



Greater Rochester Bancorp, Inc.

ANNUAL REPORT

2019





The GRB Experience

**The GRB Experience.
Our employees live it.
Our clients benefit from it.
It's how we do business.**

We grow Rochester business by providing a unique banking experience and significant value to area businesses, professionals, and individuals.

Our financial resources and management resourcefulness will provide you with the flexible, creative thinking you need to achieve your goals. With our focus on building a long-term, meaningful relationship, you'll deal with banking professionals who take the time to become trusted advisors and strategic partners.

We trust, appreciate, and depend on each other to deliver extraordinary results.

Our dedicated, energized team is the key to our success, and to yours.

We are empowered to think differently and build relationships in support of clients' success.

Employees at all levels help provide innovative solutions, ensuring high quality, responsive service that's hard to match.



- ✔ Lead By Example
- ✔ Remarkable Client Experience
- ✔ Unified Team

A Message From The President



Philip L. Pecora
President & CEO

A handwritten signature in black ink, appearing to read 'Pecora', written in a cursive style.

2019 marks a year of growth and progress for GRB, as we look to continue building the Rochester community through strong relationships

In 2018, GRB launched an ambitious growth campaign aptly named Tax Act Growth (TAG) in response to the Tax Cuts and Job Act bill passed by Congress that year. The premise of the initiative was to make extraordinary investments in the bank in order to propel our growth toward and beyond \$1 billion in total assets and \$200 million in annual residential mortgage production. I am pleased to report that after a tepid start in our launch year, we made great progress in 2019 driven by two areas of concerted focus: increasing residential mortgage loan originations and improving commercial loan credit quality.

GRB's progress toward achieving our TAG objective was demonstrated in this year's financial results as the bank produced robust Return on Equity (ROE) of 17.03% and Return on Assets (ROA) of 138 basis points. This compares favorably to the 10.97% and

83 basis points, respectively, in the prior year.

Residential Mortgage Lending Leads the Charge

Significant investment in our lending platform and strengthened leadership in 2018 positioned GRB's residential mortgage department to begin the climb toward our goal of reaching \$200 million in annual origination volume. Management's original budget prepared in the fourth quarter of 2018 forecasted an achievable goal of \$145 million based on prior year production of \$127 million and the team's refined operational effectiveness. While we entered the year confident in our ability to exceed budget, we did not anticipate the magnitude of the bank's positive momentum that resulted in more than \$240 million in mortgage closings by fiscal year-end.

The dramatic increase in volume and record financial results for GRB's mortgage team is

noteworthy in and of itself, but it is even more significant given the challenging realities of current market conditions. Despite low interest rates and a strong economy, housing inventory in the Greater Rochester market has remained stubbornly low with 14,773 homes sold in 2019 and a nearly exact figure of 14,772 in 2018. Further, the extended low interest rate environment has not only failed to ignite an increase in local housing activity, it has stymied mortgage refinance opportunities as most eligible homeowners have already locked into low interest rates.

Overcoming the aforementioned headwinds, we made sizable market share gain in 2019 driven by purchase mortgage transactions that places GRB among the top two mortgage lenders and the number one ranked bank lender in Monroe County. It is important to note that the great majority of our mortgage loans are sold in the secondary market, thus the originations do not contribute materially to the bank's balance sheet growth.

Commercial Banking Strengthens

As we celebrate the gains achieved in our residential mortgage business this past year, GRB remains steadfastly committed to serving the commercial banking needs of our local business community. Our two primary goals for the commercial group in 2019 were to further strengthen the team's organizational structure and improve the bank's credit quality metrics, measured by net charge-off and non-performing asset ratios.

Organizationally, we continue to invest in our team. In addition to two key executive-level hires, in the fourth quarter we promoted one of our seasoned

commercial relationship managers to team leader to create a third relationship management team. The expanded structure improves the bank's management capacity, allows for keener oversight over our valued commercial client portfolio, and improves our ability to train and develop our growing commercial banking team.

Over the course of this past year, the bank also accomplished its objective to repair credit metrics. GRB's credit quality improved dramatically over the prior year as non-performing assets dropped to 0.47% of total assets at fiscal year-end compared to 1.75% in 2018. Net loan charge-offs demonstrated similar pronounced improvement, dropping 62 basis points to 0.08% in 2019 from 0.70% in 2018. Through heightened administration of our portfolio and swifter action in addressing deteriorating credit relationships, GRB rose from the lower quartile of loan performance amongst our community bank peers to the highest.

While credit quality improved, net loan growth in 2019 remained stubbornly weak. The commercial team originated \$84 million in new loans to our existing and new clients, comprised of \$62 million in commercial and industrial (C&I) loans and \$22 million in investment commercial real estate (CRE) compared to \$104 million closed in the prior year that included \$53 million C&I and \$51 million CRE.

Portfolio growth was hampered in part by our greater focus on C&I relationships, but also a continuation of early loan pay-offs associated with clients selling their businesses, a lack of local business spending despite the favorable national economy, and irrational competition among banks hungry for loan

growth. Although we are eager to grow assets, GRB remains disciplined in our credit culture and will not be tempted to overreach for new business with unjustified pricing and relaxed credit terms. Rather, we simply need to swim stronger against the tide to win business with our relationship-driven, community-minded sales approach.

Similar to the investment previously made in GRB's residential mortgage personnel, in 2019 we established a solid organizational foundation in our commercial banking department that will produce increasingly favorable results in the coming years. I fully expect that GRB will soon regain the exceptional loan growth that we achieved in the earlier part of the decade.

The Great Complement: Retail Banking

At GRB, we take great pride in being a relationship bank with a focus on serving our valued clients' individual needs rather than just pushing product sales. While our initial outreach often originates through commercial banking or residential mortgage lending, serving the retail banking needs of those clients is equally important to our business model. In 2019 we increased our retail banking penetration with our business owners and mortgage clients, welcoming 181 new retail relationships totaling \$25.3 million in average deposit balances and \$13.1 million in personal loan outstandings.

The concept of Community Banking, Community Building is alive and well at GRB!

Bank Consolidation

In the fourth quarter of 2019 and bleeding into the first quarter of 2020, four local bank mergers

were announced that will significantly change the community bank landscape in western New York: Fairport Savings Bank sold to Evans Bank (Buffalo), Bank of Akron sold to Bank on Buffalo (a subsidiary of Clearfield National Bank in PA), Steuben Trust sold to Community Bank (Syracuse) and USNY Bank sold to Norwood Financial, operating as Wayne Bank (Honesdale, PA).

While these transactions do not eliminate banking alternatives in the specific communities where the acquired banks are headquartered, they do compromise the spirit of true community banking. By definition, a community bank derives funds from and lends to the community where it operates. The bank's employees, decision makers and shareholders live in the community that they serve. This local focus and dedication is an important distinction that creates the value proposition that a community bank enjoys over larger institutions that are more geographically diverse. When one lives, works, worships and plays in a community, they inherently have a better understanding of its strengths and a deeper commitment to it regardless of economic cycles or trends.

With great confidence, GRB's Board of Directors and leadership embrace our bank's independence and mission to serve our local economy by "Growing Rochester Business." While some may see the consolidation in our industry as a threat to community banks' independence, we see it as an opportunity to cement our existing relationships, prospect new business and recruit new talent to join our growing team. The fewer the number of community banks that exist in Western New York, the greater our competitive advantage.



GRB's Bright Future

We are proud of our 2019 accomplishments and excited about what is in store for GRB and our Greater Rochester community in 2020 and beyond. Having already surpassed our stated goal of \$200 million in annual residential mortgage loan originations, we will raise the bar and look forward to breaking new production records while also regaining momentum in our quest to grow GRB's commercial loan portfolio. I would be remiss to conclude without extending my deepest appreciation to our employees who represent GRB. Undoubtedly, we have excellent employees whom together create a remarkable team. And to our many loyal clients, thank you for entrusting GRB with your banking relationship. May we continue to grow together in keeping our community "ROC solid."

Sincerely,
Philip L. Pecora
President & CEO
Genesee Regional Bank

Board of Directors

Chairman

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President & CEO
Saunders Management Co.

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Ramsey Constructors

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President & CEO
Genesee Regional Bank

Steven B. Sauer

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Toshiba Business Solutions, New York

Daniel D. Tessori, Ph.D., CPA

Assistant Professor
Rochester Institute of Technology

Giovanni LiDestri

Board Member Emeritus
Chief Executive Officer
LiDestri Foods, Inc.



Awards and Recognition

GRB was pleased to be recognized by the business community for a number of awards this year, including the Best Companies to Work for in New York and a Bronze Award lender from the Small Business Administration.

There were many employee achievements to celebrate in 2019 as well. Executive Vice President and Chief Operating Officer Allana Lazeroff was recognized as one of the Rochester Business Journal's 2019 "Women of Excellence", one of 40 women honored. Denis Jeffries, Assistant Vice President and Commercial Relationship Manager, was inducted into the 2019 class of the "Forty Under 40" which recognizes those garnering professional success in addition to significant community contributions.



U.S. Small Business Administration



Community Involvement

As a local bank with an emphasis on building relationships, an important element of our business model extends beyond banking. Because we're so involved with the local community, we understand that helping to build better lives is just as important as helping to build better businesses. GRB is proud to support many local organizations through donations, event sponsorships, and volunteer hours. We focus our efforts on nonprofits that are our clients, and those with whom GRB's employees and board members are involved.

Our board members lead the way in community involvement and charitable contributions, and truly set the tone for GRB. This sense of community spirit is built into our internal culture and employees are motivated to become engaged. Employees are encouraged to serve on boards and committees and offer volunteer time to groups with whom they share a passion.





GRB employees
volunteered over
336 HOURS
of their time to local
organizations and
causes





Financial Commentary

Greater Rochester Bancorp, Inc. (the parent company of Genesee Regional Bank) experienced a record year of financial performance in 2019. Noninterest income increased 56.2% over 2018, mainly due to mortgage banking earnings. Net interest income increased 6.4% over 2018, a key earnings driver for GRB. Loans grew by 1.6%, while deposit balances grew by 2.9%.

Key performance metrics in 2019 are exceeding those of peer banks. Asset quality improved significantly and GRB was classified as a “well capitalized bank” in our latest examination. GRB’s capital levels were at an all time high in 2019 with the bank’s leverage ratio increasing to 11.31%, stronger than peer banks and ensuring our ability to carry on our mission of Growing Rochester Business. Return on shareholder equity was 17.03% and return on assets was 1.38%. An efficiency ratio of 59.2% compares favorably with peer banks. Earnings per share in 2019 were \$176.14.

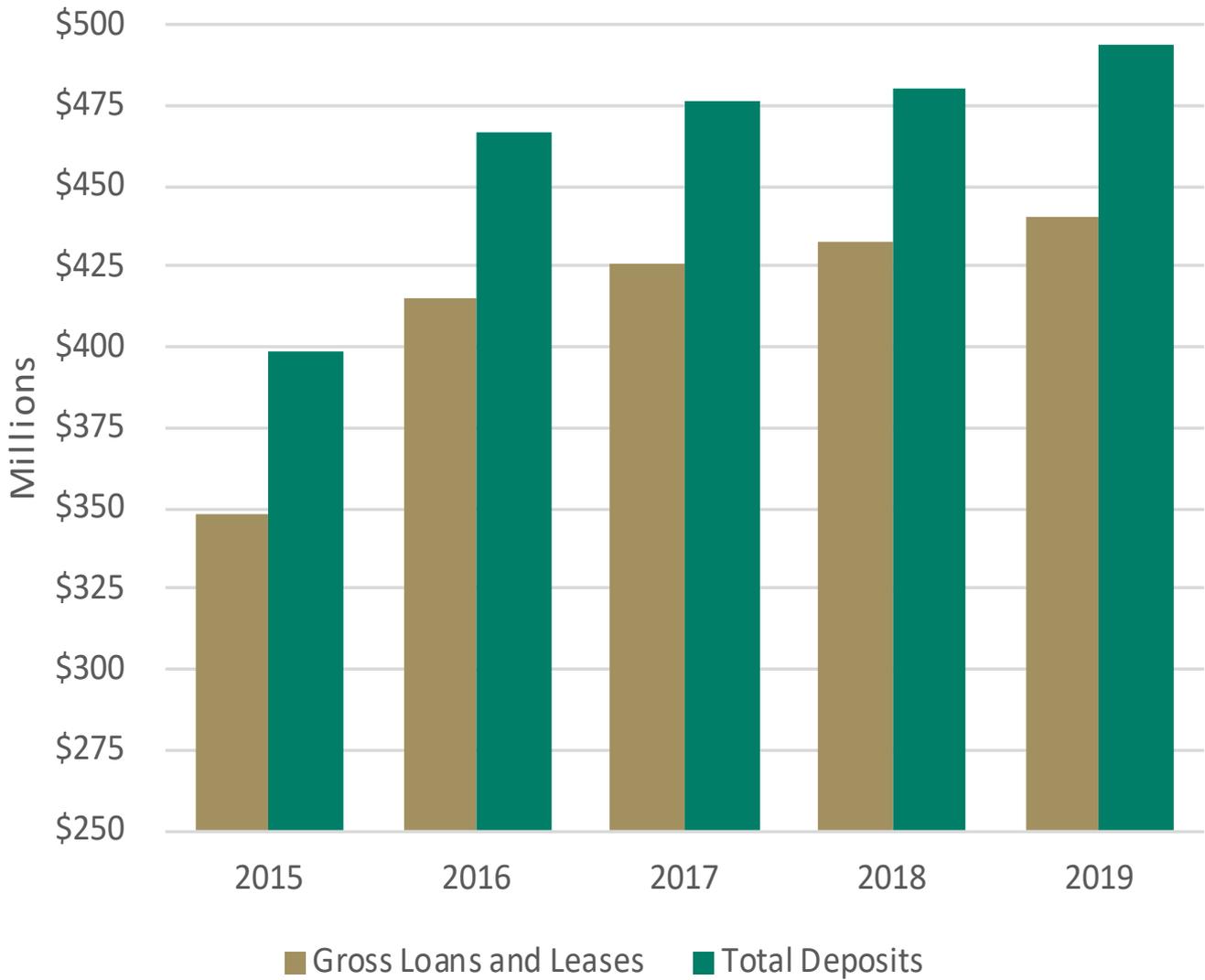
Looking forward to 2020, GRB will continue to focus on growing core deposits, building on the success of our residential mortgage banking group and providing capital to clients in our effort to continue Growing Rochester Business. One of GRB’s strengths is the diversity of its client base, spanning all business sectors from manufacturing and retail to professional services and franchises. Expect to see similar trends in GRB’s commercial banking activities in 2020 with a concentrated focus on attracting core deposit growth and focusing our prospecting efforts on firms that are slightly larger and more sophisticated than those targeted in recent years. In the coming year, GRB will also continue to invest in internal process improvements to position the bank for future growth, ensure that all customers receive a superior level of service, and capture additional efficiencies. GRB is well positioned to continue on a path of healthy growth in 2020.



Balance Sheet	2019	2018
Loans	\$440,140,201	\$433,031,991
Allowance for Loan Losses	(\$5,523,201)	(\$5,050,623)
Cash & Due from Banks	\$36,518,541	\$39,197,586
Investments	\$84,086,172	\$101,349,898
Other Assets	\$19,474,724	\$13,138,669
Total Assets	\$574,696,437	\$581,667,521

Deposits	\$494,056,459	\$480,238,650
Borrowings	\$24,985,600	\$54,971,200
Other Liabilities	\$2,921,147	\$3,040,743
Stockholder's equity	\$52,733,231	\$43,416,928
Total Equity/Liabilities	\$574,696,437	\$581,667,521

Key Performance Metrics	2019	2018
Return on Assets	1.38%	0.83%
Return on Equity	17.03%	10.97%
Efficiency Ratio	59.2%	63.8%
Earnings per Share	\$176.14	\$102.08
Bank Leverage Ratio	11.31%	10.37%



Loan and Deposit Growth

GRB continued to post loan growth as balances increased by 1.6% and reached more than \$440 million. Overall client deposits also grew by 2.9% to more than \$494 million.



Residential Mortgage Volume

Despite a slower Rochester area real estate market in 2019, GRB originated a record high \$240MM in mortgages that helped our clients buy the home of their dreams. We expect continued growth in 2020 with the addition of new mortgage loan officers and continued growth in the Syracuse market. GRB Mortgage was recognized by the Rochester Business Journal as the second largest residential mortgage lender in the region, by volume, the fourth consecutive year on this list.



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