

Catskill Hudson Bancorp, Inc.

ANNUAL REPORT

2018



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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, Saratoga and Albany Counties. The Bank represents the sole asset and provides the major portion of the results of operations of the Company.

Currently, the Bank is comprised of thirteen branches: nine in the Mid-Hudson Region and four in the Capital District. In 2018 we opened our newest branch in Green Island located near Troy, NY. The Corporate offices were relocated to Kingston in 2012, and in 2016 the Operations Center was moved to Middletown in Orange County.

We continuously 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. In 2018 we introduced Residential Lending to our loan offerings under “Simple Mortgage”.

By 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. In light of that, we recently opened our IT Services Center in a new location in Malta. We recognize that future of banking rests on technology so we are making the investment now as we go into the future.



Catskill Hudson Bank
Lending Made Simpler

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

2019

IT Services opens in Malta, NY

New Monticello flagship branch to be established by December

EXECUTIVE Address



Mario L. Martinez Chairman & CEO

2018 continued to be another year of solid performance for Catskill Hudson Bancorp, Inc. (“the Company”) and its wholly-owned subsidiary Catskill Hudson Bank. Recent strategies have proven successful, and we hope to continue to see the benefits. With the opening of our Green Island branch in 2018 and plans being made for the construction of our new Monticello branch this year, we continue to invest in our future. We are proud of our roots in Sullivan County, where the bank was founded in 1993. As we write this, plans are being finalized for the building of our new 5,000 square foot state-of-the-art branch/office on the most visible location on Route 42 in Monticello which was the home of the Blue Horizon Diner for many years. We were lucky to be able to acquire this site when it became available. While many banks have abandoned Sullivan County, we are committed to staying! Not only that, but we are investing heavily in it. We hope that many of you attend our Grand Opening later this year. In this report you will find a rendering of the building and as you can see it will be a spectacular addition to the Route 42 corridor. We are fortunate to be in the communities we serve, and we will continue to demonstrate our commitment to them while making a positive impact.

In 2018 we began our residential mortgage program which has exceeded our expectations and allows us to further diversify our consumer loan product offerings. We have seen originations from all over our footprint, from Sullivan County to the Capital District. This area of the bank is expected to grow as we add staff to service the needs of our customers.

It seems like we say this every year, but we are living through an uncertain economic and political period. However, our Company has seen improvements in all areas, as noted in the enclosed Consolidated Financial Statements. Assets at year-end were \$464,000,000 compared to \$442,000,000 in the prior year.

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

Net loans continue to grow ending the year at \$300,000,000 compared to \$274,000,000 in 2017. As of the end of the first quarter 2019, we exceeded a record \$305,000,000 in our loan portfolio. It is important to note that the growth of our loan portfolio is one of the primary reasons for our success over the past several years. However, we will not sacrifice quality for growth! Deposits at year-end totaled \$428,000,000 compared to \$407,000,000 in 2017. Retained Earnings at year end were \$15,687,000 compared to \$14,131,000 in 2017. Our strategy has been to grow our assets at a measured pace while steadily growing our loan portfolio. We continue to be a well-capitalized bank and maintain adequate reserves in our Allowance for Loan Losses.

The Company achieved net income available to common shareholders of \$1,843,000 compared to \$1,645,000 in 2017 while the bank had a net income of \$2,598,000 in 2018 as compared to \$2,126,000 in the prior year. This growth in earnings can be attributed to continued improvement in our core earnings and improved asset quality. Earnings per common share were \$2.64 compared to \$2.38 in 2017. We invite you to read our Statement of Financial Condition and Income Statement in this report. The full 2018 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. It is not a magic formula, but is a result of discipline and culture. The results have been positive, and we have confidence as we move into 2019. In the first quarter of 2019, the Board raised the quarterly stock dividend from \$.10 to \$.11 per share due to our improved performance. Our stock (CSKL) has been trading at historically high levels ranging from \$22 to \$28 over the past year. 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.

We continue to monitor the actions of the Federal Reserve Bank and try to plan accordingly, but quite frankly, it is a moving target and there is no crystal ball. We are committed to our proven strategies and will try to ignore the instabilities that are created by Washington. We will, however, seek to take advantage of any opportunities that are created.

Cybersecurity has and will continue to be one of the major concerns in our industry and the world in general. Our bank uses a proprietary system providing our employees and customers with one of the safest networks possible. Recent independent external reviews have shown that we are a leader in our industry when it comes to cybersecurity and ahead of not only banks but also non-bank companies.

We are always aware of regulatory pressures placed on our Bank and the financial industry. The S.2155 “Economic Growth, Regulatory Relief and Consumer Protection Act” regulatory relief bill that we discussed last year did in fact pass. However, we as an institution did not experience any significant regulatory relief that positively affected our earnings or operations. The bank continues to operate successfully under continuous demands placed on us by the various regulatory bodies which in turn can negatively impact our earnings.

We have achieved many of our objectives in 2018 which has, we believe, better prepared us for 2019. We look forward to a bright future, and thank you for your continued support.

To Continued Success,

Mario L. Martinez

Kevin S. McLaren



Kevin S. McLaren
President, Director (Bank)

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 2018. 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*

COMMAND Center



Safety First

Ted Tomita is the Chief Information Security Officer for the new IT Services location in Malta, NY.



The new IT Services facility located in Malta, NY brings together all the IT functions of the bank under one roof. For the first time, project planning, development, rollout, and maintenance are able to be performed easily from a single location. This facility allows us to quickly and efficiently deploy new features and equipment to the bank while also giving us an environment to test without interrupting day-to-day operations. As technology and security operations become more critical each year, this creative space allows us to develop the cutting edge products and services needed for us to continue to lead the industry in safety and operational stability.



"...this creative space allows us to develop the cutting edge products and services needed for us to continue to lead the industry..."

Ted Tomita Chief Information Security Officer

Right: Employee gaming station

Below: New virtual conferencing connects corporate offices and 13 branches



Below Left: Kingston It Team: Belinda Carney, Electronic Banking Specialist and Dawn Roeber, Electronic Banking Supervisor



Below: Office of Dawn Martinez, Director/Marketing Administrator



Above: Malta IT Team: Maddy Caiazzo, IT Generalist, Ted Tomita, and Dean Martinez, IT Generalist



THE ART OF *Lending*

RESIDENTIAL TEAM

From Left to Right;

Rick Murphy

Senior Loan Officer

Ann Edsforth

Mortgage Specialist

Stephanie Zocco

VP Residential Lending

Brian Garis

VP Sales Manager

Richard Griesche

Mortgage Originator



COMMERCIAL TEAM



Henri D. Langevin

Senior Vice President

*Regional Senior Loan Officer
Capital Region*



Bryan Smith

Vice President

*Regional Loan Officer
Mid-Hudson Region
& Ulster County*



Fil Nieves

Vice President

*Regional Senior Loan Officer
Mid-Hudson Region
Sullivan & Orange Counties*



Markland Shaw

Vice President

Credit Manager



Scott Lanzarone

Commercial Loan Officer



Matt McLaren

Junior Credit Analyst

MONTICELLO *Rising*

By year end, we plan on relocating our original Monticello branch to a new state-of-the-art building. It will be located directly across the street on Route 42 at the former site of the nostalgic Blue Horizon Diner. We are making this investment in Sullivan County as this branch was the first for CHB and is also our largest branch by deposits. We will provide our customers with easier access, ample parking, spaciousness and a contemporary drive-through facility in an architecturally significant design. The building will contain the branch as well as separate offices and conference facility. While many banks have left the area we are showing our commitment by reinvesting in Sullivan County where the bank was founded and continues to thrive. We are also using local contractors and suppliers without asking for any government subsidies. This project will further enhance the Route 42 corridor in the Town of Thompson.

FUTURE PLANS...

Chester, NY — *Expanding further into Orange County*

Malta, NY — *New Financial Center*

New Digs

*Artist's rendering of
the new state-of-the-art
Monticello Branch.*



Catskill Hudson Bancorp, Inc.

CONSOLIDATED BALANCE SHEETS

(in thousands)

December 31	2018	2017
Assets		
Cash and Due from Banks	\$ 37,409	\$ 30,267
Certificates of Deposits	28	240
Securities Available for Sale, at Fair Value	108,844	122,491
Securities Held to Maturity, Fair Value 2018 \$6,055; 2017 \$6,265	6,282	6,502
Loans, Net of Allowance for Loan Losses 2018 \$2,785; 2017 \$3,165	300,111	274,024
Restricted Investment in Bank Stock	700	731
Premises and Equipment, Net	5,136	2,843
Bank-owned Life Insurance	1,845	1,814
Accrued Interest Receivable and Other Assets	3,567	3,518
Total Assets	\$ 463,922	\$442,430
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Interest Bearing	350,356	336,613
Noninterest Bearing	77,829	70,621
Total Deposits	428,185	407,234
Subordinated Debentures	10,822	10,799
Junior Subordinated Debentures	3,299	3,299
Accrued Interest Payable and Other Liabilities	1,021	853
Total Liabilities	443,327	422,185
Stockholders' Equity		
Preferred Stock	-	-
Common Stock	709	708
Treasury Stock (8,416 shares at December 31, 2018 and 2017)	(152)	(152)
Additional Paid-in Capital	7,311	7,278
Retained Earnings	15,687	14,131
Accumulated Other Comprehensive Loss	(2,960)	(1,720)
Total Stockholders' Equity	20,595	20,245
Total Liabilities and Stockholders' Equity	\$ 463,922	\$ 442,430

Catskill Hudson Bancorp, Inc.

CONSOLIDATED STATEMENTS OF NET INCOME

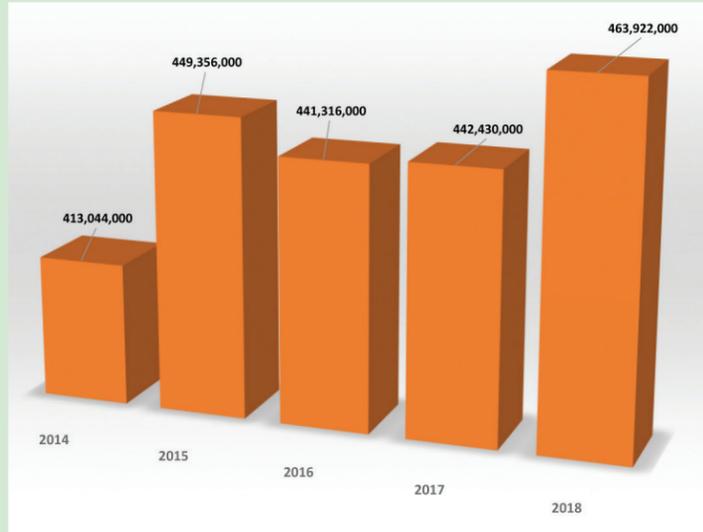
(in thousands, except per share data)

Years Ended December 31	2018	2017
Interest Income		
Loans	\$ 13,601	\$ 11,855
Investment Securities:		
Taxable	2,447	2,616
Tax-exempt	665	808
Other	4	3
Total Interest and Dividend Income	16,717	15,282
Interest Expense		
Deposits	2,249	1,669
Borrowings	966	900
Total Interest Expense	3,215	2,569
Net Interest Income	13,502	12,713
Provision for Loan Losses	-	255
Net Interest Income, after Provision for Loan Losses	13,502	12,458
Noninterest Income		
Service Fees	948	945
Net Realized Gains on Sales of Securities		
Available for Sale	12	113
Other Operating Income	99	77
Total Noninterest Income	1,059	1,135
Noninterest Expenses		
Salaries and Employee Benefits	6,829	6,055
Occupancy	1,667	1,348
Depreciation and Amortization	801	715
Data Processing Fees	570	533
Stationery, Supplies and Printing	196	170
Professional Fees	209	264
Bank Service Fees	463	434
FDIC Insurance	248	270
Other Operating Expense	1,410	1,225
Total Operating Expenses	12,393	11,014
Income before Income Tax Expense	2,168	2,579
Income Tax Expense	325	934
Net Income	\$ 1,843	\$ 1,645
Earnings per Common Share		
Basic and Diluted	\$ 2.64	\$ 2.38

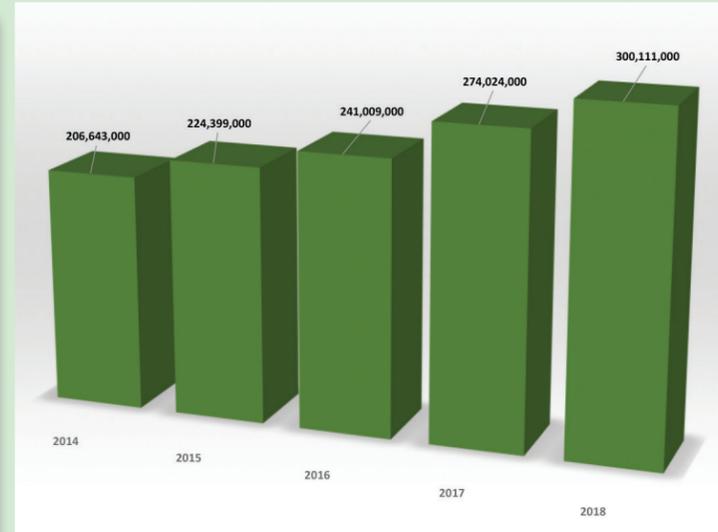
Catskill Hudson Bancorp, Inc.

SELECTED FINANCIAL HIGHLIGHTS

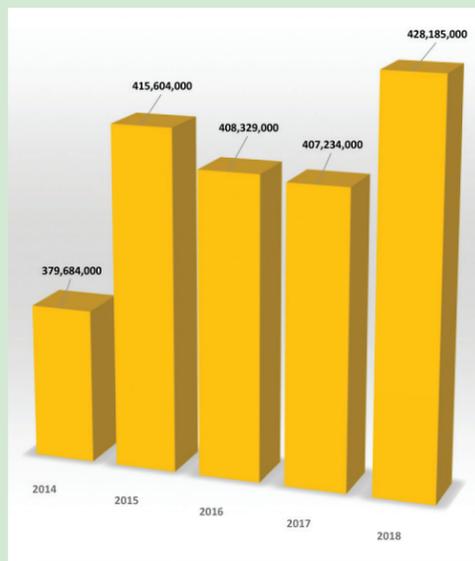
Total Assets



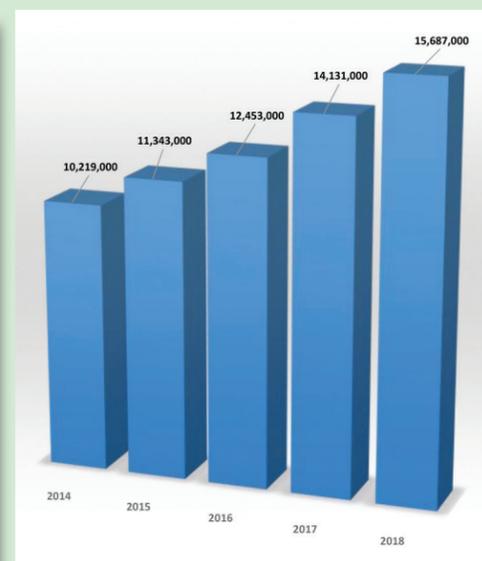
Total Loans



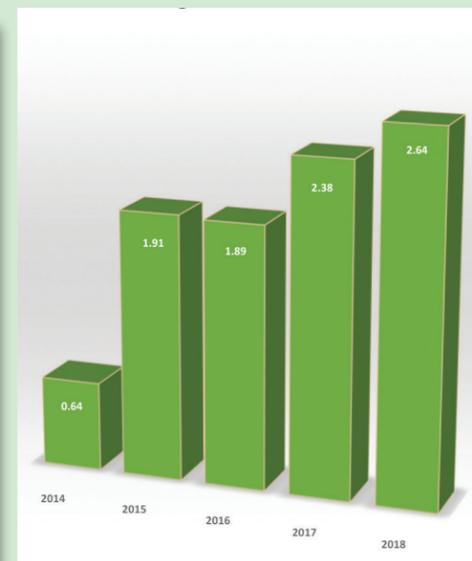
Total Deposits



Retained Earnings



Earnings Per Common Share



Shareholder Information

Consolidated Financial Statements

The complete December 31, 2018 and 2017 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 Tuesday, May 21, 2019 at Catskill Hudson Bank Corporate Headquarters, 95 Schwenk Drive, Kingston, New York. Only holders of common stock as of April 18, 2019 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

Branch & Office Locations



Mid-Hudson Region

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

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

Monticello

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

*(New location coming
end of the year.)*

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

Corporate Office I

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

Corporate Office II

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

Operations Center

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

Capital Region

Green Island

148 George Street
Green Island, NY 12183
518-400-1280

Halfmoon

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

Latham

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

Malta

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

IT Services
100 Saratoga Village Blvd -
Unit 8
Malta, NY 12020



Catskill Hudson Bancorp, Inc.

95 Schwenk Drive, Kingston, New York 12401

877-CHBNY15 ■ www.CHBNY.com