

GREATER HUDSON BANK

Financial Report

December 31, 2017 and 2016

TABLE OF CONTENTS

	Page No.
Financial Statements:	
Independent Auditor's Report.....	1
Statements of Financial Condition.....	3
Statements of Operations.....	4
Statements of Comprehensive Income	5
Statements of Changes in Shareholders' Equity.....	6
Statements of Cash Flows.....	7
Notes to the Financial Statements.....	8

INDEPENDENT AUDITOR'S REPORT

Board of Directors and Shareholders
Greater Hudson Bank
Bardonia, New York

Report on the Financial Statements

We have audited the accompanying financial statements of Greater Hudson Bank, which comprise the statements of financial condition as of December 31, 2017 and 2016, and the related statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Greater Hudson Bank as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Crowe Horwath LLP". The signature is written in a cursive, flowing style.

Crowe Horwath LLP

Livingston, New Jersey
March 8, 2018

GREATER HUDSON BANK
STATEMENTS OF FINANCIAL CONDITION
December 31, 2017 and 2016
(Dollar amounts in thousands, except per share data)

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and cash equivalents	\$ 20,698	\$ 19,225
Securities available for sale	120,990	144,433
Loans, net of allowance for loan losses of \$3,873 and \$4,746 as of December 31, 2017 and 2016, respectively	318,760	327,428
Premises and equipment	1,503	1,400
Restricted investments in bank stock	2,182	2,413
Bank owned life insurance	10,343	5,043
Accrued interest receivable	1,884	1,851
Real estate owned, net	2,289	-
Other assets	4,218	3,808
Total Assets	<u>\$ 482,867</u>	<u>\$ 505,601</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	\$ 78,069	\$ 78,999
Interest bearing	303,695	319,162
Total Deposits	<u>381,764</u>	<u>398,161</u>
Securities sold under agreements to repurchase	-	5,000
Federal Home Loan Bank ("FHLB") advances	39,275	44,624
Other liabilities	4,213	2,844
Total Liabilities	<u>425,252</u>	<u>450,629</u>
Shareholders' Equity		
Common stock, \$0.01 par value, 20,000,000 shares authorized; 12,387,770 shares issued and 12,386,470 shares outstanding in 2017; 12,324,810 shares issued and 12,323,770 shares outstanding in 2016	124	123
Additional paid-in capital	46,810	46,737
Retained earnings	11,780	9,285
Treasury stock at cost, 1,300 shares as of 2017; 1,040 shares as of 2016	(5)	(4)
Accumulated other comprehensive loss	(1,094)	(1,169)
Total Shareholders' Equity	<u>57,615</u>	<u>54,972</u>
Total Liabilities and Shareholders' Equity	<u>\$ 482,867</u>	<u>\$ 505,601</u>

See accompanying notes to the financial statements.

GREATER HUDSON BANK
STATEMENTS OF OPERATIONS
Years ended December 31, 2017 and 2016
(Dollar amounts in thousands, except per share data)

	<u>2017</u>	<u>2016</u>
Interest Income		
Loans receivable, including fees	\$ 16,976	\$ 15,349
Securities	2,686	2,581
Interest bearing deposits	111	39
Federal funds sold	<u>6</u>	<u>9</u>
Total Interest Income	<u>19,779</u>	<u>17,978</u>
Interest Expense		
Deposits	2,665	2,135
FHLB advances	736	719
Securities sold under agreements to repurchase	<u>40</u>	<u>205</u>
Total Interest Expense	<u>3,441</u>	<u>3,059</u>
Net Interest Income	16,338	14,919
Provision for Loan Losses	<u>393</u>	<u>1,196</u>
Net Interest Income After Provision for Loan Losses	15,945	13,723
Non-Interest Income		
Gains on securities transactions	155	518
Service charges on deposit accounts	123	201
Bank owned life insurance income	300	43
Other real estate owned income	229	-
Other income	<u>514</u>	<u>287</u>
Total Non-Interest Income	<u>1,321</u>	<u>1,049</u>
Non-Interest Expense		
Salaries and employee benefits	6,841	5,746
Occupancy and equipment	1,655	1,493
Advertising, marketing and business development	370	356
Data processing expenses	607	603
Professional fees	683	634
Federal Deposit Insurance Corporation ("FDIC")	252	265
Other non-interest expenses	<u>1,671</u>	<u>1,311</u>
Total Non-Interest Expenses	<u>12,079</u>	<u>10,408</u>
Income Before Tax Expense	5,187	4,364
Income Tax Expense	<u>2,692</u>	<u>1,363</u>
Net Income	<u>\$ 2,495</u>	<u>\$ 3,001</u>
Earnings Per Share		
Basic and Diluted	<u>\$ 0.20</u>	<u>\$ 0.27</u>
Weighted Average Shares Outstanding Basic and Diluted	12,365,815	11,243,007

See accompanying notes to the financial statements.

GREATER HUDSON BANK
STATEMENTS OF COMPREHENSIVE INCOME
Years ended December 31, 2017 and 2016
(Dollar amounts in thousands)

	<u>2017</u>	<u>2016</u>
Net income	\$ 2,495	\$ 3,001
Other comprehensive gain/(loss):		
Unrealized holding gains/(losses) arising during the period	267	(967)
Reclassification adjustment for net gains included in net income	<u>(155)</u>	<u>(518)</u>
Change in unrealized net gains/(losses)	112	(1,485)
Tax effect	<u>(37)</u>	<u>505</u>
Total other comprehensive gain/(loss)	<u>75</u>	<u>(980)</u>
Total comprehensive income	<u>\$ 2,570</u>	<u>\$ 2,021</u>

See accompanying notes to the financial statements.

GREATER HUDSON BANK
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
Years ended December 31, 2017 and 2016
(Dollar amounts in thousands)

	<u>Common Stock</u>	<u>Additional Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Treasury Stock</u>	<u>Accumulated Other Comprehensive Loss</u>	<u>Total</u>
Balance at January 1, 2016	\$ 100	\$ 37,547	\$ 6,900	\$ (6)	\$ (189)	\$ 44,352
Net income	-	-	3,001	-	-	3,001
Other comprehensive loss	-	-	-	-	(980)	(980)
Issuance of 2,298,750 shares of common stock	23	9,171	-	-	-	9,194
Issuance of restricted stock	-	(6)	-	6	-	-
Forfeiture of restricted stock	-	4	-	(4)	-	-
Dividends	-	-	(616)	-	-	(616)
Stock based compensation expense	<u>-</u>	<u>21</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>21</u>
Balance at December 31, 2016	123	46,737	9,285	(4)	(1,169)	54,972
Net income	-	-	2,495	-	-	2,495
Other comprehensive gain	-	-	-	-	75	75
Issuance of restricted stock	1	(5)	-	4	-	-
Forfeiture of restricted stock	-	5	-	(5)	-	-
Stock based compensation expense	<u>-</u>	<u>73</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>73</u>
Balance at December 31, 2017	<u>\$ 124</u>	<u>\$ 46,810</u>	<u>\$ 11,780</u>	<u>\$ (5)</u>	<u>\$ (1,094)</u>	<u>\$ 57,615</u>

See accompanying notes to the financial statements.

GREATER HUDSON BANK
STATEMENTS OF CASH FLOWS
Years ended December 31, 2017 and 2016
(Dollar amounts in thousands)

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Net income	\$ 2,495	\$ 3,001
Adjustments to reconcile net income to net cash used in operating activities		
Provision for loan losses	393	1,196
Depreciation and amortization	423	358
Net amortization of securities premium	449	475
Deferred income tax benefit (expense)	1,621	(561)
Net realized gain on sale of securities	(155)	(518)
Income from bank owned life insurance	(300)	(43)
Net change in accrued interest receivable and other assets	(2,103)	383
Net change in accrued interest payable and other liabilities	1,369	(160)
Stock compensation expense	73	21
	<u>4,265</u>	<u>4,152</u>
Net cash provided by operating activities		
Cash flows from investing activities		
Purchases of securities available for sale	(11,371)	(83,023)
Calls, maturities and principal repayments on securities available for sale	21,624	43,942
Proceeds from sales of securities available for sale	13,010	20,666
Net decrease/(increase) in loans	5,986	(49,631)
Purchases of premises and equipment	(526)	(695)
Purchase of bank owned life insurance	(5,000)	(5,000)
Redemption (purchase) of restricted bank stock	231	(197)
	<u>23,954</u>	<u>(73,938)</u>
Net cash used in investing activities		
Cash flows from financing activities		
Net change in deposits	(16,397)	58,150
Net change in securities sold under agreements to repurchase	(5,000)	-
Repayment of FHLB advances	(12,349)	(7,260)
Proceeds from FHLB advances	7,000	11,550
Proceeds from issuance of common stock	-	9,194
Dividends paid	-	(616)
	<u>(26,746)</u>	<u>71,018</u>
Net cash provided by financing activities		
Net change in cash and cash equivalents	1,473	1,232
Beginning cash and cash equivalents	<u>19,225</u>	<u>17,993</u>
Ending cash and cash equivalents	<u><u>\$ 20,698</u></u>	<u><u>\$ 19,225</u></u>
Supplemental cash flow information:		
Interest paid	\$ 3,150	\$ 3,181
Taxes paid	2,025	2,006
Supplemental noncash information:		
Transfer from loans to real estate owned	\$ 2,289	\$ -

See accompanying notes to the financial statements.

GREATER HUDSON BANK
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Operations: Greater Hudson Bank (the “Bank”), is a full service commercial bank chartered under the laws of New York State. On May 29, 2015, the Bank converted from a national banking association to a New York state-chartered commercial bank. The Bank provides a full range of banking services to individual and corporate customers located primarily in Orange, Rockland, and Westchester Counties, New York. The Bank is subject to federal and New York statutes applicable to New York State chartered banks. The Bank’s deposits are insured by the Federal Deposit Insurance Corporation (“FDIC”) and the Bank is subject to regulation, supervision and examination by the New York State Department of Financial Services (“NYDFS”) and the FDIC.

Capital Raise: In June of 2016, the Bank raised \$9,194,000 of capital through the issuance of 2,298,750 shares of common stock in a private placement.

Subsequent Events: The Bank has evaluated subsequent events for recognition and disclosure through March 8, 2018, which is the date the financial statements were available to be issued.

Use of Estimates: The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Interest-Rate Risk: The Bank is principally engaged in the business of attracting deposits from the general public and using these deposits, together with other funds, to make loans and to purchase securities. The potential for interest-rate risk exists as a result of the difference in duration of the Bank’s interest-sensitive liabilities compared to its interest-sensitive assets. For this reason, management regularly monitors the maturity structure of the Bank’s interest-earning assets and interest-bearing liabilities in order to measure its level of interest-rate risk and to plan for future volatility.

Concentrations of Credit Risk: Most of the Bank’s activities are with customers located within Hudson Valley, New York, and surrounding areas. The Bank’s exposure to credit risk is significantly affected by changes in the economy of these areas. Note 2 describes the types of securities that the Bank invests in. Note 3 discusses the types of lending that the Bank engages in. The Bank has a significant concentration in commercial real estate. Although the Bank has a diversified loan portfolio, its debtors’ ability to honor their contracts is influenced by the region’s economy.

Cash Flows: Cash and cash equivalents include cash, deposits with other financial institutions with maturities fewer than 90 days, and federal funds sold. Net cash flows are reported for customer loan and deposit transactions, interest bearing deposits in other financial institutions, and federal funds purchased and repurchase agreements.

Loss Contingencies: Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there now are such matters that will have a material effect on the financial statements.

Fair Value of Financial Instruments: Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in Note 15. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

GREATER HUDSON BANK
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Securities: Securities to be held for indefinite periods of time and not intended to be held to maturity are classified as available for sale. Securities available for sale include securities that management intends to use as part of its asset / liability management strategy and that may be sold in response to changes in interest rates, resultant prepayment risk and other related factors. Securities available for sale are carried at estimated fair value and unrealized holding gains and losses on such securities are excluded from earnings and reported as increases or decreases in other comprehensive income. Gains and losses on sales of securities are based on the identifiable cost and are accounted for on a trade date basis. The amortization of premiums and accretion of discounts are recognized in interest income using methods approximating the interest method over the period of maturity. Interest and dividend income is recognized when earned.

On a quarterly basis, management makes an assessment to determine whether there have been any events or economic circumstances to indicate that a security on which there is an unrealized loss is impaired on an other-than-temporary basis.

Loans: Loans receivable that management has the intent and ability to hold for the foreseeable future or payoff are stated at the amount of unpaid principal, less deferred loan fees and costs, net and the allowance for loan losses. Interest income is accrued on the unpaid principal balance. Loan origination and commitment fees and certain direct loan origination costs are deferred, and the net amount is amortized over the estimated life of the loan on a basis that approximates level yield.

Nonaccrual loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans. The accrual of income on loans is generally discontinued when a loan becomes more than 90 days delinquent as to principal or interest or when other circumstances indicate that collection is questionable, unless the loan is well secured and in the process of collection. Income on nonaccrual loans is recognized only in the period in which it is collected, and only if management determines that the loan principal is fully collectible. Loans are returned to an accrual status when a loan is brought current as to principal and interest and reasons for doubtful collection no longer exist. All loan segments are treated consistently in this manner.

Allowance for Loan Losses: The allowance for loan losses is established through provisions for loan losses charged against income. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is maintained at a level considered adequate to provide for probable incurred losses. Management's periodic evaluation of the adequacy of the allowance is based on the Bank'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.

In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses. Such agencies may require the Bank to recognize additions to the allowance for loan losses based on their judgments about information available to them at the time of their examinations.

(Continued)

GREATER HUDSON BANK
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

The allowance consists of specific and general components. The specific component relates to loans that are classified as impaired, on which an allowance is established when the discounted cash flows, collateral value or observable market price of the impaired loan is lower than the carrying amount of that loan. The general component covers the remainder of the portfolio and is based on historical loss experience adjusted for qualitative factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Company over the most recent three years. The Bank utilizes qualitative adjustments to the allowance for loan losses analysis within parameters. The qualitative adjustments are based on the factors below, which are patterned after the guidelines provided under the Federal Financial Institutions Examination Council Interagency Policy Statement on the Allowance for Loan and Lease Losses. If information exists to warrant adjustment to the historical loss experience, changes are made in accordance with parameters supported by narrative and/or statistical analysis.

- Changes in lending policies and procedures, including underwriting standards;
- Changes in collection, charge-off and recovery practices;
- Changes in the nature and volume of the loan portfolio;
- Changes in the experience, ability, and depth of lending management;
- Changes in the volume and severity of past due loans, nonaccrual loans, troubled debt restructurings, and adversely classified loans;
- Changes in the value of underlying collateral for collateral-dependent loans;
- The existence and effect of any concentrations of credit and changes in the level of such concentrations;
- Changes in the quality of our loan review system and the degree of oversight by the Board of Directors;
- Growth in the loan portfolio;
- Changes in current, national and local economic and business conditions; and
- The effect of other external factors such as competition and legal and regulatory requirements.

The following are the Bank's portfolio segments:

- Commercial Real Estate Loans
- Land Acquisition and Construction Real Estate Loans
- Other Real Estate Loans
- Commercial Loans
- Commercial Loans – Taxi Medallions
- Consumer Loans

Commercial real estate loans generally have greater credit risks compared to one- to four-family residential mortgage loans, as they typically involve large loan balances concentrated with single borrowers or groups of related borrowers. In addition, the payment experience on loans secured by income-producing properties typically depends on the successful operation of the related real estate project and thus may be subject to a greater extent to adverse conditions in the real estate market and in the general economy.

Land acquisition and construction loans generally have greater credit risk than traditional one-to-four-family residential mortgage loans. The repayment of these loans depends upon the sale of the property to third parties or the availability of permanent financing upon completion of all improvements. In the event the Bank makes a loan on property that is not yet approved for the planned development, there is the risk that approvals will not be granted or will be delayed. These events may adversely affect the borrower and the collateral value of the property. Construction loans also expose the Bank to the risk that improvements will not be completed on time in accordance with specifications and projected costs. In addition, the ultimate sale or rental of the property may not occur as anticipated.

(Continued)

GREATER HUDSON BANK
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

The other real estate segment includes the following classes: one-to four family residential mortgage loans, multifamily real estate loans and home equity loans. One-to four residential mortgage loans and home equity loans have as collateral a borrower's primary residence, second home or investment property. The risk of loss on these loans would be due to collateral deficiencies due to market deterioration or location and condition of the property and to individual borrower characteristics including borrower income, employment, and the ability to repay the loan. Loans secured by multifamily real estate loans generally involve a greater degree of credit risk than one- to four-family residential mortgage loans and carry larger loan balances. This increased credit risk is a result of several factors, including the concentration of principal in a limited number of loans and borrowers, the effects of general economic conditions on income producing properties, and the increased difficulty of evaluating and monitoring these types of loans. Furthermore, the repayment of loans secured by multifamily mortgages typically depends upon the successful operation of the related real estate property. If the cash flow from the project is reduced, the borrower's ability to repay the loan may be impaired.

Commercial business and taxi medallion loans involve a higher risk of default than residential loans of like duration since their repayment generally depends on the successful operation of the borrower's business and the sufficiency of collateral, if any.

For homogeneous loan pools, such as one-to-four family residential mortgages, home equity lines of credit and consumer loans, the Bank uses payment status to identify the credit risk in these loan portfolios. Payment status is reviewed on a monthly basis by the Bank's collection area and on a quarterly basis with respect to determining the adequacy of the allowance for loan losses. The payment status of these homogeneous pools at December 31, 2017, is included in the aging of the recorded investment of past due loans table. In addition, the total nonperforming portion of these homogeneous loan pools at December 31, 2017 and 2016, are presented in the recorded investment in nonaccrual loans table, which is presented in Note 3.

A loan is considered impaired when, based on current information and events, it is probable that the Bank 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 payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent. Loans for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired.

Troubled debt restructurings are separately identified for impairment disclosures and are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a troubled debt restructuring is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral. For troubled debt restructurings that subsequently default, the Bank determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses.

(Continued)

GREATER HUDSON BANK
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Premises and Equipment: Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is charged to operations using the straight-line method based upon the estimated useful lives of the assets. Amortization is charged over the lease term or over the estimated useful life of the assets, whichever is shorter. Maintenance and repairs are expensed as incurred while major additions and improvements are capitalized. Gains and losses on dispositions are reflected in current operations.

Restricted Investments in Bank Stock: Restricted investments in bank stock include the Federal Home Loan Bank of New York ("FHLBNY"), Atlantic Central Bankers Bank and The Independent Bankers Bank. The purchase of such shares is limited to member institutions with federal law requiring members to own FHLBNY stock at a predetermined formula. The stocks are carried at cost, classified as restricted securities, and periodically evaluated for impairment based on ultimate recovery at par value. Both cash and stock dividends are reported as income.

Bank Owned Life Insurance: The Bank has purchased life insurance policies on certain key executives. Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Advertising, Marketing and Business Development Costs: Advertising, marketing and business development costs are charged to operations in the period incurred.

Income Taxes: Income taxes are accounted for under the asset and liability method. Current income taxes are provided for based upon the amounts estimated to be currently payable, for both federal and state income taxes. Deferred federal and state tax assets and liabilities are recognized for the expected future tax consequences of existing differences between financial statement and tax bases of existing assets and liabilities. Deferred tax assets are recognized for future deductible temporary differences and tax loss carryforwards. The realization of deferred tax assets is assessed and a valuation allowance is provided for the amount more likely than not expected to not be realized. The effect of a change in the tax rate on deferred taxes is recognized in the period of the enactment date. The Bank's policy is to recognize interest and penalties on unrecognized tax benefits in income tax expense in the Statements of Operations.

A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded.

Stock Based Compensation: Compensation cost is recognized for restricted stock awards issued based on the fair value of these awards at the date of grant. The market price of the Bank's common stock at the date of grant is used as the fair value of the restricted stock awards. Compensation cost is recognized over the required service period, generally defined as the vesting period. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award.

Earnings Per Share: Basic earnings per common share is net income divided by the weighted average number of common shares outstanding during the period. All outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends are considered participating securities for this calculation. Diluted earnings per common share includes the dilutive effect of additional potential common shares issuable under stock options, if any.

GREATER HUDSON BANK
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Comprehensive Income: Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Changes in certain assets and liabilities, such as unrealized gains and losses on securities available for sale, are reported as a separate component of the equity section of the statement of financial condition. Such items, along with net income, are components of comprehensive income.

Transfers of Financial Assets: Transfers of financial assets, including loan participation sales, 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 Bank, (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 Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Foreclosed Assets: Foreclosed assets are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. Physical possession of residential real estate property collateralizing a consumer mortgage loan occurs when legal title is obtained upon completion of foreclosure or when the borrower conveys all interest in the property to satisfy the loan through the completion of a deed in lieu of foreclosure or through a similar legal agreement. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Operating income after acquisition is recognized as other income. Operating costs after acquisition are expensed.

Off-Balance-Sheet Financial Instruments: In the ordinary course of business, the Bank has entered into off-balance-sheet financial instruments consisting of commitments to extend credit and standby letters of credit. Such financial instruments are recorded in the financial statements when they are funded.

Recent Accounting Pronouncements: In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers." The objective of this amendment is to clarify the principles for recognizing revenue and to develop a common revenue standard for U.S. GAAP and IFRS. This update affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are in the scope of other standards. In August 2016, the FASB issued ASU 2016-14 to defer for one year the effective date of the new revenue standard. During 2016, the FASB issued further implementation guidance regarding revenue recognition. This additional guidance included clarification on certain principal versus agent considerations within the implementation of the guidance as well as clarification related to identifying performance obligations and licensing, assessing collectability, presenting sales taxes, measuring noncash consideration, and certain transition matters. The Bank adopted the requirement January 1, 2018. The adoption of this guidance does not have a significant impact on the Bank's financial statements.

In February 2017, the FASB issued ASU 2016-02, which will require organizations that lease assets – referred to as "lessees" – to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. Under the new guidance, a lessee will be required to recognize right to use assets and lease liabilities for leases with lease terms of more than 12 months. However, unlike current Generally Accepted Accounting Principles (GAAP) – which requires only capital leases to be recognized on the balance sheet – the new ASU will require both types of leases to be recognized on the balance sheet. The accounting by organizations that own the assets leased by the lessee – also known as lessor accounting – will remain largely unchanged from current GAAP. However, the ASU contains some targeted improvements that are intended to align, where necessary, lessor accounting with the lessee accounting model. The requirements are effective for annual periods beginning after December 15, 2018. The Bank is currently evaluating the impact of adoption of this standard.

GREATER HUDSON BANK
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses*, which will significantly change how banks measure and recognize credit impairment for many financial assets from an incurred loss methodology to a current expected credit loss model. The current expected credit loss model will require companies to immediately recognize an estimate of credit losses expected to occur over the remaining life of the financial assets that are in the scope of the standard. The FASB also made targeted amendments to the current impairment model for available-for-sale debt securities. The requirements are effective for annual periods beginning after December 15, 2020. The Bank is currently evaluating the impact of adoption of this standard.

NOTE 2 – SECURITIES

Amortized cost and fair value of securities available for sale were as follows (in thousands):

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
<u>December 31, 2017</u>				
U.S. Government agency securities	\$ 40,184	\$ -	\$ (768)	\$ 39,416
Corporate securities	8,048	79	(22)	8,105
Obligations of states and political subdivisions	24,324	49	(74)	24,299
Mortgage-backed securities ("MBSs")	34,704	22	(596)	34,130
Collateralized mortgage obligations ("CMOs")	13,929	-	(301)	13,628
Asset-backed securities	<u>1,460</u>	<u>-</u>	<u>(48)</u>	<u>1,412</u>
	<u>\$ 122,649</u>	<u>\$ 150</u>	<u>\$ (1,809)</u>	<u>\$ 120,990</u>
<u>December 31, 2016</u>				
U.S. Government agency securities	\$ 51,035	\$ 14	\$ (939)	\$ 50,110
Corporate securities	10,744	115	(6)	10,853
Obligations of states and political subdivisions	25,241	55	(96)	25,200
Mortgage-backed securities ("MBSs")	41,893	51	(650)	41,294
Collateralized mortgage obligations ("CMOs")	15,561	4	(289)	15,276
Asset-backed securities	<u>1,730</u>	<u>-</u>	<u>(30)</u>	<u>1,700</u>
	<u>\$ 146,204</u>	<u>\$ 239</u>	<u>\$ (2,010)</u>	<u>\$ 144,433</u>

(Continued)

GREATER HUDSON BANK
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 2 – SECURITIES (Continued)

As of December 31, 2017 and 2016, the Bank had no securities classified as held to maturity.

At December 31, 2017, securities with amortized cost of \$94,338,000 and fair value of \$92,831,000 were pledged to secure public funds on deposit and borrowings at PNC Bank and advances from the FHLBNY. At December 31, 2016, securities with amortized cost of \$127,559,000 and fair value of \$125,755,000 were pledged to secure public funds on deposit and borrowings at PNC Bank and advances from the FHLBNY.

During the year ended December 31, 2017, the Bank sold nine available for sale securities with gross proceeds of \$13,010,000 for a gain of \$155,000. During the year ended December 31, 2016, the Bank sold twenty-three available for sale securities with gross proceeds of \$20,666,000 for a gain of \$518,000. No securities were sold at a loss during the years ended December 31, 2017 and 2016.

The following tables show the Bank's investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position (in thousands):

	<u>Less Than 12 Months</u>		<u>12 Months or More</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
December 31, 2017						
U.S. Government agency securities	\$ 4,956	\$ (36)	\$ 34,460	\$ (732)	\$ 39,416	\$ (768)
Corporate securities	1,980	(20)	998	(2)	2,978	(22)
Obligations of states and political subdivisions	13,087	(46)	1,120	(28)	14,207	(74)
MBSs	9,413	(90)	23,327	(506)	32,740	(596)
CMOs	3,447	(22)	10,092	(279)	13,539	(301)
Asset-backed securities	<u>826</u>	<u>(28)</u>	<u>586</u>	<u>(20)</u>	<u>1,412</u>	<u>(48)</u>
	<u>\$ 33,709</u>	<u>\$ (242)</u>	<u>\$ 70,583</u>	<u>\$ (1,567)</u>	<u>\$ 104,292</u>	<u>\$ (1,809)</u>
December 31, 2016						
U.S. Government agency securities	\$ 45,090	\$ (939)	\$ -	\$ -	\$ 45,090	\$ (939)
Corporate securities	1,992	(6)	-	-	1,992	(6)
Obligations of states and political subdivisions	13,798	(96)	-	-	13,798	(96)
MBSs	33,477	(619)	1,543	(31)	35,020	(650)
CMOs	13,354	(245)	1,321	(44)	14,675	(289)
Asset-backed securities	<u>1,700</u>	<u>(30)</u>	<u>-</u>	<u>-</u>	<u>1,700</u>	<u>(30)</u>
	<u>\$ 109,411</u>	<u>\$ (1,935)</u>	<u>\$ 2,864</u>	<u>\$ (75)</u>	<u>\$ 112,275</u>	<u>\$ (2,010)</u>

At December 31, 2017, unrealized losses involved thirty-four U.S. Government agency securities, three corporate bonds, twenty-seven MBSs, twenty-three CMOs, thirty-five obligations of state and political subdivisions, and three asset-backed securities. At December 31, 2016, unrealized losses involved thirty-seven U.S. Government agency securities, two corporate bonds, twenty-seven MBSs, twenty-three CMOs, thirty-six obligations of state and political subdivisions, and three asset-backed securities. Management does not believe that any individual unrealized loss represents an other-than-temporary impairment ("OTTI").

(Continued)

GREATER HUDSON BANK
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 2 – SECURITIES (Continued)

Management considers many factors including the severity and duration of the impairment; the intent and the ability of the Bank to hold the security for a period of time sufficient for a recovery in value; recent events specific to the issuer or industry; and for debt securities, external credit ratings and recent downgrades. When OTTI occurs, for debt securities, the amount of the OTTI recognized in earnings depends on whether an entity intends to sell the security or it is more likely than not it will be required to sell the security before recovery of its amortized cost basis, less any current period credit loss.

If an entity intends to sell or it is more likely than not it will be required to sell the security before recovery of its amortized cost basis, less any current-period credit loss, the OTTI shall be recognized in earnings equal to the entire difference between the investment's amortized cost basis and its fair value at the balance sheet date.

If an entity does not intend to sell the security and it is not more likely than not that the entity will be required to sell the security before recovery of its amortized cost basis less any current-period loss, the OTTI shall be separated into the amount representing the credit loss and the amount related to all other factors. The amount of the total OTTI related to the credit loss is determined based on the present value of cash flows expected to be collected and is recognized in earnings. The amount of the total OTTI related to other factors is recognized in other comprehensive income, net of applicable taxes. The previous amortized cost basis less the OTTI recognized in earnings becomes the new amortized cost basis of the investment.

At December 31, 2017 and 2016, management believes that all unrealized losses are due to changes in market interest rates and not related to the underlying credit quality of the issuer of the securities. Management does not intend to sell nor is it more likely than not that management would be required to sell the securities prior to their anticipated recovery. At December 31, 2017 and 2016, all securities in an unrealized loss position are investment grade.

The amortized cost and fair value of the Bank's securities available for sale at December 31, 2017, by contractual maturity are shown below (in thousands). Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay with or without penalties.

	<u>Amortized Cost</u>	<u>Fair Value</u>
One year or less	\$ 10,619	\$ 10,605
Over one year through five years	51,869	51,058
Over five years through ten years	6,295	6,371
Over ten years	3,773	3,786
MBSs	34,704	34,130
CMOs	13,929	13,628
Asset-backed securities	<u>1,460</u>	<u>1,412</u>
	<u>\$ 122,649</u>	<u>\$ 120,990</u>

(Continued)

GREATER HUDSON BANK
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 3 – LOANS

Loans at year end were as follows (in thousands):

	<u>2017</u>	<u>2016</u>
Real estate		
Commercial	\$ 156,880	\$ 157,127
Land acquisition and construction	49,173	69,645
Other	41,019	34,656
Commercial	76,521	71,531
Consumer	209	219
Total	<u>323,802</u>	<u>333,178</u>
Allowance for loan losses	(3,873)	(4,746)
Deferred loan fees and costs, net	<u>(1,169)</u>	<u>(1,004)</u>
Loans, net	<u>\$ 318,760</u>	<u>\$ 327,428</u>

The following tables present the activity in the allowance for loan losses by portfolio segment for the years ending December 31, 2017 and 2016 (in thousands):

	<u>Real Estate</u>						
	<u>Land</u>						
	<u>Acquisition</u>						
	<u>and</u>						
<u>December 31, 2017</u>	<u>Commercial</u>	<u>Construction</u>	<u>Other</u>	<u>Commercial</u>	<u>Taxi</u>	<u>Consumer</u>	<u>Total</u>
Allowance for loan losses:					<u>Medallions</u>		
Beginning balance	\$ 1,973	\$ 896	\$ 261	\$ 969	\$ 646	\$ 1	\$ 4,746
Provision for loan losses	452	(467)	60	81	265	2	393
Loans charged-off	(323)	(11)	-	(279)	(850)	-	(1,463)
Recoveries	18	-	-	179	-	-	197
	<u>\$ 2,120</u>	<u>\$ 418</u>	<u>\$ 321</u>	<u>\$ 950</u>	<u>\$ 61</u>	<u>\$ 3</u>	<u>\$ 3,873</u>

	<u>Real Estate</u>						
	<u>Land</u>						
	<u>Acquisition</u>						
	<u>and</u>						
<u>December 31, 2016</u>	<u>Commercial</u>	<u>Construction</u>	<u>Other</u>	<u>Commercial</u>	<u>Taxi</u>	<u>Consumer</u>	<u>Total</u>
Allowance for loan losses:					<u>Medallions</u>		
Beginning balance	\$ 1,514	\$ 733	\$ 191	\$ 1,009	\$ 107	\$ 1	\$ 3,555
Provision for loan losses	459	163	70	(42)	539	7	1,196
Loans charged-off	-	-	-	-	-	(7)	(7)
Recoveries	-	-	-	2	-	-	2
	<u>\$ 1,973</u>	<u>\$ 896</u>	<u>\$ 261</u>	<u>\$ 969</u>	<u>\$ 646</u>	<u>\$ 1</u>	<u>\$ 4,746</u>

(Continued)

GREATER HUDSON BANK
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 3 – LOANS (Continued)

The following tables present the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of December 31, 2017 and 2016 (in thousands):

	<u>Real Estate</u> <u>Land</u> <u>Acquisition</u> <u>and</u>						
	<u>Commercial</u>	<u>Construction</u>	<u>Other</u>	<u>Commercial</u>	<u>Taxi</u> <u>Medallions</u>	<u>Consumer</u>	<u>Total</u>
<u>December 31, 2017</u>							
Allowance for loan losses:							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	\$ -	\$ -	\$ 20	\$ 142	\$ -	\$ -	\$ 162
Collectively evaluated for impairment	2,120	418	301	808	61	3	3,711
Total Ending allowance balance	<u>\$ 2,120</u>	<u>\$ 418</u>	<u>\$ 321</u>	<u>\$ 950</u>	<u>\$ 61</u>	<u>\$ 3</u>	<u>\$ 3,873</u>
<u>December 31, 2017</u>							
Loans:							
Loans Individually evaluated for impairment	\$ 7,376	\$ 1,851	\$ 653	\$ 237	\$ 2,845	\$ -	\$12,962
Loans Collectively evaluated for impairment	149,504	47,322	40,366	72,748	691	209	310,840
Total Ending loans balance	<u>\$ 156,880</u>	<u>\$ 49,173</u>	<u>\$ 41,019</u>	<u>\$ 72,985</u>	<u>\$ 3,536</u>	<u>\$ 209</u>	<u>\$323,802</u>
<u>December 31, 2016</u>							
Allowance for loan losses:							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	\$ 155	\$ -	\$ 24	\$ 99	\$ 636	\$ -	\$ 914
Collectively evaluated for impairment	1,818	896	237	870	10	1	3,832
Total Ending allowance balance	<u>\$ 1,973</u>	<u>\$ 896</u>	<u>\$ 261</u>	<u>\$ 969</u>	<u>\$ 646</u>	<u>\$ 1</u>	<u>\$ 4,746</u>
<u>December 31, 2016</u>							
Loans:							
Loans Individually evaluated for impairment	\$ 5,727	\$ 3,303	\$ 701	\$ 5,776	\$ 3,720	\$ -	\$19,227
Loans Collectively evaluated for impairment	151,400	66,342	33,955	61,324	711	219	313,951
Total Ending loans balance	<u>\$157,127</u>	<u>\$ 69,645</u>	<u>\$ 34,656</u>	<u>\$ 67,100</u>	<u>\$ 4,431</u>	<u>\$ 219</u>	<u>\$333,178</u>

(Continued)

GREATER HUDSON BANK
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 3 – LOANS (Continued)

The following table presents information related to impaired loans by class of loans as of and for the year ended December 31, 2017 and 2016 (in thousands):

	<u>Unpaid Principal Balance</u>	<u>Recorded Investment</u>	<u>Allowance for Loan Losses Allocated</u>	<u>Average Recorded Investment</u>	<u>Cash Basis Interest Recognized</u>
<u>December 31, 2017</u>					
With no related allowance recorded					
Real estate					
Commercial	\$ 7,395	\$ 7,376	\$ -	\$ 7,813	\$ 139
Land acquisition and construction	1,851	1,851	-	2,268	101
Home equity	103	103	-	105	4
Residential / multifamily	564	530	-	542	50
Commercial	-	-	-	-	-
Taxi Medallions	2,845	2,845	-	2,142	36
With an allowance recorded					
Real estate					
Commercial	-	-	-	-	-
Home equity	22	20	20	23	2
Commercial	<u>253</u>	<u>237</u>	<u>142</u>	<u>246</u>	<u>16</u>
Total	<u>\$ 13,033</u>	<u>\$ 12,962</u>	<u>\$ 162</u>	<u>\$ 13,139</u>	<u>\$ 348</u>
<u>December 31, 2016</u>					
With no related allowance recorded					
Real estate					
Commercial	\$ 4,781	\$ 4,781	\$ -	\$ 5,450	\$ 234
Land acquisition and construction	3,303	3,303	-	3,931	255
Home equity	110	111	-	193	4
Residential / multifamily	583	566	-	334	25
Commercial	5,519	5,509	-	2,492	228
With an allowance recorded					
Real estate					
Commercial	955	946	155	243	42
Home equity	24	24	24	26	1
Commercial	300	267	99	489	32
Taxi Medallions	<u>3,720</u>	<u>3,720</u>	<u>735</u>	<u>930</u>	<u>98</u>
Total	<u>\$ 19,295</u>	<u>\$ 19,227</u>	<u>\$ 914</u>	<u>\$ 14,088</u>	<u>\$ 919</u>

(Continued)

GREATER HUDSON BANK
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 3 – LOANS (Continued)

There were no additional funds committed to be advanced on impaired loans as of December 31, 2017 and 2016.

The following tables present the recorded investment in nonaccrual loans by class of loans as of December 31, 2017 and 2016 (in thousands):

	Nonaccrual	
	<u>2017</u>	<u>2016</u>
Real estate		
Commercial	\$ 5,434	\$ 2,794
Home equity	20	24
Residential / multifamily	281	308
Commercial	<u>237</u>	<u>4,851</u>
Total	<u>\$ 5,972</u>	<u>\$ 7,977</u>

There were no loans past due over 90 days still on accrual for the years ended December 31, 2017 and 2016.

GREATER HUDSON BANK
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 3 – LOANS (Continued)

The following table presents the aging of the recorded investment in past due loans as of December 31, 2017 and 2016, by class of loans (in thousands):

	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Loans Not Past Due	Total
<u>December 31, 2017</u>						
Real estate						
Commercial	\$ 493	\$ 910	\$ 5,434	\$ 6,837	\$ 150,043	\$ 156,880
Land acquisition and construction	-	-	-	-	49,173	49,173
Home equity	-	-	20	20	6,221	6,241
Residential / multifamily	-	-	281	281	34,497	34,778
Commercial	-	-	237	237	72,748	72,985
Taxi Medallions	-	-	-	-	3,536	3,536
Consumer	-	-	-	-	209	209
Total	<u>\$ 493</u>	<u>\$ 910</u>	<u>\$ 5,972</u>	<u>\$ 7,375</u>	<u>\$ 316,427</u>	<u>\$ 323,802</u>
<u>December 31, 2016</u>						
Real estate						
Commercial	\$ 728	\$ 1,074	\$ 2,794	\$ 4,596	\$ 152,531	\$ 157,127
Land acquisition and construction	1,157	-	-	1,157	68,488	69,645
Home equity	-	-	24	24	7,049	7,073
Residential / multifamily	-	-	308	308	27,275	27,583
Commercial	100	-	4,851	4,951	62,149	67,100
Taxi Medallions	-	-	-	-	4,431	4,431
Consumer	-	-	-	-	219	219
Total	<u>\$ 1,985</u>	<u>\$ 1,074</u>	<u>\$ 7,977</u>	<u>\$ 11,036</u>	<u>\$ 322,142</u>	<u>\$ 333,178</u>

(Continued)

GREATER HUDSON BANK
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 3 – LOANS (Continued)

Troubled Debt Restructurings

The Bank has \$162,000 in reserves allocated to customers whose loan terms have been modified in troubled debt restructurings as of December 31, 2017. Total troubled debt restructurings as of December 31, 2017 were \$12,454,000, of which \$6,741,000 were performing and \$5,713,000 were non-performing. The Bank has no commitments to lend additional amounts as of December 31, 2017 to customers with outstanding loans that are classified as troubled debt restructurings.

The Bank has \$24,311 in reserves allocated to customers whose loan terms have been modified in troubled debt restructurings as of December 31, 2016. Total troubled debt restructurings as of December 31, 2016 were \$9,777,000, of which \$6,591,000 were performing and \$3,186,000 were non-performing. The Bank has no commitments to lend additional amounts as of December 31, 2016 to customers with outstanding loans that are classified as troubled debt restructurings.

During the years ending December 31, 2017 and 2016, the terms of certain loans were modified as troubled debt restructurings. The modification of the terms of such loans included one or a combination of the following: a reduction of the stated interest rate of the loan; an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk; or a permanent reduction of the recorded investment in the loan.

Modifications involving a reduction of the stated interest rate of the loan were for periods ranging from one month to five years. Modifications involving an extension of the maturity date were for periods ranging from twelve months to twenty-five years.

The following table presents loans by class modified as troubled debt restructurings that occurred during the year ending December 31, 2017 (dollars in thousands):

	<u>Number of Loans</u>	<u>Pre- Modification Outstanding Recorded Investment</u>	<u>Post- Modification Outstanding Recorded Investment</u>
Troubled debt restructurings:			
Real estate			
Commercial	7	\$ 4,241	\$ 4,159
Land acquisition and construction	-	-	-
Home equity	-	-	-
Residential / multifamily	-	-	-
Commercial	1	283	250
Taxi Medallions	2	3,720	2,870
	<u>10</u>	<u>\$ 8,244</u>	<u>\$ 7,279</u>
Total	<u>10</u>	<u>\$ 8,244</u>	<u>\$ 7,279</u>

GREATER HUDSON BANK
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 3 – LOANS (Continued)

The following table presents loans by class modified as troubled debt restructurings that occurred during the year ending December 31, 2016 (dollars in thousands):

	Number of <u>Loans</u>	Pre- Modification Outstanding Recorded <u>Investment</u>	Post- Modification Outstanding Recorded <u>Investment</u>
Troubled debt restructurings:			
Real estate			
Commercial	-	\$ -	\$ -
Land acquisition and construction	-	-	-
Home equity	1	98	98
Residential / multifamily	1	264	264
Commercial	-	-	-
Total	<u>2</u>	<u>\$ 362</u>	<u>\$ 362</u>

The troubled debt restructurings described above did not result in an increase to the allowance for loan losses during the year ending December 31, 2017. The troubled debt restructurings described above resulted in an increase of \$24,311 to the allowance for loan losses during the year ending December 31, 2016.

The troubled debt restructurings described above resulted in \$872,000 in charge offs during the year ending December 31, 2017 and no charge offs during the year ending December 31, 2016.

A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms.

The Bank had no troubled debt restructurings that subsequently defaulted during the years ending December 31, 2017 and 2016.

The terms of certain other loans were modified during the years ending December 31, 2017 and 2016, that did not meet the definition of a troubled debt restructuring. These loans have a total recorded investment as of December 31, 2017 and 2016, of \$30,473,000 and \$13,519,000, respectively. The modification of these loans involved rate, term or loan amount adjustments for loans to borrowers who were not experiencing financial difficulties.

In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under the Bank's internal underwriting policy.

GREATER HUDSON BANK
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 3 – LOANS (Continued)

Credit Quality Indicators

The Bank categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. With the exception of consumer loans, all loans are classified at origination. The Bank analyzes loans individually by classifying the loans as to credit risk. This analysis includes loans with an outstanding balance greater than \$100,000 and non-homogeneous loans, such as commercial and commercial real estate loans. Subsequent to origination the Bank monitors the loans based on performance. This analysis is performed on a quarterly basis. The Bank uses the following definitions for risk ratings:

Special Mention: Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

Substandard: Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful: Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loans not meeting the criteria above that are analyzed individually as part of the above described process or are monitored based on performance are considered to be pass rated loans.

GREATER HUDSON BANK
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 3 – LOANS (Continued)

Based on the most recent analysis performed, the risk category of loans by class of loans is as follows (in thousands):

	<u>Pass</u>	<u>Special Mention</u>	<u>Substandard</u>	<u>Doubtful</u>	<u>Not Rated</u>
<u>December 31, 2017</u>					
Real estate					
Commercial	\$ 148,707	\$ 1,828	\$ 6,344	\$ -	\$ -
Land acquisition and construction	46,315	-	2,858	-	-
Home equity	6,118	-	123	-	-
Residential / multifamily	34,469	-	310	-	-
Commercial	72,723	25	237	-	-
Taxi Medallions	691	-	2,684	161	-
Consumer	140	-	-	-	69
Total	<u>\$ 309,163</u>	<u>\$ 1,853</u>	<u>\$ 12,556</u>	<u>\$ 161</u>	<u>\$ 69</u>
<u>December 31, 2016</u>					
Real estate					
Commercial	\$ 152,111	\$ 868	\$ 4,148	\$ -	\$ -
Land acquisition and construction	64,668	-	4,977	-	-
Home equity	6,938	-	135	-	-
Residential / multifamily	27,104	-	479	-	-
Commercial	61,224	100	5,776	-	-
Taxi Medallions	711	-	3,720	-	-
Consumer	87	-	-	-	132
Total	<u>\$ 312,843</u>	<u>\$ 968</u>	<u>\$ 19,235</u>	<u>\$ -</u>	<u>\$ 132</u>

The Bank did not purchase any credit impaired loans in 2017 and 2016.

NOTE 4 – REAL ESTATE OWNED

Real estate owned activity was as follows:

	<u>2017</u>	<u>2016</u>
Beginning balance	\$ -	\$ -
Loans transferred to real estate owned	2,289	-
Total	<u>\$ 2,289</u>	<u>\$ -</u>

At December 31, 2017 the balance of real estate owned includes \$2,289,000 of foreclosed commercial real estate properties recorded as a result of obtaining physical possession of the property. At December 31, 2016, the Bank did not have any real estate owned.

GREATER HUDSON BANK
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 5 – PREMISES AND EQUIPMENT

Premises and Equipment as of December 31, 2017 and 2016, are as follows (in thousands):

	<u>2017</u>	<u>2016</u>
Leasehold improvements	\$ 1,060	\$ 977
Furniture, fixtures and equipment	<u>2,186</u>	<u>1,988</u>
	3,246	2,965
Accumulated depreciation	<u>(1,743)</u>	<u>(1,565)</u>
	<u>\$ 1,503</u>	<u>\$ 1,400</u>

The amount charged to depreciation expense was approximately \$423,000 and \$358,000 for the years ended December 31, 2017 and 2016, respectively.

NOTE 6 – DEPOSITS

Deposits at year end were as follows (in thousands):

	<u>2017</u>	<u>2016</u>
Noninterest bearing demand	\$ 78,069	\$ 78,999
Interest bearing demand	5,851	5,600
Money market	184,396	203,728
Savings	22,666	35,665
Time deposits	<u>90,782</u>	<u>74,169</u>
	<u>\$ 381,764</u>	<u>\$ 398,161</u>

Scheduled maturities of time deposits at December 31, 2017, were as follows (in thousands):

2018	\$ 45,331
2019	35,250
2020	5,156
2021	601
2022	4,444
Thereafter	<u>-</u>
	<u>\$ 90,782</u>

At December 31, 2017 and 2016, time deposits that meet or exceed the FDIC insurance limit of \$250,000 totaled \$16,921,000 and \$11,824,000, respectively.

GREATER HUDSON BANK
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 7 – BORROWINGS AND LINES OF CREDIT

At December 31, 2017, the Bank had no repurchase agreements outstanding. At December 31, 2016, the Bank had one repurchase agreement outstanding totaling \$5,000,000. On March 7, 2007, the Bank entered into a \$5,000,000 Master Repurchase Agreement with PNC Bank. The borrowing is at a fixed rate of interest of 4.04% with a maturity date of March 13, 2017. For 2017 and 2016, the maximum balance of the PNC borrowings was \$5,000,000 and the average balance was \$5,000,000. PNC Bank has the right to terminate the transaction on March 13, 2008, and quarterly thereafter with five business days' notice. The borrowing was collateralized by U.S. Government agency securities with a carrying amount of \$6,000,000 and fair value of \$5,922,000 as of December 31, 2016.

At December 31, 2017, the Bank had fixed rate term and amortizing advances with the FHLBNY totaling \$39,275,000 at a weighted average interest rate of 2.08%. The advances are set to mature from May 2018 to December 2031 and have fixed rates ranging from 1.38% to 2.96%. For 2017, the maximum balance of the advances was \$50,595,000 and the average balance was \$38,936,000. These advances were collateralized by securities with an aggregate carrying value and estimated fair value of approximately \$49,915,000 and \$48,995,000, respectively. The Bank also had \$92,019,000 in pledged loans available to collateralize borrowings.

At December 31, 2016, the Bank had fixed rate term and amortizing advances with the FHLBNY totaling \$44,624,000 at a weighted average interest rate of 1.73%. The advances are set to mature from January 2018 to December 2031 and have fixed rates ranging from 0.78% to 2.96%. For 2016, the maximum balance of the advances was \$44,624,000 and the average balance was \$39,223,000. These advances were collateralized by securities with an aggregate carrying value and estimated fair value of approximately \$58,934,000 and \$58,025,000, respectively. The Bank also had \$78,658,000 in pledged loans available to collateralize borrowings.

As of December 31, 2017, the Bank's payments for FHLBNY term and amortizing advances are as follows (in thousands):

2018	\$ 5,356
2019	8,300
2020	10,151
2021	2,155
2022	10,612
Thereafter	<u>2,701</u>
	<u>\$ 39,275</u>

The Bank has available Federal Funds lines of credit for \$3,000,000 at The Independent Bankers Bank, \$7,000,000 at Atlantic Central Bankers Bank, \$9,000,000 at Zions Bank, \$10,000,000 at PNC Bank, \$9,000,000 at M&T Bank, of which, \$4,000,000 is unsecured and \$5,000,000 is secured. As part of the Zions Federal Funds line, the Bank is required to maintain a minimum deposit balance with them of \$450,000. Borrowings under the lines are charged interest at the quoted Federal Funds offering rate at the time that advances are made, and mature the following business day. Additional securities pledged may be required. The Bank had no borrowings of these types outstanding at December 31, 2017 and 2016.

GREATER HUDSON BANK
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 8 – OPERATING LEASES

The Bank leases office space for use as administrative and branch offices in Bardonia, Monroe, Blauvelt and Tarrytown, New York, and branch offices in Middletown, Warwick and White Plains, New York. Rental expense totaled approximately \$615,000 and \$531,000 for the years ended December 31, 2017 and 2016, respectively.

At December 31, 2017, the minimum rental commitments required under the leases are as follows (in thousands):

2018	\$ 611
2019	512
2020	517
2021	533
2022	457
Thereafter	<u>1,842</u>
	<u>\$ 4,472</u>

NOTE 9 – INCOME TAXES

Income tax expense consists of the following (in thousands):

	<u>2017</u>	<u>2016</u>
Current		
Federal	\$ 977	\$ 1,692
State	<u>79</u>	<u>184</u>
	1,056	1,876
Deferred		
Federal	1,625	(511)
State	<u>(4)</u>	<u>(50)</u>
	1,621	(561)
Valuation allowance	<u>15</u>	<u>48</u>
Income tax expense	<u>\$ 2,692</u>	<u>\$ 1,363</u>

The following table presents a reconciliation between the reported income tax and the income tax, which would be computed by applying the normal federal income tax rate of 34% to income before income taxes at years ended December 31 (in thousands):

	<u>2017</u>		<u>2016</u>	
	<u>Amount</u>	<u>% of Pre-Tax Income</u>	<u>Amount</u>	<u>% of Pre-Tax Income</u>
Federal income tax at statutory rate	\$ 1,763	34.0%	\$ 1,483	34.0%
State income tax, net of federal benefit	54	1.0	22	0.5
Valuation allowance	15	0.3	48	1.1
Tax-exempt income, net	(131)	(2.5)	(127)	(2.9)
Impact of U.S. statutory tax rate change	1,128	21.7	-	-
Other	<u>(137)</u>	<u>(2.6)</u>	<u>(63)</u>	<u>(1.5)</u>
Effective income tax (rate)	<u>\$ 2,692</u>	<u>51.9%</u>	<u>\$ 1,363</u>	<u>31.2%</u>

(Continued)

GREATER HUDSON BANK
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 9 – INCOME TAXES (Continued)

The Bank's deferred tax assets and liabilities at December 31 are as follows (in thousands):

	<u>2017</u>	<u>2016</u>
Deferred tax assets		
Net operating losses carried forward	\$ 1,216	\$ 1,702
Allowance for loan losses	1,079	1,766
Unrealized losses on securities available for sale	348	602
Other	<u>148</u>	<u>460</u>
Total deferred tax assets	2,791	4,530
Deferred tax liabilities		
Depreciation	(136)	(126)
Other	<u>(126)</u>	<u>(268)</u>
Total deferred tax liabilities	(262)	(394)
Valuation allowance	<u>(682)</u>	<u>(454)</u>
Net deferred tax assets	<u>\$ 1,847</u>	<u>\$ 3,682</u>

Effective January 1, 2015, banks under \$8 billion in total assets are permitted to claim a subtraction from New York taxable income equal to 50% of the net interest income on certain loans to customers within New York State, provided the principal balance of these loans is less than \$5 million. Based upon the forecasted impact of this exclusion on the Bank's state taxable income, it is more likely than not the Bank will generate New York losses in future years and therefore calculate its New York tax liability on the basis of average equity capital or a fixed minimum fee.

Realization of deferred tax assets associated with the net operating loss carryforwards is dependent upon generating sufficient taxable income prior to their expiration.

The Bank has available unused federal net operating loss carryforwards that may be applied against future taxable income and that expire as follows (in thousands):

<u>Year of Expiration</u>	
2024	\$ 515
2025	1,456
2026	1,171
2027	365
2028	<u>400</u>
Total	<u>\$ 3,907</u>

At December 31, 2017, the Bank assessed its earnings history and trend over the past three years, its estimate of future earnings, and its net operating loss carryforwards. This assessment included an analysis of the impact of the Internal Revenue Code ("IRC") Section 382 limitations on loss utilization, which amounts to \$354,138 per year. Based on this assessment, the Bank determined that it was more likely than not that its federal deferred tax assets will be realized before their expiration.

GREATER HUDSON BANK
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 9 – INCOME TAXES (Continued)

At December 31, 2017 and 2016, the Bank had no unrecognized tax benefits recorded. The Bank does not expect the amount of unrecognized tax benefits to significantly change within the next twelve months. There were no penalties or interest related to income taxes recorded in the income statement for the years ended December 31, 2017 and 2016, and no amounts accrued for penalties as of December 31, 2017 and 2016.

The Bank is subject to U.S. federal income tax as well as income tax of the state of New York. The Bank is no longer subject to examination by taxing authorities for the years prior to 2013.

NOTE 10 – RETIREMENT PLAN

The Bank has established a 401(k) Plan (the “Plan”) to provide retirement benefits for its employees. The Plan covers substantially all employees meeting certain eligibility requirements. Employees may contribute from 1% to 15% of their annual compensation to the Plan, limited to a maximum annual amount as set periodically by the Internal Revenue Service.

Contributions that the Bank may make, including matching contributions, are discretionary. In 2017 and 2016, the Bank’s matching contributions totaled approximately \$152,000 and \$123,000, respectively.

NOTE 11 – CAPITAL REQUIREMENTS

The Bank is subject to various regulatory capital requirements administered by the federal and state banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank’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 assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk-weighting and other factors. The regulations establish a framework for the classification of institutions into five categories: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized.

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 of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. Under the new capital rules, in order to avoid limitations on capital distributions, including dividend payments and certain discretionary bonus payments to executive officers, a banking organization must hold a capital conservation buffer composed of common equity Tier 1 capital above its minimum risk based capital requirements. The buffer is measured relative to risk-weighted assets. The capital conservation buffer is being phased in at the rate of 0.625% per year from 0.0% in 2015 to 2.50% on January 1, 2019. The capital conservation buffer for 2017 is 1.25% and for 2016 is 0.625%. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital.

Management believes as of December 31, 2017, the Bank meets all capital adequacy requirements to which it is subject. At year end December 31, 2017 and 2016, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt correction action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Common Equity Tier 1, Tier 1 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.

GREATER HUDSON BANK
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 11 – CAPITAL REQUIREMENTS (Continued)

The Bank's actual capital ratios as of December 31, 2017, and the minimum ratios required for capital adequacy purposes and to be well capitalized under the prompt correction action provisions are as follows (dollars in thousands):

	<u>Actual</u>		<u>Minimum Capital Adequacy</u>		<u>Minimum Capital Adequacy with Capital Buffer</u>		<u>To Be Well Capitalized Under Prompt Corrective Action Provisions</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
2017								
Common equity								
tier 1	\$ 57,962	15.1%	\$ 17,283	≥4.50%	\$ 22,083	≥5.75%	\$ 24,964	≥6.50%
Tier 1 capital	57,962	15.1	23,043	≥6.00	27,844	≥7.25	30,725	≥8.00
Total capital	62,211	16.2	30,725	≥8.00	35,525	≥9.25	38,406	≥10.00
Tier 1 (leverage) capital	57,962	11.9	19,403	≥4.00	N/A	N/A	24,253	≥5.00

The Bank's actual capital ratios as of December 31, 2016, and the minimum ratios required for capital adequacy purposes and to be well capitalized under the prompt correction action provisions are as follows (dollars in thousands):

	<u>Actual</u>		<u>For Capital Adequacy Purposes</u>		<u>To Be Well Capitalized Under Prompt Corrective Action Provisions</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
2016						
Common equity						
tier 1	\$ 54,813	13.8%	\$ 17,840	≥4.50%	\$ 20,317	≥5.125%
Tier 1 capital	54,813	13.8	23,786	≥6.00	26,264	≥6.625
Total capital	59,778	15.1	31,715	≥8.00	34,193	≥8.625
Tier 1 (leverage) capital	54,813	11.4	19,204	≥4.00	N/A	N/A

NOTE 12 – SHAREHOLDERS' EQUITY AND DIVIDENDS

The NYSDFS regulates the amount of dividends and other capital distributions that the Bank may pay to shareholders. In general, all dividends may only be paid from undivided profits and the Bank must meet all capital requirements after the dividend payment. As of December 31, 2017, the Bank met regulatory guidelines necessary to pay dividends. Net income available to pay dividends totaled \$8,057,000 as of December 31, 2017, with the maximum allowable dividend under regulatory guidelines equal to the Bank's retained earnings of \$11,780,000. As of December 31, 2016, the Bank met regulatory guidelines necessary to pay dividends. Net income available to pay dividends totaled \$7,720,000 as of December 31, 2016, with the maximum allowable dividend under regulatory guidelines equal to the Bank's retained earnings of \$9,285,000.

No dividends were paid in 2017. In 2016, a dividend in the amount \$0.05 per share was paid to shareholders of record as of December 9, 2016, on December 23, 2016.

(Continued)

GREATER HUDSON BANK
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 13 – RELATED PARTY TRANSACTIONS

Loans to principal officers, directors, significant stockholders, and their affiliates at December 31, 2017, were \$1,584,000, of which \$584,000 was outstanding and \$1,000,000 was in unused lines of credit. Loans to principal officers, directors, significant stockholders, and their affiliates at December 31, 2016, were \$3,620,000, of which \$3,120,000 was outstanding and \$500,000 was in unused lines of credit.

The Bank held related party deposits of approximately \$16,147,000 and \$18,327,000 at December 31, 2017 and 2016, respectively.

The Bank leases both the Bardonia and Monroe, New York, branches and office space from significant stockholders of the Bank. For Bardonia, the Bank is committed to an escalating branch and office lease amount beginning at approximately \$134,000 per year and ending at approximately \$175,000 per year through the term of the lease ending August 2018. For Monroe, the Bank is committed to an escalating branch and loan office space amount beginning at approximately \$97,000 per year and ending at approximately \$102,000 per year through the term of the lease ending February 2022 and an escalating Finance/IT office space amount beginning at approximately \$38,000 per year and ending at approximately \$41,000 per year through the term of the lease ending September 2025. The rent expense for the Bardonia lease amounted to \$155,000 for each of the years ended December 31, 2017 and 2016. The rent expense for the Monroe leases amounted to \$136,000 and \$129,000 for the years ended December 31, 2017 and 2016. The Bank has renewal options for another 5 years on the Bardonia and Monroe branch and loan office space leases.

NOTE 14 – FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

The Bank is a party to certain 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. Those instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized on the statement of financial condition. The contract amounts of those instruments reflect the extent of involvement the Bank has in particular classes of financial instruments. Commitments may expire without being used.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the commitments to extend credit is represented by the contractual notional amount of those instruments. The Bank uses the same credit policies in making commitments as it does for on-balance-sheet instruments. Unless otherwise noted, the Bank may require collateral or other security to support off-balance-sheet financial instruments with credit risk.

A summary of the Bank's commitments at December 31, 2017 and 2016, were as follows (in thousands):

	<u>2017</u>	<u>2016</u>
Commitment to originate loans	\$ 76,205	\$ 51,163
Standby letters of credit	1,764	2,392
Undisbursed construction loans	18,106	14,762
Unused credit lines	<u>41,274</u>	<u>28,313</u>
	<u>\$ 137,349</u>	<u>\$ 96,630</u>

(Continued)

GREATER HUDSON BANK
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 15 – STOCK BASED COMPENSATION

Share Award Plan: The Bank's 2011 Restricted Stock Plan permits the Bank to grant up to 50,000 shares of restricted stock. As of December 31, 2017, the Bank has granted 39,395 shares under the 2011 Restricted Stock Plan and there are 10,605 shares available to be granted. The Bank's 2016 Restricted Stock Plan permits the Bank to grant up to 100,000 shares of restricted stock. As of December 31, 2017, the Bank has granted 64,000 shares under the 2016 Restricted Stock Plan and there are 36,000 shares available to be granted.

All shares vest over five years. Grants were issued from treasury stock, if available. If treasury stock was unavailable, the grants were issued from authorized and unissued shares. Compensation expense is recognized over the vesting period of the awards based on the fair value of the stock at the issue date. Total compensation cost that has been charged against income was \$73,000 and \$21,000 for 2017 and 2016, respectively. The total income tax benefit was \$24,500 and \$7,000 for 2017 and 2016. The market price of the Bank's common stock at the date of grant is used as the fair value of the restricted stock awards.

A summary of changes in the Bank's nonvested shares for the year follows:

<u>Nonvested Shares</u>		<u>Weighted-Average Grant-Date Fair Value</u>
Nonvested at January 1, 2017	15,200	\$ 3.86
Granted	64,000	4.86
Vested	(7,710)	4.04
Forfeited	<u>(1,300)</u>	<u>4.08</u>
Nonvested at December 31, 2017	<u>70,190</u>	<u>\$ 4.75</u>

As of December 31, 2017, there was \$278,000 of total unrecognized compensation cost related to the nonvested shares granted under the 2011 and 2016 Restricted Stock Plans. The remaining cost is expected to be recognized over a weighted-average period of 4.1 years. The total fair value of shares vested during the years ended December 31, 2017 and 2016, was \$36,000 and \$28,000, respectively.

GREATER HUDSON BANK
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 16 – FAIR VALUE

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The fair values for investment securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3).

The fair value of impaired loans with specific allocations of the allowance for loan losses is generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are typically significant and result in a Level 3 classification of the inputs for determining fair value. Because the Bank has a small amount of impaired loans measured at fair value, the impact of unobservable inputs on the Bank's financial statements is not material.

Nonrecurring adjustments to certain commercial and residential real estate properties classified as other real estate owned ("OREO") are measured at lower of cost or fair value, less costs to sell. Fair values are based on recent real estate appraisals. These appraisals may use a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value.

GREATER HUDSON BANK
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 16 – FAIR VALUE (Continued)

Assets and Liabilities Measured on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis are summarized below (in thousand):

	Fair Value Measurements At December 31 Using		
	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>2017</u>			
Assets:			
Available for sale securities			
U.S. Government agency	\$ -	\$ 39,416	\$ -
Corporate securities	-	8,105	-
Obligations of states and political subdivisions	-	24,299	-
MBSs - residential	-	34,130	-
CMOs – residential	-	13,628	-
Asset-backed securities	-	1,412	-
Total Available for Sale Securities	\$ -	\$ 120,990	\$ -
<u>2016</u>			
Assets:			
Available for sale securities			
U.S. Government agency	\$ -	\$ 50,110	\$ -
Corporate securities	-	10,853	-
Obligations of states and political subdivisions	-	25,200	-
MBSs - residential	-	41,294	-
CMOs – residential	-	15,276	-
Asset-backed securities	-	1,700	-
Total Available for Sale Securities	\$ -	\$ 144,433	\$ -

(Continued)

GREATER HUDSON BANK
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 16 – FAIR VALUE (Continued)

Assets and Liabilities Measured on a Non-Recurring Basis

Assets and liabilities measured at fair value on a non-recurring basis are summarized below (in thousands):

		Fair Value Measurements At December 31 Using		
		Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>2017</u>				
Assets:				
Impaired loans				
Real estate				
Commercial	\$	-	\$	-
Commercial		-	-	95
Real Estate Owned				
Commercial		-	-	2,289
<u>2016</u>				
Assets:				
Impaired loans				
Real estate				
Commercial	\$	-	\$	-
Commercial		-	-	791
				3,252

At December 31, 2017, there were no charge offs taken as a result of the \$2,289,000 transfer into real estate owned.

Estimated fair values of financial instruments at December 31, 2017, were as follows (in thousands):

	<u>Carrying Amount</u>	<u>Fair Value</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<u>December 31, 2017</u>				
Financial assets				
Cash and due from banks	\$ 20,698	\$ 20,698	\$ -	\$ -
Securities available for sale	120,990	-	120,990	-
Restricted bank stock	2,182	N/A	N/A	N/A
Loans receivable, net	318,760	-	-	321,135
Accrued interest receivable	1,884	91	428	1,365
Financial liabilities				
Deposits	\$ 381,764	\$ 290,981	\$ 90,375	\$ -
Securities sold under agreements to repurchase	-	-	-	-
FHLB advances	39,275	-	39,352	-
Accrued interest payable	710	42	668	-

(Continued)

GREATER HUDSON BANK
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 16 – FAIR VALUE (Continued)

Estimated fair values of financial instruments at December 31, 2016, were as follows (in thousands):

	<u>Carrying Amount</u>	<u>Fair Value</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<u>December 31, 2016</u>				
Financial assets				
Cash and due from banks	\$ 19,225	\$ 19,225	\$ -	\$ -
Securities available for sale	144,433	-	144,433	-
Restricted bank stock	2,413	N/A	N/A	N/A
Loans receivable, net	327,428	-	-	330,369
Accrued interest receivable	1,851	128	394	1,329
Financial liabilities				
Deposits	\$ 398,161	\$ 323,992	\$ 74,199	\$ -
Securities sold under agreements to repurchase	5,000	-	5,031	-
FHLB advances	44,624	-	44,957	-
Accrued interest payable	420	37	383	-

The methods and assumptions used to estimate fair value are described as follows:

Cash and Cash Equivalents: The carrying amounts of cash and cash equivalents approximate fair values and are classified as Level 1.

Restricted Investments in Bank Stock: It is not practical to determine the fair value of these stocks due to restrictions placed on transferability.

Loans: Fair values of loans are estimated as follows: For variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values resulting in a Level 3 classification. Fair values for other loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality resulting in a Level 3 classification. Impaired loans are valued at the lower of cost or fair value as described previously. The methods utilized to estimate the fair value of loans do not necessarily represent an exit price.

Deposits: The fair values disclosed for demand deposits (e.g., interest and non-interest checking, passbook 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 amount) resulting in a Level 1 classification. The carrying amounts of variable rate, fixed-term money market accounts approximate their fair values at the reporting date resulting in a Level 1 classification. Fair values for certificates of deposit are estimated using a discounted cash flows calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits resulting in a Level 2 classification.

GREATER HUDSON BANK
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 16 – FAIR VALUE (Continued)

FHLB Advances: The fair values of the Company's FHLB advances are estimated using discounted cash flow analyses based on the current borrowing rates for similar types of borrowing arrangements resulting in a Level 2 classification.

Accrued Interest Receivable / Payable: The carrying amounts of accrued interest approximate fair value resulting in a Level 1 or Level 2 classification consistent with the classification of the related asset or liability.

Off-Balance Sheet Instruments: Fair values for off-balance sheet, credit-related financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. The fair value of commitments is not material.

NOTE 17 – ACCUMULATED OTHER COMPREHENSIVE LOSS

The following is a summary of accumulated other comprehensive loss by component, net of tax for 2017 (in thousands):

	Unrealized Losses on Available-for-sale Securities
<u>December 31, 2017</u>	
Beginning balance	\$ (1,169)
Other comprehensive income before reclassification	177
Amounts reclassified from accumulated other comprehensive loss	____ (102)
Net current period other comprehensive income	____ 75
Ending balance	<u>\$ (1,094)</u>

GREATER HUDSON BANK
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2017 and 2016

NOTE 17 – ACCUMULATED OTHER COMPREHENSIVE LOSS (Continued)

The following is a summary of accumulated other comprehensive loss by component, net of tax for 2016 (in thousands):

	Unrealized Gains and (Losses) on Available-for-sale Securities
<u>December 31, 2016</u>	
Beginning balance	\$ (189)
Other comprehensive loss before reclassification	(638)
Amounts reclassified from accumulated other comprehensive loss	____ (342)
Net current period other comprehensive loss	____ (980)
Ending balance	<u>\$ (1,169)</u>

The following is significant amounts reclassified out of each component of accumulated other comprehensive loss for the year ending December 31, 2017 (in thousands):

<u>Details about Accumulated Other Comprehensive Loss Components</u>	<u>Amount Reclassified From Accumulated Other Comprehensive Loss</u>	<u>Affected Line Item in the Statement of Operations</u>
Unrealized gains on available-for-sale securities	\$ 155	Gains on securities transactions
	____ (53)	Income Tax expense
Total reclassification for the period	<u>\$ (102)</u>	Net of tax

The following is significant amounts reclassified out of each component of accumulated other comprehensive loss for the year ending December 31, 2016 (in thousands):

<u>Details about Accumulated Other Comprehensive Loss Components</u>	<u>Amount Reclassified From Accumulated Other Comprehensive Loss</u>	<u>Affected Line Item in the Statement of Operations</u>
Unrealized gains on available-for-sale securities	\$ 518	Gains on securities transactions
	____ (176)	Income Tax expense
Total reclassification for the period	<u>\$ (342)</u>	Net of tax