)	
Computed at the statutory rate	$ 452	$ 223
Change in valuation allowance	80	91
State deferred tax liability	(80)	(91)
Nontaxable interest and dividend	(66)	(64)
Income from bank owned life insurance	(10)	(11)
Other items	(4)	13
Income tax provision	$ 372	$ 161

8. INCOME TAXES (Continued)

New York State (NYS) tax law changes were enacted in 2015 that resulted in the Company generating a significant deduction, ultimately putting the Company in a NYS net operation loss position for tax purposes that will persist for the foreseeable future. It is anticipated that mortgage recording tax generated each year will reduce the NYS capital base to the fixed dollar minimum tax. Therefore, in 2015, the Company recorded a valuation allowance against its net New York deferred tax asset as of December 31, 2015 as it is unlikely this deferred tax asset will impact the Company's New York tax liability in future years, primarily mortgage recording tax credit carryforward. The Company also de-recognized state deferred tax liabilities as a result of NYS law changes. The increase in valuation allowance at December 31, 2021 from December 31, 2020 was due to the increase in NYS net operating loss.

At December 31, 2021 and 2020, 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, 2021 and 2020, 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, 2021 and 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, 2021		
	Unrealized Gains on Available-for-Sale Securities	Net Loss on Pension Plan	Accumulated Other Comprehensive Loss
		(In thousands)	
Beginning balance	$ 811	$ (2,050)	$ (1,239)
Other comprehensive (loss) income	(551)	585	34
Ending balance	$ 260	$ (1,465)	$ (1,205)

	For the year ended December 31, 2020		
	Unrealized Gains on Available-for-Sale Securities	Net Loss on Pension Plan	Accumulated Other Comprehensive Loss
		(In thousands)	
Beginning balance	$ 186	$ (2,284)	$ (2,098)
Other comprehensive income	625	234	859
Ending balance	$ 811	$ (2,050)	$ (1,239)

9. COMPREHENSIVE LOSS — (Continued)

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

	For the years ended					
	December 31, 2021			December 31, 2020		
	Before Tax Amount	Tax (Expense) Benefit	Net	Before Tax Amount	Tax (Expense) Benefit	Net
	(In thousands)					
Available-for-sale securities:						
Unrealized holding (losses) gains arising during period	$ (664)	$ 139	$ (525)	$ 840	$ (174)	$ 666
Reclassification adjustment for net gains included in net income	(33)	7	(26)	(49)	8	(41)
Net unrealized (losses) gains on available-for-sale securities	(697)	146	(551)	791	(166)	625
Defined Benefit Pension Plan:						
Net gains arising during the period	533	(111)	422	118	(9)	109
Less reclassification of amortization of net losses recognized in net pension expense	206	(43)	163	180	(55)	125
Net changes in defined benefit pension plan	739	(154)	585	298	(64)	234
Other Comprehensive Income	$ 42	$ (8)	$ 34	$ 1,089	$ (230)	$ 859

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

	Amount Reclassified from AOCL		
	For the years ended		Affected line item in the Statement of Income
	December 31, 2021	December 31, 2020	
	(In thousands)		
Available-for-sale securities:			
Realized gains on sale of available for sale securities	$ 33	$ 49	Net realized gains on sales of available-for-sale securities
Tax effect	(7)	(8)	Provision for income taxes
	26	41	Net income
Defined benefit pension plan:			
Retirement plan net losses recognized in net period pension cost	(206)	(180)	Compensation and employee benefits
Tax effect	43	55	Benefit for income taxes
	$ (163)	$ (125)	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, 2021 and 2020, the Company recorded $168,977 and $143,196, 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 $25,781 and $24,554, respectively, for the years ended December 31, 2021 and 2020.

Defined Benefit Plan

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

On October 13, 2017, the Compensation Committee elected to soft-freeze the defined benefit pension plan effective January 1, 2018. All employees hired after that date will not be eligible to participate in the defined benefit pension plan; they will, however, be able to participate in a 401k plan that the Company will match up to 50% of the employee elected contribution amount capped at 5% of the employee’s earnings.

All plan provisions and actuarial methods used in 2021 are the same as those used in 2020, with the exception of the discount rate used to determine the benefit obligation which decreased to 3.75% from 3.78% and the discount rate used to determine net periodic pension cost which decreased to 3.78% from 4.17%. The mortality table used in 2021 was RP-2014 (adjusted) with MP-2021 mortality improvements.

Information pertaining to the activity in the Pension Plan for the years ended December 31, 2021 and 2020 is as follows:

	December 31,	
	2021	2020
	(Dollars in Thousands)	
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 11,673	$ 10,867
Service cost	313	283
Interest cost	431	441
Actuarial loss	358	645
Benefits paid	(1,218)	(563)
Benefit obligation at end of year	11,557	11,673
Change in plan assets:		
Fair value of plan assets at beginning of year	$ 15,332	$ 13,698
Actual return on plan assets	1,909	1,697
Employer contributions	500	500
Benefits paid	(1,218)	(563)
Fair value of plan assets at end of year	16,523	15,332
Net amount recognized, funded status	$ 4,966	$ 3,659

10. EMPLOYEE BENEFIT PLANS — (Continued)

The accumulated benefit obligation was $10.8 million and $11.0 million at December 31, 2021 and 2020, respectively.

The assumptions used to determine the benefit obligation at December 31, 2021 and 2020 are as follows:

	2021	2020
Discount rate	3.75%	3.78%
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, 2021 and 2020 are as follows:

	December 31,	
	2021	2020
	(Dollars in Thousands)	
Service cost	$ 313	$ 283
Interest cost	431	441
Expected return on assets	(1,018)	(935)
Amortization of unrecognized loss	206	181
Net periodic pension cost	(68)	(30)
Total of amounts recognized in other comprehensive income	(739)	(298)
Total recognized in net periodic pension cost and other comprehensive income	$ (807)	$ (328)

The assumptions used to determine net periodic pension cost for the years ended December 31, 2021 and 2020 are as follows:

	December 31,	
	2021	2020
Discount rate	3.78%	4.17%
Expected long-term rate of return on plan assets	7.00%	7.00%
Rate of increase in compensation levels	3.00%	3.00%

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

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

10. EMPLOYEE BENEFIT PLANS — (Continued)

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

		Market Value of Assets - December 31, 2021		
	Asset Category	**Total**	**Level 1**	**Level 2**
	Equities & Commodities:			
(1)	Blackrock Dividend Equity	$ 825	$ -	$ 825
(2)	Select S&P 500 Index	3,534	-	3,534
(3)	Select Blue Chip Growth	845	-	845
(4)	Select S&P Mid Cap Index	2,037	-	2,037
(5)	Select Small Cap Index	1,612	-	1,612
(6)	Premier Strategic Emerging Markets	768	-	768
(7)	Oppenheimer Real Estate	543	-	543
	Total Equities and Commodities	10,164		10,164
	Fixed Income:			
(8)	Premier Short-Duration Bond	1,579	-	1,579
(9)	Northern Bond Index	1,585	-	1,585
(10)	Select Western Strategic Bond	1,584	-	1,584
(11)	Premier Inflation Protected & Income Fund	809	-	809
(12)	Premier Babson High Yield Bond	802	-	802
	Total Fixed Income	6,359		6,359
	Total Market Value	$ 16,523	$ -	$ 16,523

		Market Value of Assets - December 31, 2020		
	Asset Category	**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
(12)	Premier Babson High Yield Bond	745	-	745
	Total Fixed Income	5,725		5,725
	Total Market Value	$ 15,332	$ -	$ 15,332

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

10. EMPLOYEE BENEFIT PLANS — (Continued)

Fund Descriptions:

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

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

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

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

(5) Select Small Cap Index — The investment seeks to provide investment results approximating (before fees and expenses) the aggregate price and dividend performance of the securities included in the Russell 2000® Index.

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

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

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

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

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

10. EMPLOYEE BENEFIT PLANS — (Continued)

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

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

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 2021 and 2020, but made a $500,000 contribution in the 1st quarter of 2021 and in the 1st quarter of 2020.

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

2022	$ 510
2023	$ 541
2024	$ 531
2025	$ 617
2026	$ 618
2027-2031	$ 3,482

EMPLOYEE STOCK OWNERSHIP PLAN ("ESOP")

Effective upon the completion of the Company's initial public stock offering in October 2017, the Bank established an Employee Stock Ownership Plan ("ESOP") for all eligible employees. The ESOP used $775,740 in proceeds from a term loan obtained from the Company to purchase 77,574 shares of common stock on the open market at an average price of $10.00 per share. The ESOP loan will be repaid principally from the Bank's contribution to the ESOP in annual payments through 2047 at a fixed interest rate of 4.25%. Shares are released to participants on a straight-line basis over the loan term and allocated based on participant compensation. The Bank recognizes compensation benefit expense as shares are committed for release at their current market price. The difference between the market price and the cost of shares committed to be released is recorded as an adjustment to additional paid-in capital. Dividends on allocated shares are recorded as a reduction of retained earnings and dividends on unallocated shares are recorded as a reduction of debt. The Company recognized approximately $20,000 of compensation expense related to this plan for the year ended December 31, 2021 and approximately $23,000 for the year ended December 31, 2020. At December 31, 2021, there were 66,650 shares not yet released having an aggregate market value of approximately $799,800. Participant vesting provisions for the ESOP are 20% per year and will be fully vested upon completion of six years of credited service. Eligible employees who were employed with the Bank shall receive credit for vesting purposes for each year of continuous employment prior to adoption of the ESOP.

10. EMPLOYEE BENEFIT PLANS — (Continued)

STOCK BASED COMPENSATION

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

The Black-Scholes model used the following weighted average assumptions for the options granted in June of 2021: risk-free interest rate of 1.14%; volatility factors of the expected market price of the Company's common stock of 29.06%; weighted average expected lives of the options of 6.5 years. Based upon these assumptions, the weighted average fair value of options granted was $3.08.

A summary of the Company's stock option activity and related information for its equity incentive plan for the years ended December 31, 2021 and 2020 is as follows:

	For the year ended December 31, 2021		2020	
	Options	Weighted Average Exercise Price Per Share	Options	Weighted Average Exercise Price Per Share
Outstanding at the beginning of the period	48,500	$ 8.92	47,500	$ 9.20
Grants:	15,900	9.75	5,000	6.52
Exercised	-	-	-	-
Forfeitures	-	-	(4,000)	9.20
Outstanding at period end	64,400	$ 9.12	48,500	$ 8.92

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.

10. EMPLOYEE BENEFIT PLANS — (Continued)

The Company recorded compensation expense in the amount of approximately $34,000 for the year ended December 31, 2021 and approximately $25,000 for the year ended December 31, 2020. The Company has $106,262 of compensation expense remaining to be recognized at December 31, 2021.

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.

11. FAIR VALUE MEASUREMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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

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

There were no securities transferred out of Level 2 securities available-for-sale during the twelve months ended December 31, 2021 and 2020.

	Total	Level 1	Level 2	Level 3
		(In thousands)		
Available-for-sale Securities:				
December 31, 2021:				
U.S. Treasury securities	$ 2,916	$ -	$ 2,916	$ -
U.S. Government Agency securities	990	-	990	-
Municipal securities	23,292	-	23,292	-
Mortgage-backed securities and collateralized mortgage obligations	7,740	-	7,740	-
Corporate securities	8,862	-	8,862	-
	$ 43,800	$ -	$ 43,800	$ -
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	$ -

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, 2021 and 2020.

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

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.

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.

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

The carrying amounts and estimated fair values of the Company's financial instruments at December 31, 2021 and 2020 are as follows:

	Fair Value Hierarchy	Carrying Amount	Fair Value
		(In thousands)	
December 31, 2021:			
Financial assets:			
Cash and due from banks	Level 1	$ 3,526	$ 3,526
Securities available-for-sale	Level 2	43,800	43,800
Investment in FHLB stock	Level 2	2,619	2,619
Loans, net	Level 3	150,042	150,740
Accrued interest receivable	Level 1	921	921
Financial liabilities:			
Deposits	Level 1/2	160,067	151,172
Advances and borrowings from FHLB	Level 2	24,950	24,950
Accrued interest payable	Level 1	42	42
Advances from borrowers for taxes and insurance	Level 1	2,162	2,162
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
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

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, 2021 and 2020 were as follows:

	Total	Level 1	Level 2	Level 3
		(In thousands)		
December 31, 2021:				
Impaired loans	$ 472	$ -	$ -	$ 472
Foreclosed real estate	40	-	-	40
	$ 512	$ -	$ -	$ 512
December 31, 2020:				
Impaired loans	$ 131	$ -	$ -	$ 131
Foreclosed real estate	682	-	-	682
	$ 813	$ -	$ -	$ 813

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, 2021 and 2020, the fair value consists of loan balances of $497,000 and $156,000, respectively, net of a valuation allowance of $25,000 and $25,000, respectively.

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

At December 31, 2021, other foreclosed real estate property obtained totaled a one to-four residential property of $40,000. 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.

	Foreclosed Real Estate
At January 1, 2020	$ -
Additions to foreclosed real estate	874
Write-down of foreclosed real estate	(182)
At December 31, 2020	692
Additions to foreclosed real estate	40
Transfer of foreclosed real estate into bank buildings	(300)
Sale of foreclosed real estate	(392)
At December 31, 2021	$ 40

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, 2021, the Company had other real estate owned of $40,000. At December 31, 2020, the company had other real estate owned net of valuation allowance of $682,000.

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, 2021	December 31, 2020
	(In thousands)	
Commitments to Grant Loans	$ 609	$ 356
Unfunded Commitments Under Lines of Credit	$ 7,996	$ 5,871

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 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, 2021 and 2020, 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, 2021 and 2020, 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, 2021:								
Tier 1 capital to assets	$ 24,115	11.18%	$ 16,173	7.50%	$ 18,329	8.50%	N/A	N/A
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

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 64,400 stock options to Directors and Officers as of December 31, 2021. During the twelve months ended December 31, 2021, the Company had 1,176 of potentially dilutive common stock equivalents. During the twelve months ended December 31, 2020, the Company no potential 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)	**2021**	**2020**
Basic earnings per common share:		
Net income available to common stockholders	$ 1,780	$ 902
Weighted average common shares outstanding basic	1,841,218	1,852,848
Weighted average common shares outstanding dilutive	1,842,394	1,852,848
Earnings per share basic and dilutive	$ 0.97	$ 0.49

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,	
	2021	**2020**
	(In thousands)	
Service fees		
Deposit related fees	$ 24	$ 27
Loan servicing income	101	95
Total service fees	125	122
Income from financial services		
Securities commission income	402	260
Insurance commission income	9	11
Total insurance and securities commission income	411	271
Card income		
Debit card interchange fee income	189	121
ATM fees	24	22
Insufficient fund fees	172	125
Total card and insufficient funds income	385	268
Realized gain on sale of residential mortgage loans, available for sale securities and fixed assets		
Realized gain on sales of residential mortgage loans	119	217
Realized net gain on available-for-sales securities	33	49
Realized loss on sale of foreclosed real estate	(13)	-
Realized loss on disposal of fixed assets	(5)	(13)
Income from foreclosed real estate	19	15
Bank owned life insurance	47	53
Other miscellaneous income	37	22
Total non-interest income	$ 1,158	$ 1,004

15. NON-INTEREST INCOME — (Continued)

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

- Service fees — Revenue from fees on deposit accounts is earned at the time that the charge is assessed to the customer's account. Fee waivers are discretionary and usually reversed within the same reporting period as assessed.
- Fee income — Fee income is earned through commissions and is satisfied over the time which the fee has been assessed.
- Card income and insufficient funds fees — Card income consists of interchange fees from consumer debit card networks and other card related services. Interchange rates are set by the card networks. Interchange fees are based on purchase volumes and other factors and are recognized as transactions occur. Insufficient funds fees are satisfied at the time the charge is assessed to the customer's account.
- 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, 2021, and 2020 and for the years then ended.

Parent Only Condensed Balance Sheets

	December 31,	
	2021	2020
	(In Thousands of Dollars)	
Assets		
Cash in bank subsidiary	$ 730	$ 1,094
Investments in subsidiaries, at underlying equity	22,910	21,008
Loan receivable - ESOP	717	731
Other assets	-	46
Total assets	$ 24,357	$ 22,879
Liabilities and Stockholders' Equity		
Liabilities:		
Other liabilities	$ -	$ -
Total liabilities	-	-
Stockholders' equity:		
Total stockholders' equity	24,357	22,879
Total liabilities and stockholders' equity	$ 24,357	$ 22,879

16. PARENT COMPANY ONLY FINANCIAL INFORMATION — (Continued)

Parent Only Condensed Statements of Income

	Year Ended December 31 2021	Year Ended December 31 2020
	(In Thousands of Dollars)	
Interest income:		
Income on ESOP loan	$ 30	$ 30
Total interest income	30	30
Non-interest expenses:		
Professional fees	63	140
Other non-interest expense	20	48
Total non-interest expense	83	188
Loss before taxes	(53)	(158)
Income tax expense	(14)	(21)
Earnings before equity in undistributed earnings of Bank	(67)	(179)
Equity in undistributed earnings of Bank	1,847	1,081
Net income	$ 1,780	$ 902

Parent Only Statement of Cash Flows

	Year Ended December 31, 2021	Year Ended December 31, 2020
	(In Thousands of Dollars)	
Cash flows from operating activities:		
Net income	$ 1,780	$ 902
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed income of Bank	(1,847)	(1,081)
Decrease in other assets	45	18
Stock based compensation expense	34	26
Increase in other liabilities	-	-
Net used in operating activities	12	(135)
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	(390)	-
Net cash provided by financing activities	(390)	-
Net change in cash and cash equivalents	(364)	(121)
Cash and cash equivalents -beginning of year	1,094	1,215
Cash and cash equivalents - end of year	$ 730	$ 1,094

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Corporate and Shareholder Information

CORPORATE HEADQUARTERS

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Financial Quest

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CORPORATE COUNSEL

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

STOCK EXCHANGE

PINK OPEN MARKET

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:

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Investor Relations
35 Oswego Street
Baldwinsville, NY 13027

Directors and Executive Management

Seneca Financial Corp.

Directors

William Le Beau, Chairman

Vincent Fazio

James Hickey

Kimberly Boynton

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 17, 2022
10:00 AM EST
Seneca Financial Corp.
35 Oswego Street
Baldwinsville, NY 13027

SENECA
FINANCIAL CORP.