

Catskill Hudson Bancorp, Inc.



2017 **ANNUAL
REPORT**

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REPORT

Past~Present~Future

Catskill Hudson Bank, formerly known as Community Bank of Sullivan County, was established in 1993 in Monticello, NY. On July 31, 2006, the shareholders approved and completed its reorganization into a holding company form of ownership under Catskill Hudson Bancorp, Inc. (the Company). All of the outstanding stock of Community Bank of Sullivan County was acquired on August 1, 2006 by Catskill Hudson Bancorp, Inc. The stock is traded under the symbol CSKL. In December 2006, the name was changed to Catskill Hudson Bank (the Bank) to better reflect its goal of maximizing growth opportunities, by expanding its market beyond Sullivan County to Orange, Ulster, Dutchess, Saratoga and Albany Counties. The Bank represents the sole asset and provides the major portion of the results of operations of the Company.



The Bank is comprised of thirteen branches, which includes the opening of Green Island near Troy, NY in the summer of 2018: nine in the Mid-Hudson Region and four in the Capital District. The Corporate offices were relocated to Kingston in 2012, and in 2016 the Operations Center was moved to Middletown in Orange County.



We actively seek investment opportunities in the communities we serve and are recognized as a reliable source for lending. The Bank is also an investor in the Community Loan Fund of the Capital Region, Inc. This organization provides, “an opportunity for socially concerned individuals and institutions to build a healthier local economy and community, by making low-cost flexible loans to social and micro-entrepreneurs and by providing training and technical assistance services to support the lending activities.”



The Bank offers traditional, online and mobile banking services to both consumers and businesses. Soon Catskill Hudson Bank will be offering competitive residential mortgages which will enhance our products and services. Utilizing the latest technology, we offer the convenience of free access to accounts anywhere, anytime, using a smart phone or tablet. We take pride in our network being recognized as one of the most secure in the industry.

1993

Community Bank of Sullivan County established in Monticello, NY.

2006

July 31, reorganized into Catskill Hudson Bancorp, Inc.

December, name changed to Catskill Hudson Bank.

2012

Corporate offices are relocated to Kingston, NY.

2013

Catskill Hudson Bank expands to the Capital Region with the first branch in Malta, NY.

2016

Operations Center moved to Middletown, NY.

2018

Further expansion with Capital Region branch openings in Latham and Green Island. New Residential Mortgage Department debuts.

Executive Address



Mario L. Martinez
Chairman & CEO

A Message from
Mario L. Martinez, Chairman & CEO
Kevin S. McLaren, President

2017 continued to be another year of solid performance for Catskill Hudson Bancorp, Inc. (“the Company”) and its wholly-owned subsidiary Catskill Hudson Bank (“the Bank”). Changes that were made in the prior three years have proven successful, and we hope to continue to see the benefits. We are happy to report the opening of two new branches located in Kingston in the Mid-Hudson Region and Latham in the Capital District. Both of these new offices are located in high traffic retail areas giving the bank maximum exposure. We also are planning on opening a new branch in Green Island this summer.

In 2018 we are also entering the residential mortgage market for the first time. We have a new experienced team to originate, process, close and manage this portfolio. We believe that this will round out the bank, better diversify our revenue sources, and make us a more full service bank able to better deliver products that are in demand by our customers, our most important asset.

Although we are living through an uncertain economic and political period, the Company has seen improvements in all areas, as noted in the enclosed Consolidated Financial Statements. Assets at year-end were \$442,430,000 compared to \$441,316,000 in the prior year. Net loans continue to grow ending the year at \$274,024,000 compared to \$241,009,000 in 2016. As of the end of the first quarter 2018, we exceeded a record \$278,000,000 in our loan portfolio. It is important to note that the growth and quality of our loan portfolio is one of the primary reasons for our success over the past several years, and we hope this will continue in the future. Deposits at year-end totaled \$407,234,000 compared to \$408,329,000 in 2016. Retained Earnings were \$14,131,000 compared to \$12,453,000 in 2016.

Our strategy has been to slowly grow our assets while growing our loan portfolio, being mindful of the effects rapid growth can have on our capital.

We had to take a one-time charge of \$339,000 due to the new tax laws passed in 2017 related to tax deferred expenses. This not only affected our bank but much of the banking industry. But,

“...the growth and quality of our loan portfolio is one of the primary reasons for our success...”

even with these unexpected charges the Company achieved net income available to common shareholders of \$1,645,000 compared to \$1,304,000 in 2016. This growth in earnings is attributed to continued improvement in our core earnings and improved asset quality. Earnings per common share were \$2.38 compared to \$1.89 in 2016. We continue to be well capitalized and keep adequate reserves on hand in our Allowance for Loan Losses. We invite you to read our Statement of Financial Condition and Income Statement in this report. The full 2017 Consolidated Financial Statements are available on our website at www.chbny.com.

We continue to make every effort to improve earnings by increasing revenues and controlling expenses. The results have been positive, and we have confidence as we move into 2018. In the first quarter of 2018, the Board raised the quarterly stock dividend from \$.09 to \$.10 per share due to improved performance. Our stock (CSKL) has been trading at its highest level in the \$23.00 range. We believe the increase is one measure of the progress that the bank has made over the past several years as we continue to invest in our delivery systems, our employees and our product offerings. We believe these investments will allow the bank to continue to grow and prosper going forward.

Kevin S. McLaren
President,
Director (Bank)

Now that we are experiencing a rising rate environment, the Bank is adapting itself to this change in strategy by the Federal Reserve Bank. We are actively seeking to increase our share of lower rate deposits to fund our loan growth in an effort to protect our interest margin.

Cybersecurity is of major concern right now in our industry and the world in general. You will be happy to know that the Bank uses a proprietary system providing us with one of the safest networks possible. Recent audit results have shown that we are a leader in our industry when it comes to cybersecurity.

We are keenly aware of regulatory pressures placed on our Bank and our industry. However, there seems to be a movement in Washington that hopefully will provide relief for some of the most burdensome regulations placed on smaller banks like ours. The S.2155 “Economic Growth, Regulatory Relief and Consumer Protection Act” regulatory relief bill is moving through Congress and hopefully will pass this year. We strongly support this bill.

We have achieved many of our objectives in 2017 which have prepared us for 2018 and beyond. We look forward to a bright future, and thank you for your continued support.

To Continued Success,


Mario L. Martinez


Kevin S. McLaren



Board & Senior Management



Mario L. Martinez
Chairman of the Board
Chief Executive Officer



Gary C. Schmidt
Director



Jan S. Van Etten
Director
Chairman Audit Committee



Jonathan M. Farrow
Director



Robert S. Green
Director



Dawn M. Martinez
Director
Marketing Administrator

We wish to thank our customers, employees and managers for their support and hard work in 2017. We also thank each stockholder for supporting your Company and your Bank.



Kevin S. McLaren
President
Director (Bank)



Kevin T. Cannon
Executive Vice President
Chief Operating Officer



Robert A. Pettine
Senior Vice President
Chief Financial Officer

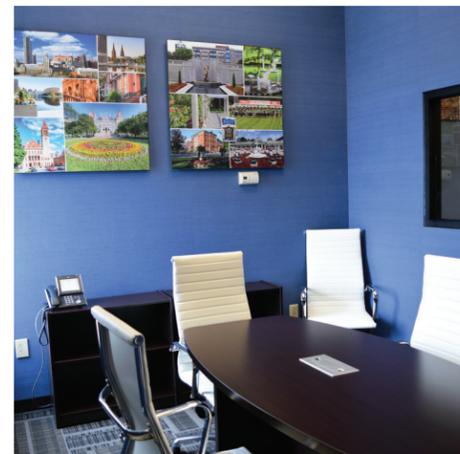


Theodore Tomita, III
Senior Vice President
Chief Technology Officer
Chief Information Security Officer

Branching Out

LATHAM

With the Grand Opening of our newest branch in Latham we continue our expansion into the Capital District. Located in front of Market Bistro by Price Chopper, it is one of the busiest shopping centers on Route 9. We look forward to offering a wide variety of products and services both in the branch and online. Our customers are accustomed to fast, efficient service and we welcome the opportunity to offer that same experience to the Latham community.



KINGSTON

Our Kingston Branch was relocated from Stockade Drive to Kings Mall Court on Route 9W (Ulster Avenue). This is a completely refurbished building in the heart of the Kingston-Ulster retail corridor and offers a convenient location with easy access.



SETTING OUR SITES ON GREEN ISLAND

"As Mayor of the Village of Green Island and as a local business owner, I am very excited about Catskill Hudson Bank's decision to open a branch in our community. Green Island is a very close knit community that believes in supporting local businesses. I can't wait for the Grand Opening so I can open both my personal and business accounts and become part of the Catskill Hudson Bank family. The Catskill Hudson Bank team has been wonderful to work with and I know we will have a great community partnership. Thank you for your investment in my hometown."

Mayor Ellen McNulty-Ryan

Meet The Lenders...



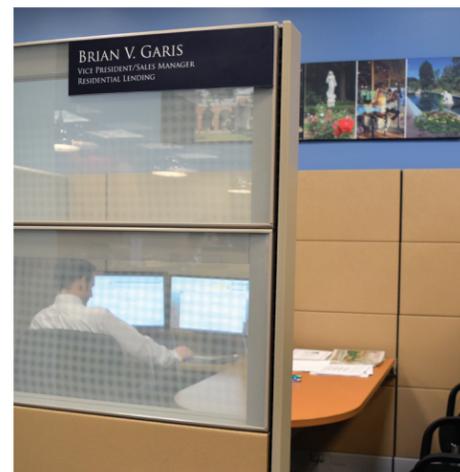
Courtney Potter
Residential Lending
Specialist

Stephanie K. Zocco
Vice President
Residential Lending

Brian V. Garis
Vice President
Sales Manager
Residential Lending

RESIDENTIAL TEAM

With many years of combined experience, our new residential mortgage team is spearheading this program. It is important to work with professionals who have the expertise to guide, inform and ease through the mortgage process for the best results to serve the individual needs of applicants. We understand the importance of banking locally and knowing that



your mortgage specialist is accessible and easy to communicate with. Efficiency, compassion and guidance are our ultimate goals for our customers. When you have plans, the Catskill Hudson Bank skilled mortgage professionals are ready to be with you every step of the way.

COMMERCIAL TEAM

We continue to grow our loan portfolio in all counties throughout our branch network. Quality commercial and business loans serviced by our expert loan officers continue to increase, contributing to the Bank's earnings performance. At Catskill Hudson Bank we offer outstanding personal service and quick answers



on competitive loans to support our customers' business needs. Our Loan Officers will help in the decision process to determine the best loan, assist with the application process and continue servicing your loan after the closing. Whether customers are purchasing real estate or refinancing, we strive to keep the typically complex process as simple and expedient as possible.

"...we strive to keep the typically complex process as simple and expedient as possible."



Henri D. Langevin
Senior Vice President
Regional Senior Loan Officer
Capital Region



Bryan Smith
Vice President
Regional Loan Officer
Mid-Hudson Region
Ulster & Dutchess Counties



Fil Nieves
Vice President
Regional Senior Loan Officer
Mid-Hudson Region
Sullivan & Orange Counties



Markland Shaw
Vice President
Credit Manager

"Efficiency, compassion and guidance are our ultimate goals for our customers."

Catskill Hudson Bancorp, Inc.

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(in thousands)

December 31,	2017	2016
Assets		
Cash and due from banks	\$ 30,267	\$ 31,976
Short term certificates of deposits	240	480
Securities available-for-sale, at fair value	122,491	150,046
Securities held-to-maturity, fair value 2017 \$6,265; 2016 \$7,202	6,502	7,685
Loans, net of allowance for loan losses 2017 \$3,165; 2016 \$3,383	274,024	241,009
Restricted investment in bank stock	731	743
Premises and equipment, net	2,843	2,895
Accrued interest receivable and other assets	3,518	4,702
Bank owned life insurance	1,814	1,780
Total Assets	\$ 442,430	\$ 441,316
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Interest-bearing	\$ 336,613	\$ 333,700
Noninterest-bearing	70,621	74,629
Total deposits	407,234	408,329
Subordinated debentures	10,799	10,776
Junior subordinated debentures	3,299	3,299
Accrued interest payable and other liabilities	853	713
Total Liabilities	422,185	423,117
Stockholders' Equity		
Preferred stock	-	-
Common stock	708	703
Treasury stock, (8,416 shares at December 31, 2017 and 2016)	(152)	(152)
Paid-in capital	7,278	7,221
Retained earnings	14,131	12,453
Accumulated other comprehensive loss	(1,720)	(2,026)
Total Stockholders' Equity	20,245	18,199
Total Liabilities and Stockholders' Equity	\$ 442,430	\$ 441,316

Catskill Hudson Bancorp, Inc.

CONSOLIDATED STATEMENTS OF INCOME

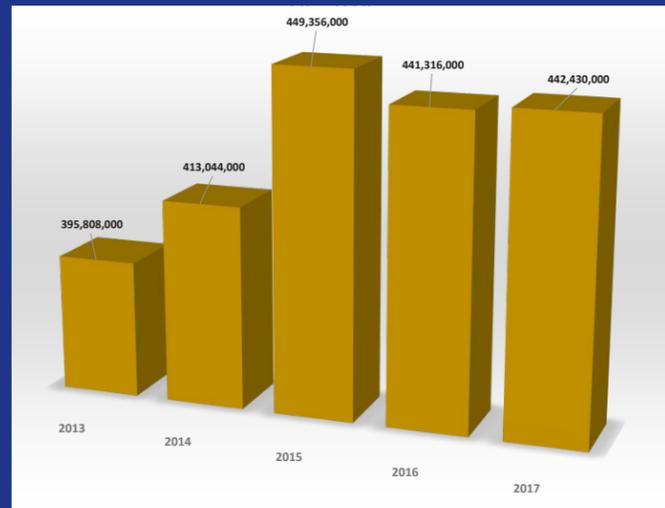
(in thousands, except per share data)

Years Ended December 31,	2017	2016
Interest Income		
Loans	\$ 11,855	\$ 10,910
Investment securities:		
Taxable	2,616	3,258
Tax-exempt	808	713
Other	3	2
Total Interest Income	15,282	14,883
Interest Expense		
Deposits	1,669	1,492
Borrowings	900	221
Total Interest Expense	2,569	1,713
Net interest income	12,713	13,170
Provision for Loan Losses	255	339
Net Interest Income After Provision for Loan Losses	12,458	12,831
Noninterest Income		
Service fees	945	891
Net realized gains on sales of securities available-for-sale	113	215
Other operating income	77	98
Total Noninterest Income	1,135	1,204
Noninterest Expense		
Salaries and employee benefits	6,055	5,747
Occupancy	1,348	1,453
Depreciation and amortization	715	816
Data processing fees	533	757
Stationery, supplies and printing	170	231
Professional fees	264	356
Bank service fees	434	399
Foreclosed real estate activity, net	3	5
FDIC insurance	270	314
Other operating expense	1,222	1,163
Total Noninterest Expense	11,014	11,241
Income before income tax expense	2,579	2,794
Income Tax Expense	934	815
Net income	1,645	1,979
Preferred Stock Dividends	-	675
Net Income Available to Common Stockholders	\$ 1,645	\$ 1,304
Earnings Per Common Share		
Basic	\$ 2.38	\$ 1.89

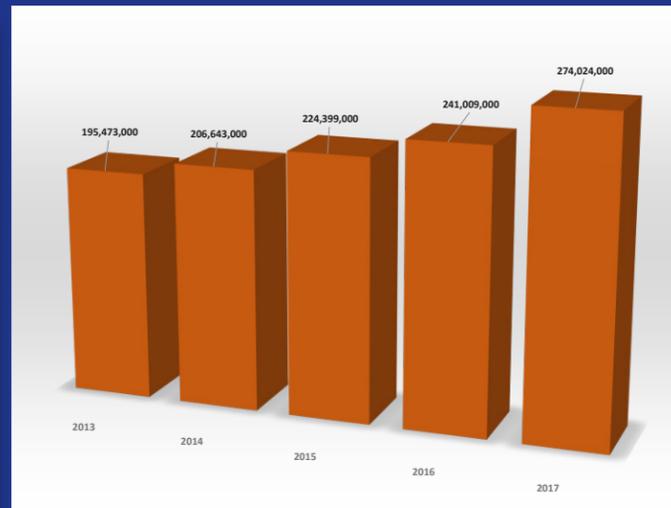
Catskill Hudson Bancorp, Inc.

SELECTED FINANCIAL HIGHLIGHTS

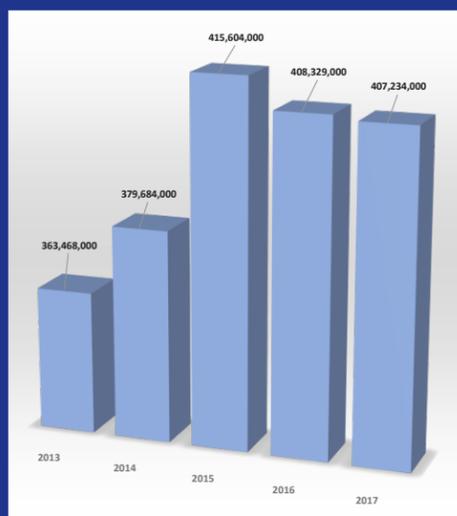
Total Assets



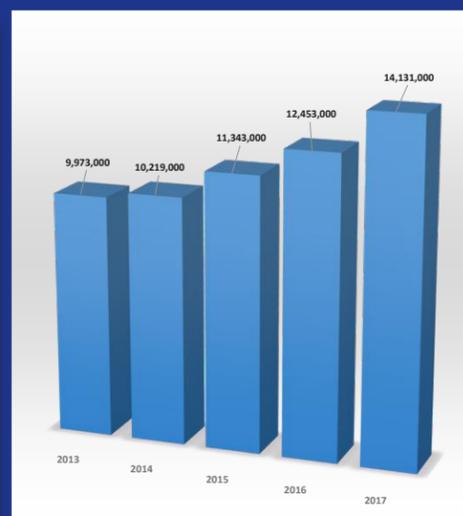
Total Loans



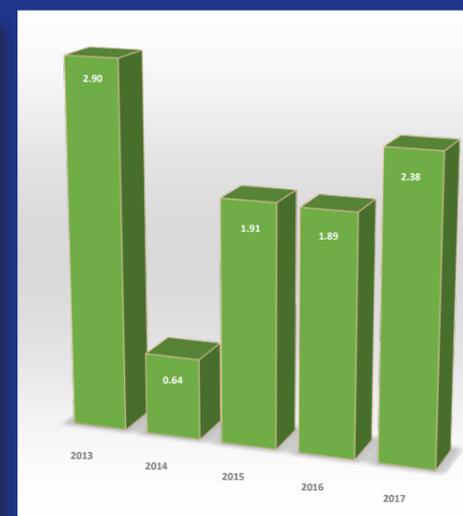
Total Deposits



Retained Earnings



Earnings Per Common Share



SHAREHOLDER INFORMATION

Consolidated Financial Statements

The complete December 31, 2017 and 2016 Consolidated Financial Statements can be viewed on the Investors Page at www.chbny.com

Annual Meeting of Shareholders

The Company's annual meeting of shareholders will convene at 4:00 p.m. on Wednesday, May 16, 2018 at The Hampton Inn, 4 South Putt Corners Road, New Paltz, New York. Only holders of common stock as of April 20, 2018 will be eligible to vote.

Transfer Agent Information

Please contact the person listed below for further information if you wish to:

- Change your mailing address
- Report lost or stolen stock certificates
- Transfer stock
- Deposit dividend directly into a bank account

Yvonne Maxwell

Catskill Hudson Bancorp, Inc.

95 Schwenk Drive
Kingston, New York 12401
(845) 334-0050



Simply Better Banking

Mid-Hudson Valley

Callicoon

9 Lower Main Street/CR 133
PO Box 423
Callicoon, NY 12723
845-334-0118

Ellenville

103 Canal Street
PO Box 627
Ellenville, NY 12428
845-334-0104

Grahamsville

279 Main Street
PO Box 225
Grahamsville, NY 12740
845-985-3055

Corporate Office I

95 Schwenk Drive
Kingston, NY 12401
845-334-0050

Capital Region

Green Island

148 George Street
Green Island, NY 12183
(Opening Soon!)

Kingston

101 Kings Mall Court
Kingston, NY 12401
845-334-0124

Liberty

Colonial Square Mall
1987 State Route 52 East
PO Box 26
Liberty, NY 12754
845-334-0136

Middletown

643 Route 211 East - Suite 1
PO Box 4832
Middletown, NY 10941
845-334-0142

Corporate Office II

64 Hurley Avenue
Kingston, NY 12401
845-334-0076

Halfmoon

1685 State Route 9
Halfmoon, NY 12065
518-373-7080

Latham

851 New Loudon Road
Latham, NY 12110
518-400-1270

Monticello

Thompson Square Mall
4438 State Route 42 North
PO Box 1258
Monticello, NY 12701
845-334-0109

Narrowsburg

Pete's Market
122 Kirks Road
Narrowsburg, NY 12764
845-334-0115

Rock Hill

244 Rock Hill Drive
PO Box 855
Rock Hill, NY 12775
845-334-0130

Operations Center

643 Route 211 East
Middletown, NY 10941
845-334-0070

Malta

Bluth Building
2452 Route 9 - Suite 104
Malta, NY 12020
518-289-5463

Catskill Hudson Bancorp, Inc.

95 Schwenk Drive, Kingston, New York 12401
877-CHBNY15 ■ www.CHBNY.com

