



**GREATER
HUDSON BANK^{NA}**



2011 ANNUAL REPORT

GREATER HUDSON BANK, N.A.

FINANCIAL REPORT

DECEMBER 31, 2011 AND 2010

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To Our Shareholders:

We are pleased to share with you that your Bank has reported its third straight profitable year!

This was accomplished despite a difficult economic and regulatory environment that continues to affect how business is done by all sectors, not only the financial sector, and large and small companies alike. With all this in mind, Greater Hudson Bank, N.A. ("Greater Hudson Bank" or the "Bank") has worked hard to stay focused on improving the financial wellbeing and stability of the businesses and consumers in the Hudson Valley and we are proud to report that your Bank continues to remain strong and stable with opportunities for growth moving into the future. In summary, during 2011, Greater Hudson Bank's pre-tax operating income was \$4.2 million, an increase of \$2.4 million year over year. The Bank's loan portfolio increased 26.1 percent, total assets increased 16.2 percent, and total deposits rose 12.5 percent for the year and your Bank remains exceedingly well capitalized based on Federal regulatory requirements.

Greater Hudson Bank, with net income of \$2.6 million for 2011, has now reported its third consecutive profitable year. Our net income declined from 2010 to 2011 from \$4.01 million to \$2.6 million as a result of the reversal of the valuation allowance related to deferred tax assets in 2010; however, as stated above, on a pre-tax basis the Bank reported \$4.2 million of pre-tax operating income versus \$1.8 million last year. This represents a substantial increase of 133%.

From an operating perspective, 2011 was a record year for Greater Hudson Bank. The Bank's net interest income increased substantially from \$8.2 million to \$9.9 million which represents a 21% increase. On a pre-tax operating basis and before securities gains Greater Hudson reported operating income of \$3.7 million for the year ended December 31, 2011 compared with \$1.75 million for the year ended December 31, 2010. This represents an increase of 111 percent from 2010 pre-tax and pre-security gain operating income.

Net earnings per share declined from \$0.41 per share in 2010 to \$0.26 in 2011 and return on average common stockholders' equity was 7.45 percent for 2011 versus 13.34 percent for 2010.

Not only do our capital ratios exceed regulatory requirements but they exceed those of many of our peers.

Some of our impressive highlights from 2011 include:

- Total assets increased \$41.6 million or 16.2 percent to \$299.2 million at December 31, 2011 from \$257.5 million at December 31, 2010.
- Net interest income increased 21.2 percent or \$1.7 million to \$9.9 million for 2011 from \$8.2 million for 2010. Our net interest margin declined 13 basis points from 3.77 percent to 3.64 percent.
- The Bank's overall deposit base grew 12.5 percent to \$245.8 million at December 31, 2011 from \$218.4 million at December 31, 2010. The Bank's cost of funds continued to decline from 1.49 percent for 2010 to 1.24 percent for 2011. Demand deposit balances, a source of low cost funds for the Bank, grew over 30 percent for 2011.
- All four of our branches recorded very good growth. Based on data compiled annually as of June 30th each year by the FDIC, our deposits for our four branches at June 30, 2011 versus June 30, 2010 were as follows:

| | <u>June 30, 2011</u> | <u>June 30, 2010</u> |
|---------------|----------------------|----------------------|
| Middletown | \$ 80.6 million | \$76.4 million |
| Warwick | \$ 29.2 million | \$26.2 million |
| Bardonia | \$111.7 million | \$96.7 million |
| White Plains* | \$ 33.7 million | \$ 9.0 million |

*Note: Our White Plains branch opened in June, 2010.

- Total loans outstanding increased 26.0 percent to \$156.8 million at December 31, 2011. During 2011, the Bank's lending team closed approximately \$53.0 million in new loans and generated in excess of \$500 thousand in loan fees.
- Non-performing assets increased slightly from \$849 thousand at December 31, 2010 to \$910 thousand at December 31, 2011, however, the ratio of non-performing assets to total assets declined from 0.33 percent at year end 2010 to 0.30 percent at year end 2011. We believe this level of problem assets, in the context of our current economic environment, shows the strength of our credit quality and validates our strong emphasis on quality underwriting.
- Net charge-offs declined from \$321 thousand for 2010 to a net recovery of \$7 thousand for 2011. Non-performing loans increased slightly from \$522 thousand at December 31, 2010 to \$583 thousand at December 31, 2011.
- The Bank's efficiency ratio, the approximate measure of the cost required to generate a dollar of revenue, improved from 67 percent at December 31, 2010 to 59.8 percent at December 31, 2011.
- Non-interest expense increased approximately 8.3% or \$463 thousand to \$6.067 million from \$5.604 million, as management continued to keep a close eye on operating expenses.
- Investment securities increased by \$17.4 million or 15.4 percent to \$130.6 million at December 31, 2011 from \$113.2 million at December 31, 2010. The portfolio consists of all investment grade securities which are primarily government agencies and mortgage-backed securities.
- As a result of the Bank's success in leveraging its capital into earning assets and growing our balance sheet, the Bank's Tier 1 Capital ratio declined from 12.56 percent at December 31, 2010 to 11.93 percent at December 31, 2011; however, the Bank remains exceedingly well capitalized.
- The Bank's book value per common share has increased from \$2.84 per share at December 31, 2008 to \$3.66 per share at December 31, 2011 which represents an increase of 29%. For 2011, book value per share increased \$0.36 or 11%.
- For the second year in a row the Bank has received BauerFinancial's highest rating of five stars. This national recognition reaffirms Greater Hudson Bank's reputation as a sound financial institution.

We believe that our strategy of seeking profitable growth on an individual relationship basis while maintaining credit quality and a strong balance sheet is the key to building long term shareholder value.

The Bank has grown significantly in the past three years, which is evidence that there is clearly a need for a bank like ours. One-on-one banking relationships and involvement in the community consistently define your company. Our customers have come to realize that not all banks are the same and that larger doesn't necessarily mean better. We look at customers as individuals and not just part of a business line or industry. In addition, while larger banks focus on business lines that do not represent traditional banking, a community bank like Greater Hudson Bank operates in a very straightforward manner. We bring in deposits, we pay interest to our savers, and we utilize these funds to provide loans to local businesses, property owners and consumers. On one particular day we might be financing the construction of a new home for a family relocating to this area, while on another we might be helping a company expand with the purchase of new equipment or the financing of its inventory purchases.

We are committed to the Hudson Valley. We have been able to lend to many small and medium size businesses as many of them have chosen a bank whose focus remains on the Hudson Valley. Our lending supports the growth and development of local businesses and its residents, as well as, our Company. Our focus remains this region as our success is tied to our region's success and the many businesses and consumers that call the Hudson Valley their home.

In addition to helping the Hudson Valley prosper by providing much needed credit to local businesses, our growth has enabled us to add more than 30 new jobs in our region over the last three plus years. Growing from just 16 employees in 2008, we now have 48 employees and expect to create more jobs this year as we continue to grow and expand.

As result of our success and our desire to help those in need, Greater Hudson Bank is an organization that is active in the community, supports its employee volunteer efforts and provides financial support to many local non-for-profit organizations. Our employees, along with the bank's management, are dedicated to giving back to our local communities by volunteering and making contributions to charitable organizations. Many of the Bank's employees are involved with and sit on the Boards of various not-for-profit entities located in the Hudson Valley. This is a very important aspect of who we are and what we represent as a community bank, and I thank all of our employees that volunteer their time in this manner.

We continue to look for strategic additions to our branch network when we feel it will allow us to better serve our customer base. Such an opportunity presented itself at the end of last year when another financial institution closed one of its existing Orange County branch locations. Subsequent to year end, we received regulatory approval to open a new full service branch to be located at 360 Route 17M, Monroe, NY - our third branch in Orange County and our fifth overall. We expect this location to open in the spring of 2012 and believe it will not only enhance our footprint, but allow us to better service the south eastern part of Orange County. It will also fill an important geographic need for us to bridge the gap between our Rockland County location in Bardonia and our two other Orange County locations in Middletown and Warwick. We have formed an experienced commercial banking team for this important new location.

We are constantly working to try and improve your company and this past year was no exception as we accomplished several notable achievements. Improvements in technology and additional product offerings have been front and center regarding these efforts this past year.

Investments in our technological capabilities over the last year have included a completely re-designed website with additional online banking features including extended history, person to person payment, upgraded bill pay services and ACH functionality. These new capabilities allow us to compete with most any bank in our marketplace, both large and small. We are excited to roll out new features such as mobile banking capabilities, automatic email alerts on transactions and electronic statements which will all be great benefits to our customer base throughout the coming year.

With regard to new product offerings, subsequent to year end, the Bank embarked on a Greater Hudson Bank branded credit card. The credit card program, offered through the Independent Community Bankers Association TCM Bank Card Program, provides the Bank with the ability to generate fee income without taking on the credit risk. In addition, we are moving ahead with our initiative to provide residential mortgages in our market area and hope to have this initiative up and running in the second quarter. Given the many regulatory changes related to residential mortgages we are taking a very careful approach to entering this market.

Serving as President and CEO of a successful company, I am often complimented for the many accomplishments of our Bank. The fact is, however, our success is based on having an extremely dedicated Chairman, a management team that is driven to succeed, a very active and committed Board and a staff that is very hard working.

Our Chairman, Kenneth J. Torsoe, continues to be the driving force behind the success of Greater Hudson Bank. It continues to be his desire, which is shared by the entire Greater Hudson Bank team, to create a strong locally based community bank that is committed to the success of the Hudson Valley as well as, the Bank. He has assembled an experienced and dedicated banking team to carry out this mission. Speaking for everyone at Greater Hudson Bank, we sincerely thank Chairman Torsoe for his leadership, dedication and passion. We all look forward to many years of his continued leadership and support as we build Greater Hudson Bank into the bank of choice in the Hudson Valley.

Members of our senior management team, Lynne Allan, Chief Operating Officer, Tom Cornelius, Chief Financial Officer, Greg Monteith, Chief Lending Officer and Basel Rabie, Branch Administrator deserve acknowledgment for their outstanding work as well as the efforts of their teams towards the Bank's overall success. These individuals, along with their staff members, continue to execute on our business plan to enable the Bank to meet its goals and achieve the successes reported on. Their dedication to the Bank in addition to their work ethic and level of professionalism is an example for all to follow.

We also appreciate and wish to give special recognition to all of our employees. They are the ones that are truly on the front lines everyday taking care of our customers' needs and seeing to it that we exceed our customers' expectations. I personally thank each and every one of them for all of their efforts.

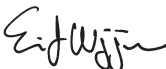
Finally, we would not be where we are today as a bank without our customers. We know that our customers have a choice of who they bank with and we thank each of them for continuing to choose Greater Hudson Bank. Our commitment to personalized service and relationship banking along with investments in technology and our new product offerings will help us further differentiate ourselves in the market and make Greater Hudson Bank the bank of choice.

We remain very optimistic about the opportunities available to us as a locally focused community bank. Our Chairman, our Board, our senior management team and all of our employees believe in a bank that provides highly personalized, friendly and responsive service. At Greater Hudson Bank, we strive to deliver this kind of service and to exceed our customer's expectations on a daily basis. In so doing, we believe we will become the bank of choice in the Hudson Valley.

This letter is intended to be an overview of the Bank. Included with this letter is our Annual Report, which provides more detailed financial information on the performance of your Bank.

Thank you for your continued trust, confidence and support. The board of directors, officers and employees of Greater Hudson Bank look forward to continued success in 2012 and beyond.

Expect Greater Things.



Eric J. Wiggins
President and CEO

REPORT OF INDEPENDENT AUDITORS

Board of Directors and Shareholders
Greater Hudson Bank, N.A.
Middletown, New York

We have audited the accompanying statements of financial condition of Greater Hudson Bank, N.A. as of December 31, 2011 and 2010, and the related statements of operations, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Greater Hudson Bank, N.A.'s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Greater Hudson Bank, N.A. as of December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.



Crowe Horwath LLP

Livingston, New Jersey
April 16, 2012

GREATER HUDSON BANK, N.A.
STATEMENTS OF FINANCIAL CONDITION
December 31, 2011 and 2010
(Dollar amounts in thousands, except per share data)

| | <u>2011</u> | <u>2010</u> |
|--|-------------------|-------------------|
| ASSETS | | |
| Cash and due from banks | \$ 6,005 | \$ 12,450 |
| Federal funds sold | 64 | 1,675 |
| Cash and cash equivalents | 6,069 | 14,125 |
| Securities available for sale | 113,800 | 97,988 |
| Securities held to maturity (fair value of \$17,144 in 2011; \$15,991 in 2010) | 16,845 | 15,217 |
| Loans receivable, net of allowance for loan losses of \$2,148 in 2011 and \$1,737 in 2010 | 154,682 | 122,627 |
| Premises and equipment | 1,102 | 1,143 |
| Restricted investments in Bank stock | 1,908 | 1,240 |
| Accrued interest receivable | 1,210 | 1,090 |
| Other assets | 3,569 | 4,116 |
| Total Assets | \$ 299,185 | \$ 257,546 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Deposits: | | |
| Non-interest bearing | \$ 20,208 | \$ 14,480 |
| Interest bearing | 225,603 | 203,932 |
| Total deposits | 245,811 | 218,412 |
| Securities sold under agreements to repurchase | 5,000 | 5,000 |
| Federal Home Loan Bank advances | 10,000 | - |
| Other liabilities | 1,740 | 1,138 |
| Total Liabilities | 262,551 | 224,550 |
| Shareholders' Equity | | |
| Common stock, \$0.01 par value 20,000,000 shares authorized; 10,016,675 shares issued and 10,000,000 shares outstanding in 2011; 10,000,000 shares issued and outstanding in 2010 | 100 | 100 |
| Additional paid-in capital | 37,525 | 37,510 |
| Accumulated deficit | (1,481) | (4,063) |
| Treasury stock at cost, 16,675 shares as of 2011; 0 shares as of 2010 | (78) | - |
| Accumulated other comprehensive income (loss) | 568 | (551) |
| Total Shareholders' Equity | 36,634 | 32,996 |
| Total Liabilities and Shareholders' Equity | \$ 299,185 | \$ 257,546 |

See accompanying notes to financial statements.

GREATER HUDSON BANK, N.A.
STATEMENTS OF OPERATIONS
Years ended December 31, 2011 and 2010
(Dollar amounts in thousands, except per share data)

| | <u>2011</u> | <u>2010</u> |
|--|------------------------|------------------------|
| Interest income | | |
| Loans receivable, including fees | \$ 9,436 | \$ 7,814 |
| Securities | 3,652 | 3,370 |
| Federal funds sold and dividend income | <u>2</u> | <u>9</u> |
| Total Interest Income | <u>13,090</u> | <u>11,193</u> |
| Interest expense | | |
| Deposits | 2,856 | 2,792 |
| Federal Home Loan Bank advances | 96 | - |
| Securities sold under agreements to repurchase | <u>205</u> | <u>205</u> |
| Total Interest Expense | <u>3,157</u> | <u>2,997</u> |
| Net interest income | 9,933 | 8,196 |
| Provision for loan losses | <u>404</u> | <u>1,007</u> |
| Net interest income after provision for loan losses | 9,529 | 7,189 |
| Non-interest income | | |
| Service charges on deposit accounts | 95 | 84 |
| Other income | 121 | 86 |
| Net gains on securities transactions | <u>528</u> | <u>61</u> |
| Total Non-Interest Income | <u>744</u> | <u>231</u> |
| Non-interest expense | | |
| Salaries and employee benefits | 2,986 | 2,542 |
| Occupancy and equipment | 1,079 | 1,046 |
| Advertising, marketing and business development | 389 | 258 |
| Data processing expenses | 322 | 273 |
| Professional fees | 327 | 247 |
| Federal Deposit Insurance Corporation ("FDIC") | 204 | 270 |
| Other non-interest expenses | <u>760</u> | <u>968</u> |
| Total Other Expenses | <u>6,067</u> | <u>5,604</u> |
| Income Before Tax Expense | 4,206 | 1,816 |
| Income Tax Expense (Benefit) | <u>1,624</u> | <u>(2,241)</u> |
| Net Income | <u>\$ 2,582</u> | <u>\$ 4,057</u> |

See accompanying notes to financial statements.

GREATER HUDSON BANK, N.A.
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
Years ended December 31, 2011 and 2010
(Dollar amounts in thousands, except per share data)

| | <u>Common Stock</u> | <u>Additional Paid-In Capital</u> | <u>Accumulated Income (Deficit)</u> | <u>Accumulated Other Comprehensive Loss</u> | <u>Treasury Stock</u> | <u>Total</u> |
|---|-------------------------|---|---|---|---------------------------|-------------------------|
| Balance at January 1, 2010 | \$ 100 | \$ 37,498 | \$ (8,120) | \$ (861) | \$ - | \$ 28,617 |
| Comprehensive income | | | | | | |
| Net income | - | - | 4,057 | - | - | 4,057 |
| Unrealized loss on securities available for sale, net of reclassification effects of \$61 and taxes of \$368 | - | - | - | 310 | - | <u>310</u> |
| Total comprehensive income | | | | | | <u>4,367</u> |
| Stock based compensation expense | <u>-</u> | <u>12</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>12</u> |
| Balance at December 31, 2010 | 100 | 37,510 | (4,063) | (551) | - | 32,996 |
| Comprehensive income | | | | | | |
| Net income | - | - | 2,582 | - | - | 2,582 |
| Unrealized loss on securities available for sale, net of reclassification effects of \$528 and taxes of \$379 | - | - | - | 1,119 | - | <u>1,119</u> |
| Total comprehensive income | | | | | | <u>3,701</u> |
| Purchase of treasury shares | - | - | - | - | (78) | (78) |
| Stock based compensation expense | <u>-</u> | <u>15</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>15</u> |
| Balance at December 31, 2011 | <u>\$ 100</u> | <u>\$ 37,525</u> | <u>\$ (1,481)</u> | <u>\$ 568</u> | <u>\$ (78)</u> | <u>\$ 36,634</u> |

See accompanying notes to financial statements.

GREATER HUDSON BANK, N.A.

STATEMENTS OF CASH FLOWS

Years ended December 31, 2011 and 2010

(Dollar amounts in thousands, except per share data)

| | <u>2011</u> | <u>2010</u> |
|--|------------------------|-------------------------|
| Cash flows from operating activities | | |
| Net income | \$ 2,582 | \$ 4,057 |
| Adjustments to reconcile net income to net cash used in operating activities | | |
| Provision for loan losses | 404 | 1,007 |
| Provision for depreciation and amortization | 229 | 190 |
| Net amortization of securities, premiums and discounts | 276 | 773 |
| Deferred income taxes | 73 | (2,614) |
| Net realized gain on sale of securities | (528) | (61) |
| Increase in accrued interest receivable and other assets | (393) | (16) |
| Increase in accrued interest payable and other liabilities | 602 | 444 |
| Stock compensation expense | 15 | 12 |
| | <u>3,260</u> | <u>3,792</u> |
| Net cash provided by operating activities | | |
| | <u>3,260</u> | <u>3,792</u> |
| Cash flows from investing activities | | |
| Purchases of securities available for sale | (105,098) | (144,657) |
| Purchases of securities held to maturity | (1,512) | (6,000) |
| Calls, maturities and principal repayments on securities available for sale | 75,041 | 88,260 |
| Proceeds from sales of securities available for sale | 16,247 | 12,509 |
| Net increase in loans | (32,459) | (26,922) |
| Increase in purchased loans | - | (7,632) |
| Purchases of premises and equipment | (188) | (479) |
| Purchases of restricted bank stock | (668) | (275) |
| Proceeds from sale foreclosed real estate | - | 419 |
| | <u>(48,637)</u> | <u>(84,777)</u> |
| Net cash used in investing activities | | |
| | <u>(48,637)</u> | <u>(84,777)</u> |
| Cash flows from financing activities | | |
| Net increase in deposits | 27,399 | 80,152 |
| Proceeds from Federal Home Loan Bank of New York advances | 10,000 | - |
| Purchase of treasury shares | (78) | - |
| | <u>37,321</u> | <u>80,152</u> |
| Net cash provided by financing activities | | |
| | <u>37,321</u> | <u>80,152</u> |
| Net decrease in cash and cash equivalents | (8,056) | (833) |
| Beginning cash and cash equivalents | <u>14,125</u> | <u>14,958</u> |
| Ending cash and cash equivalents | <u>\$ 6,069</u> | <u>\$ 14,125</u> |
| Supplemental cash flow information: | | |
| Interest paid | \$ 3,089 | \$ 2,841 |
| Taxes paid | 1,495 | 160 |
| Other real estate owned ("OREO") transfers | - | 327 |

See accompanying notes to financial statements.

GREATER HUDSON BANK, N.A.
NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2011 and 2010

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Operations: Greater Hudson Bank, N.A. (the "Bank"), formerly Community Bank of Orange, N.A., is a full service commercial national bank chartered under the laws of the United States. 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 national banks. The Bank's deposits are insured by the Federal Deposit Insurance Corporation ("FDIC") and it is subject to regulation, supervision and examination by the Office of the Comptroller of the Currency ("OCC") and the FDIC.

Subsequent Events: The Bank has evaluated subsequent events for recognition and disclosure through April 16, 2012, which is the date the financial statements were available to be issued.

Change in Control and Recapitalization: On October 6, 2008, 78% of the common stock of the Bank was acquired by an investor group for \$23.4 million in a cash transaction, and the name of the Bank changed from Community Bank of Orange, N.A. to Greater Hudson Bank, N.A. As a part of the change in control, additional capital was injected into the Bank and 7,814,039 new shares were issued.

Use of Estimates: The preparation of financial statements in conformity with 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.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for losses on loans, the determination of the valuation allowance on deferred tax assets, and the fair value of financial instruments.

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.

Significant Group Concentrations of Credit Risk: Most of the Bank's activities are with customers located within Hudson Valley, New York, and surrounding 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. 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.

(Continued)

GREATER HUDSON BANK, N.A.
NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2011 and 2010

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Securities: Debt securities are classified as held to maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. 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.

Fair Value of Financial Instruments: Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. 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.

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 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 non-accrual 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.

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.

(Continued)

GREATER HUDSON BANK, N.A.
NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2011 and 2010

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Because of these factors, it is reasonably possible that the allowance for losses on loans may change materially in the near term.

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 Bank utilizes qualitative adjustments to the allowance for loan losses analysis within parameters. The qualitative adjustments are based on the factors below. 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.

Each of the factors below could be adjusted by as much as 75 basis points in either direction (positive or negative) for each loan type pool. This matrix considers the following eleven factors, which are patterned after the guidelines provided under the FFIEC Interagency Policy Statement on the Allowance for Loan and Lease Losses:

- 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, non-accrual 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.

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, 2011, 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, 2011, is presented in the recorded investment in nonaccrual loans table, which is presented in footnote 3.

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.

(Continued)

GREATER HUDSON BANK, N.A.
NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2011 and 2010

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Commercial business 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. Loans secured by multi-family residential mortgages 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 multi-family 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.

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.

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.

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. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual consumer and residential loans for impairment disclosures. 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.

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.

(Continued)

GREATER HUDSON BANK, N.A.
NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2011 and 2010

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted Investments in Bank Stock: Restricted investments in bank stock include Federal Reserve Bank (the "FRB"), the Federal Home Loan Bank of New York (the "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 FRB and 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.

Advertising, Marketing and Business Development Costs: Advertising, marketing and business development costs are charged to operations in the year incurred. Advertising expense was approximately \$389,000 and \$258,000 for the years ended December 31, 2011 and 2010, respectively.

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.

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.

Comprehensive Income (Loss): 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 (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 (loss).

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.

(Continued)

GREATER HUDSON BANK, N.A.
NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2011 and 2010

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of New Accounting Standards:

In April 2011, the Financial Accounting Standards Board (“FASB”) amended existing guidance for assisting a creditor in determining whether a restructuring is a troubled debt restructuring. The amendments clarify the guidance for a creditor’s evaluation of whether it has granted a concession and whether a debtor is experiencing financial difficulties. With regard to determining whether a concession has been granted, the Accounting Standards Update (“ASU”) clarifies that creditors are precluded from using the effective interest method to determine whether a concession has been granted. In the absence of using the effective interest method, a creditor must now focus on other considerations such as the value of the underlying collateral, evaluation of other collateral or guarantees, the debtor’s ability to access other funds at market rates, interest rate increases and whether the restructuring results in a delay in payment that is insignificant. This guidance is effective for interim and annual reporting periods beginning after June 15, 2011, and is applied retrospectively to the beginning of the annual period of adoption. For purposes of measuring impairment on newly identified troubled debt restructurings, the amendments are applied prospectively for the first interim or annual period beginning on or after June 15, 2011. The adoption of this standard did not have a material effect on the Bank’s operating results or financial condition.

In May 2011, the FASB issued an amendment to achieve common fair value measurement and disclosure requirements between U.S. and international accounting principles. Overall, the guidance is consistent with existing U.S. accounting principles; however, there are some amendments that change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. The amendments in this guidance are effective for interim and annual reporting periods beginning after December 15, 2011. The adoption of this standard will not have a material effect on the Bank’s operating results or financial condition.

In July 2010, the FASB issued ASU No. 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*. This ASU requires significantly more information about credit quality in a financial institution’s portfolio and the allowance for credit losses. The disclosure requirements are effective for interim and annual reporting periods ending on or after December 15, 2011. Required disclosures were adopted by the Bank at the end of December 31, 2010. The adoption of this standard did not a material effect on the Bank’s operating results or financial condition.

NOTE 2 - SECURITIES

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

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---------------------------|---------------------------------------|--|--------------------------|
| <u>December 31, 2011</u> | | | | |
| U.S. Government agencies securities | \$ 48,303 | \$ 200 | \$ (21) | \$ 48,482 |
| Corporate securities | 1,978 | - | (128) | 1,850 |
| Obligations of states and political subdivisions | 13,631 | 394 | (1) | 14,024 |
| Mortgage-backed securities – residential | 35,144 | 578 | (6) | 35,716 |
| Collateralized mortgage obligations – residential | <u>13,798</u> | <u>17</u> | <u>(87)</u> | <u>13,728</u> |
| | <u>\$ 112,854</u> | <u>\$ 1,189</u> | <u>\$ (243)</u> | <u>\$ 113,800</u> |

(Continued)

GREATER HUDSON BANK, N.A.
NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2011 and 2010

NOTE 2 – SECURITIES (Continued)

| | <u>Amortized Cost</u> | <u>Gross Unrealized Gains</u> | <u>Gross Unrealized Losses</u> | <u>Fair Value</u> |
|--|---------------------------|---------------------------------------|--|-----------------------|
| <u>December 31, 2010</u> | | | | |
| U.S. Government agencies securities | \$ 61,414 | \$ 257 | \$ (744) | \$ 60,927 |
| Corporate securities | 1,000 | - | (21) | 979 |
| Mortgage-backed securities – residential | 31,953 | 65 | (436) | 31,582 |
| Collateralized mortgage obligations – residential | 4,108 | 12 | (52) | 4,068 |
| Money market funds | 432 | - | - | 432 |
| | <u>\$ 98,907</u> | <u>\$ 334</u> | <u>\$ (1,253)</u> | <u>\$ 97,988</u> |

The carrying amount, unrecognized gains and losses, and fair value of securities held to maturity were as follows (in thousands):

| | <u>Amortized Cost</u> | <u>Gross Unrecognized Gains</u> | <u>Gross Unrecognized Losses</u> | <u>Fair Value</u> |
|---------------------------------|---------------------------|---|--|-----------------------|
| <u>December 31, 2011</u> | | | | |
| Corporate bonds | \$ 16,845 | \$ 563 | \$ (264) | \$ 17,144 |
| <u>December 31, 2010</u> | | | | |
| Corporate bonds | \$ 15,217 | \$ 899 | \$ (125) | \$ 15,991 |

At December 31, 2011 and 2010, securities with amortized cost of \$65,319,000 and \$45,497,000 and fair values of \$65,872,000 and \$45,348,000, respectively, were pledged to secure public funds on deposit and borrowings at PNC Bank and advances from the Federal Home Loan Bank of New York.

During the year ended December 31, 2011, the Bank sold seventeen available for sale securities with gross proceeds \$16,247,000 for a gain of \$528,000. No securities were sold at a loss during the year ended December 31, 2011. During the year ended December 31, 2010, the Bank sold fifteen available for sale securities with gross proceeds of \$9,668,000 for a gain of \$67,000 and one available for sale securities with gross proceeds of \$982,000 at a loss of \$6,000.

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> |
| <u>December 31, 2011</u> | | | | | | |
| U.S. Government agencies securities | \$ 6,052 | \$ (17) | \$ 996 | \$ (4) | \$ 7,048 | \$ (21) |
| Corporate securities | 978 | - | 873 | (128) | 1,851 | (128) |
| Obligations of states and political subdivisions | 657 | (1) | - | - | 657 | (1) |
| Mortgage-backed securities – residential | 1,888 | (6) | - | - | 1,888 | (6) |
| Collateralized mortgage obligations – residential | 7,941 | (79) | 260 | (8) | 8,201 | (87) |
| | <u>\$ 17,516</u> | <u>\$ (103)</u> | <u>\$ 2,129</u> | <u>\$ (140)</u> | <u>\$ 19,645</u> | <u>\$ (243)</u> |

(Continued)

GREATER HUDSON BANK, N.A.
NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2011 and 2010

NOTE 2 – SECURITIES (Continued)

| | <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, 2010 | | | | | | |
| U.S. Government agencies securities | \$ 29,172 | \$ (744) | \$ - | \$ - | \$ 29,172 | \$ (744) |
| Corporate securities | 979 | (21) | - | - | 979 | (21) |
| Mortgage-backed securities – residential | 24,932 | (436) | - | - | 24,932 | (436) |
| Collateralized mortgage obligations – residential | <u>1,764</u> | <u>(6)</u> | <u>524</u> | <u>(46)</u> | <u>2,288</u> | <u>(52)</u> |
| | <u>\$ 56,847</u> | <u>\$ (1,207)</u> | <u>\$ 524</u> | <u>\$ (46)</u> | <u>\$ 57,371</u> | <u>\$ (1,253)</u> |

As of December 31, 2011, there were five held to maturity corporate securities with combined unrecognized losses of \$132,500 for less than twelve months and two held to maturity securities with unrecognized losses of \$132,000 for greater than twelve months. As of December 31, 2010, there were two held to maturity corporate securities with combined unrealized losses of \$124,900 for less than twelve months and no held to maturity securities with unrealized losses greater than twelve months.

At December 31, 2011, unrealized losses involved seven U.S. Government agencies securities, seven corporate securities, two mortgage-backed securities, eleven collateralized mortgage obligations, one obligation of state and political subdivisions, and two corporate securities. Management does not believe that any individual unrealized loss represents an other-than-temporary impairment (“OTTI”). 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. For equity securities, the entire amount of impairment is recognized through earnings.

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 or it is not more likely than not that management would be required to sell the securities prior to their anticipated recovery and the decline in fair value is largely due to changes in interest rates and other market conditions.

(Continued)

GREATER HUDSON BANK, N.A.
NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2011 and 2010

NOTE 2 – SECURITIES (Continued)

The amortized cost and fair value of the Bank's securities available for sale at December 31, 2011, by contractual maturity are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay with or without penalties.

| | <u>December 31, 2011</u> | |
|---|---------------------------|--------------------------|
| | <u>Amortized Cost</u> | <u>Fair Value</u> |
| One year or less | \$ 3,981 | \$ 3,986 |
| Over one year through five years | 42,204 | 42,386 |
| Over five years through ten years | 9,771 | 9,921 |
| Over ten years | 7,956 | 8,064 |
| Mortgage-backed securities – residential | 35,144 | 35,716 |
| Collateralized mortgage obligations – residential | <u>13,798</u> | <u>13,727</u> |
| | <u>\$ 112,854</u> | <u>\$ 113,800</u> |

The amortized cost and fair value of the Bank's securities held to maturity at December 31, 2011, by contractual maturity are shown below (in thousand). Expected maturities will differ from contractual maturities because issues may have the right to call or prepay with or without penalties.

| | <u>December 31, 2011</u> | |
|-----------------------------------|---------------------------|-------------------------|
| | <u>Amortized Cost</u> | <u>Fair Value</u> |
| One year or less | \$ 2,993 | \$ 3,007 |
| Over one year through five years | 10,852 | 11,324 |
| Over five years through ten years | 1,000 | 945 |
| Over ten years | <u>2,000</u> | <u>1,868</u> |
| | <u>\$ 16,845</u> | <u>\$ 17,144</u> |

NOTE 3 - LOANS

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

| | <u>December 31,</u> | |
|--|--------------------------|--------------------------|
| | <u>2011</u> | <u>2010</u> |
| Real estate | | |
| Commercial | \$ 89,112 | \$ 73,280 |
| Land acquisition | 12,963 | 11,536 |
| Construction | 11,088 | 8,885 |
| Home equity | 3,951 | 3,742 |
| One-to-four family residential / multifamily | 5,637 | 5,299 |
| Commercial | 34,868 | 22,451 |
| Consumer | <u>100</u> | <u>182</u> |
| Total | 157,719 | 125,375 |
| Allowance for loan losses | (2,148) | (1,737) |
| Loans in process | (1) | (66) |
| Deferred loan fees and costs, net | <u>(888)</u> | <u>(945)</u> |
| Loans, net | <u>\$ 154,682</u> | <u>\$ 122,627</u> |

(Continued)

GREATER HUDSON BANK, N.A.
NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2011 and 2010

NOTE 3 – LOANS (Continued)

Activity in the allowance for loan losses for years ended December 31, 2011 and 2010, was as follows:

| | <u>2011</u> | <u>2010</u> |
|---------------------------------|------------------------|------------------------|
| Beginning balance | \$ 1,737 | \$ 1,051 |
| Provisions for loan losses | 404 | 1,007 |
| Recoveries of charged off loans | 52 | 71 |
| Loans charged off | <u>(45)</u> | <u>(392)</u> |
| Ending balance | <u>\$ 2,148</u> | <u>\$ 1,737</u> |

The following tables present the activity in the allowance for loan losses by portfolio segment for the year ending December 31, 2011 (in thousands):

| | <u>Commercial</u> | Commercial Real Estate | Residential/ Multifamily Real Estate | Construction/ Development | <u>Consumer</u> | <u>Total</u> |
|---------------------------------------|----------------------|------------------------------|---|------------------------------|--------------------|------------------------|
| <u>December 31, 2011</u> | | | | | | |
| Allowance for loan losses: | | | | | | |
| Beginning balance | \$ 366 | \$ 857 | \$ 77 | \$ 436 | \$ 1 | \$ 1,737 |
| Provision for loan losses | 28 | (8) | 19 | 359 | 6 | 404 |
| Loans charged-off | - | - | (40) | - | (5) | (45) |
| Recoveries | <u>29</u> | <u>23</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>52</u> |
| Total ending allowance balance | <u>\$ 423</u> | <u>\$ 872</u> | <u>\$ 56</u> | <u>\$ 795</u> | <u>\$ 2</u> | <u>\$ 2,148</u> |

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, 2011 and 2010 (in thousands):

| | <u>Commercial</u> | Commercial Real Estate | Residential/ Multifamily Real Estate | Construction/ Development | <u>Consumer</u> | <u>Total</u> |
|---|-------------------------|------------------------------|---|------------------------------|----------------------|--------------------------|
| <u>December 31, 2011</u> | | | | | | |
| Allowance for loan losses: | | | | | | |
| Ending allowance balance attributable to loans: | | | | | | |
| Individually evaluated for impairment | \$ - | \$ 35 | \$ - | \$ 167 | \$ - | \$ 202 |
| Collectively evaluated for impairment | <u>423</u> | <u>837</u> | <u>56</u> | <u>628</u> | <u>2</u> | <u>1,946</u> |
| Total ending allowance balance | <u>\$ 423</u> | <u>\$ 872</u> | <u>\$ 56</u> | <u>\$ 795</u> | <u>\$ 2</u> | <u>\$ 2,148</u> |
| Loans: | | | | | | |
| Loans individually evaluated for impairment | \$ 95 | \$ 358 | \$ 130 | \$ 936 | \$ - | \$ 1,519 |
| Loans collectively evaluated for impairment | <u>34,773</u> | <u>88,754</u> | <u>9,458</u> | <u>23,115</u> | <u>100</u> | <u>156,200</u> |
| Total ending loans balance | <u>\$ 34,868</u> | <u>\$ 89,112</u> | <u>\$ 9,588</u> | <u>\$ 24,051</u> | <u>\$ 100</u> | <u>\$ 157,719</u> |

(Continued)

GREATER HUDSON BANK, N.A.
NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2011 and 2010

NOTE 3 – LOANS (Continued)

| | <u>Commercial</u> | <u>Commercial Real Estate</u> | <u>Residential/ Multifamily Real Estate</u> | <u>Construction/ Development</u> | <u>Consumer</u> | <u>Total</u> |
|---|-------------------------|---------------------------------------|---|--------------------------------------|----------------------|--------------------------|
| December 31, 2010 | | | | | | |
| Allowance for loan losses: | | | | | | |
| Ending allowance balance attributable to loans: | | | | | | |
| Individually evaluated for impairment | \$ 1 | \$ - | \$ - | \$ 179 | \$ - | \$ 180 |
| Collectively evaluated for impairment | <u>365</u> | <u>857</u> | <u>77</u> | <u>257</u> | <u>1</u> | <u>1,557</u> |
| Total ending allowance balance | <u>\$ 366</u> | <u>\$ 857</u> | <u>\$ 77</u> | <u>\$ 436</u> | <u>\$ 1</u> | <u>\$ 1,737</u> |
| Loans: | | | | | | |
| Loans individually evaluated for impairment | \$ 2 | \$ 333 | \$ - | \$ 1,137 | \$ - | \$ 1,472 |
| Loans collectively evaluated for impairment | <u>22,449</u> | <u>72,947</u> | <u>9,041</u> | <u>19,284</u> | <u>182</u> | <u>123,903</u> |
| Total ending loans balance | <u>\$ 22,451</u> | <u>\$ 73,280</u> | <u>\$ 9,041</u> | <u>\$ 20,421</u> | <u>\$ 182</u> | <u>\$ 125,375</u> |

The following table presents information related to impaired loans by class of loans as of and for the years ended December 31, 2011 and 2010 (in thousands):

| | <u>Unpaid Principal Balance</u> | <u>Recorded Investment</u> | <u>Allowance for Loan Losses Allocated</u> |
|------------------------------------|---|--------------------------------|--|
| December 31, 2011 | | | |
| With no related allowance recorded | | | |
| Real estate | | | |
| Commercial | \$ 310 | \$ 310 | \$ - |
| Construction | - | - | - |
| Residential | 170 | 130 | - |
| Commercial | 95 | 95 | - |
| With an allowance recorded | | | |
| Real estate | | | |
| Commercial | 48 | 48 | 35 |
| Construction | 936 | 936 | 167 |
| Residential | - | - | - |
| Commercial | <u>-</u> | <u>-</u> | <u>-</u> |
| Total | <u>\$ 1,559</u> | <u>\$ 1,519</u> | <u>\$ 202</u> |

(Continued)

GREATER HUDSON BANK, N.A.
NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2011 and 2010

NOTE 3 – LOANS (Continued)

| | <u>Unpaid Principal Balance</u> | <u>Recorded Investment</u> | <u>Allowance for Loan Losses Allocated</u> |
|------------------------------------|---|--------------------------------|--|
| December 31, 2010 | | | |
| With no related allowance recorded | | | |
| Real estate | | | |
| Commercial | \$ 333 | \$ 333 | \$ - |
| Construction | 185 | 185 | - |
| Residential | - | - | - |
| Commercial | - | - | - |
| With an allowance recorded | | | |
| Real estate | | | |
| Commercial | - | - | - |
| Construction | 952 | 952 | 179 |
| Residential | - | - | - |
| Commercial | <u>25</u> | <u>2</u> | <u>1</u> |
| Total | <u>\$ 1,495</u> | <u>\$ 1,472</u> | <u>\$ 180</u> |

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 following tables present the recorded investment in nonaccrual loans by class of loans as of December 31, 2011 and 2010 (in thousands):

| | <u>Nonaccrual</u> | |
|--------------|----------------------|----------------------|
| | <u>2011</u> | <u>2010</u> |
| Real estate | | |
| Commercial | \$ 358 | \$ 333 |
| Construction | - | 185 |
| Residential | 130 | - |
| Commercial | 95 | 2 |
| Consumer | <u>-</u> | <u>-</u> |
| Total | <u>\$ 583</u> | <u>\$ 520</u> |

There were no loans past due over 90 days still on accrual for the years ended December 31, 2011 and 2010.

During the year ended December 31, 2011 and 2010, the average investment in impaired loans was \$1,570,000 and \$1,358,000, respectively. During the year ended December 31, 2011 and 2010, the interest collected on these loans was approximately \$76,000 and \$86,000, respectively, all on a cash basis. No additional funds are committed to be advanced on impaired loans.

(Continued)

GREATER HUDSON BANK, N.A.
NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2011 and 2010

NOTE 3 – LOANS (Continued)

The following table presents the aging of the recorded investment in past due loans as of December 31, 2011 and 2010, 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 |
|--------------------------|--------------------------------------|--------------------------------------|--|---------------------------|-------------------------------|--------------------------|
| December 31, 2011 | | | | | | |
| Real estate | | | | | | |
| Commercial | \$ 808 | \$ 754 | \$ 358 | \$ 1,920 | \$ 87,192 | \$ 89,112 |
| Construction | - | - | - | - | 24,051 | 24,051 |
| Residential | | | | | | |
| One-to-four family | - | 110 | - | 110 | 996 | 1,106 |
| Home equity | - | - | 130 | 130 | 3,821 | 3,951 |
| Multifamily | - | 137 | - | 137 | 4,394 | 4,531 |
| Commercial | 56 | - | 95 | 151 | 34,717 | 34,868 |
| Consumer | | | | | | |
| Credit | - | - | - | - | 100 | 100 |
| Total | <u>\$ 864</u> | <u>\$ 1,001</u> | <u>\$ 583</u> | <u>\$ 2,448</u> | <u>\$ 155,271</u> | <u>\$ 157,719</u> |
| December 31, 2010 | | | | | | |
| Real estate | | | | | | |
| Commercial | \$ - | \$ - | \$ 333 | \$ 333 | \$ 72,947 | \$ 73,280 |
| Construction | - | - | 185 | 185 | 20,236 | 20,421 |
| Residential | | | | | | |
| One-to-four family | - | - | - | - | 1,141 | 1,141 |
| Home equity | - | - | - | - | 3,742 | 3,742 |
| Multifamily | - | - | - | - | 4,158 | 4,158 |
| Commercial | 207 | 42 | 2 | 251 | 22,200 | 22,451 |
| Consumer | | | | | | |
| Credit | - | 5 | - | 5 | 177 | 182 |
| Total | <u>\$ 207</u> | <u>\$ 47</u> | <u>\$ 520</u> | <u>\$ 774</u> | <u>\$ 124,601</u> | <u>\$ 125,375</u> |

Troubled Debt Restructurings:

The Bank has no allocation of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of December 31, 2011 and 2010. The Bank has no commitments to lend additional amounts as of December 31, 2011 and 2010, to customers with outstanding loans that are classified as troubled debt restructurings.

During the year ending December 31, 2011, 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 30 days to 5 years. Modifications involving an extension of the maturity date were for periods ranging from 1 month to 5 years.

(Continued)

GREATER HUDSON BANK, N.A.
NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2011 and 2010

NOTE 3 – LOANS (Continued)

The following table presents loans by class modified as troubled debt restructurings that occurred during the year ending December 31, 2011 (in thousands):

| | <u>Number of Loans</u> | <u>Pre- Modification Outstanding Recorded Investment</u> | <u>Post- Modification Outstanding Recorded Investment</u> |
|--------------------------------------|----------------------------|--|---|
| Troubled Debt Restructurings: | | | |
| Commercial | 1 | \$ 4 | \$ 4 |
| Commercial real estate: | | | |
| Construction | 1 | 329 | 329 |
| Total | 2 | \$ 333 | \$ 333 |

The troubled debt restructurings described above did not increase the allowance for loan losses and resulted in no charge offs during the year ending December 31, 2011. The Bank had no troubled debt restructurings for the year ending December 31, 2010.

A loan is considered to be in payment default once it is 15 days contractually past due under the modified terms.

The Bank had no troubled debt restructurings that subsequently defaulted during the year ending December 31, 2011.

The terms of certain other loans were modified during the year ending December 31, 2011, that did not meet the definition of a troubled debt restructuring. These loans have a total recorded investment as of December 31, 2011, of \$2,255,000. The modification of these loans involved either a modification of the terms of a loan to borrowers who were not experiencing financial difficulties or a delay in a payment that was considered to be insignificant.

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.

Certain loans which were modified during the year ending December 31, 2011, and did not meet the definition of a troubled debt restructuring as the modification was a delay in a payment that was considered to be insignificant had delays in payment ranging from 0 days to 2 months.

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. 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:

(Continued)

GREATER HUDSON BANK, N.A.
NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2011 and 2010

NOTE 3 – LOANS (Continued)

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.

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, 2011</u> | | | | | |
| Real estate | | | | | |
| Commercial | \$ 85,015 | \$ 2,357 | \$ 1,717 | \$ 23 | \$ - |
| Construction | 13,788 | 6,393 | 3,871 | - | - |
| Residential | | | | | |
| One-to-four family/ multifamily | 5,389 | - | 247 | - | - |
| Home equity | 3,771 | - | 180 | - | - |
| Commercial | 33,065 | 1,238 | 565 | - | - |
| Consumer | 94 | - | - | - | 6 |
| Total | <u>\$ 141,122</u> | <u>\$ 9,988</u> | <u>\$ 6,580</u> | <u>\$ 23</u> | <u>\$ 6</u> |
| <u>December 31, 2010</u> | | | | | |
| Real estate | | | | | |
| Commercial | \$ 70,239 | \$ 2,069 | \$ 972 | \$ - | \$ - |
| Construction | 13,162 | 6,122 | 1,137 | - | - |
| Residential | | | | | |
| One-to-four family/ multifamily | 5,046 | - | 253 | - | - |
| Home equity | 3,692 | - | 50 | - | - |
| Commercial | 21,005 | 597 | 849 | - | - |
| Consumer | 100 | - | - | - | 82 |
| Total | <u>\$ 113,244</u> | <u>\$ 8,788</u> | <u>\$ 3,261</u> | <u>\$ -</u> | <u>\$ 82</u> |

The Bank did not purchase any loans in 2011. During 2010, the Bank purchased performing commercial loans totaling \$8.0 million, at a net discount after expenses of \$327,000, with no evidence of deteriorating credit quality.

(Continued)

GREATER HUDSON BANK, N.A.
NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2011 and 2010

NOTE 4 - PREMISES AND EQUIPMENT

| | December 31, | |
|-----------------------------------|------------------------|------------------------|
| | <u>2011</u> | <u>2010</u> |
| | (in thousands) | |
| Leasehold improvements | \$ 788 | \$ 759 |
| Furniture, fixtures and equipment | <u>1,066</u> | <u>1,019</u> |
| | 1,854 | 1,778 |
| Accumulated depreciation | <u>(752)</u> | <u>(635)</u> |
| | <u>\$ 1,102</u> | <u>\$ 1,143</u> |

The amount charged to depreciation expense was approximately \$229,000 and \$190,000 for the years ended December 31, 2011 and 2010, respectively.

NOTE 5 – DEPOSITS

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

| | <u>December 31, 2011</u> | | <u>December 31, 2010</u> | |
|----------------------------|---|--------------------------|---|--------------------------|
| | <u>Weighted Average Rate</u> | <u>Amount</u> | <u>Weighted Average Rate</u> | <u>Amount</u> |
| Noninterest bearing demand | -% | \$ 20,208 | -% | \$ 14,480 |
| Interest bearing demand | 0.19 | 4,454 | 0.27 | 4,131 |
| Money market | 1.19 | 105,908 | 1.41 | 97,740 |
| Savings | 0.93 | 33,391 | 0.74 | 12,427 |
| Time deposits | 1.49 | <u>81,850</u> | 1.80 | <u>89,634</u> |
| | 1.17% | <u>\$ 245,811</u> | 1.42% | <u>\$ 218,412</u> |

Scheduled maturities of time deposits at December 31, 2011, were as follows (in thousands):

| | |
|------------|-------------------------|
| 2012 | \$ 53,159 |
| 2013 | 22,003 |
| 2014 | 1,186 |
| 2015 | 1,445 |
| 2016 | 4,057 |
| Thereafter | <u>-</u> |
| | <u>\$ 81,850</u> |

At December 31, 2011 and 2010, time deposits of \$100,000 or more totaled \$46.8 million and \$52.2 million, respectively.

(Continued)

GREATER HUDSON BANK, N.A.
NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2011 and 2010

NOTE 6 - BORROWINGS AND LINES OF CREDIT

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. PNC Bank has the right to terminate the transaction on March 13, 2008, and quarterly thereafter with five business days' notice. The borrowing is collateralized by securities with a carrying amount of \$6,000,000 and fair value of \$6,024,000 as of December 31, 2011.

At December 31, 2011, the Bank had long-term repurchase agreements with the Federal Home Loan Bank of New York of \$10,000,000 at a weighted average interest rate of 1.70 percent. These long-term borrowings were collateralized by securities with an aggregate carrying value and estimated fair value of \$11.2 million and \$11.8 million, respectively.

The Bank has available Federal Funds lines of credit for \$3,000,000 at The Independent Bankers Bank, \$5,000,000 at Atlantic Central Bankers Bank, \$3,000,000 at M&T Bank, and \$8,000,000 at Zions Bank. Borrowings under the lines are charged interest at the quoted Federal Funds offering rate at the time that advances are made, and mature the next following business day. Additional securities pledged may be required. The Bank had no borrowings of these type outstanding at December 31, 2011 and 2010.

NOTE 7 - OPERATING LEASES

The Bank leases office space for use as an administrative and branch offices in Middletown and Bardonia, New York, and branch offices in Warwick, Bardonia, and White Plains, New York. Rental expense totaled approximately \$442,000 and \$402,000 for the years ended December 31, 2011 and 2010, respectively.

At December 31, 2011, the minimum rental commitments required under the leases are as follows (in thousands):

| | |
|------------|------------------------|
| 2012 | \$ 430 |
| 2013 | 442 |
| 2014 | 430 |
| 2015 | 420 |
| 2016 | 277 |
| Thereafter | <u>644</u> |
| | <u>\$ 2,643</u> |

(Continued)

GREATER HUDSON BANK, N.A.
NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2011 and 2010

NOTE 8 - INCOME TAXES

For the years ended December 31, 2011 and 2010, the Bank was subject to minimum New York State taxes of approximately \$0 and \$27,500, respectively, which is included in other non-interest expense. There were no interest and penalties for the year ended December 31, 2011 and 2010. The Bank is no longer subject to examination by the taxing authorities for the years ended before December 31, 2008. Income tax expense consists of the following (in thousands):

| | <u>2011</u> | <u>2010</u> |
|-------------------------------------|------------------------|--------------------------|
| Current | | |
| Federal | \$ 1,242 | \$ 6 |
| State | 309 | - |
| | <u>1,551</u> | <u>6</u> |
| Deferred | | |
| Federal | 48 | 511 |
| State | 25 | 109 |
| | <u>73</u> | <u>620</u> |
| Change in valuation allowance | - | (2,867) |
| Income tax expense (benefit) | <u>\$ 1,624</u> | <u>\$ (2,241)</u> |

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

| | <u>2011</u> | <u>2010</u> |
|--|------------------------|--------------------------|
| Federal income tax at statutory rate | \$ 1,430 | \$ 576 |
| State income tax, net of federal income tax effect | 221 | 72 |
| Other items | (27) | (22) |
| Change in valuation allowance | - | (2,867) |
| Effective income tax | <u>\$ 1,624</u> | <u>\$ (2,241)</u> |

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

| | <u>2011</u> | <u>2010</u> |
|---|------------------------|------------------------|
| Deferred tax assets | | |
| Net operating losses carried forward | \$ 2,253 | \$ 2,412 |
| Allowance for loan losses | 560 | 399 |
| Unrealized loss on sale of securities | - | 367 |
| Other items | 97 | 164 |
| Total deferred tax assets | <u>2,910</u> | <u>3,342</u> |
| Deferred tax liabilities | | |
| Depreciation | (129) | (121) |
| Unrealized gains on securities available for sale | (379) | - |
| Net deferred tax assets | <u>\$ 2,402</u> | <u>\$ 3,221</u> |

(Continued)

GREATER HUDSON BANK, N.A.
NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2011 and 2010

NOTE 8 - INCOME TAXES (Continued)

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 and State net operating loss carryforwards that may be applied against future taxable income and that expire as follows (in thousands):

| <u>Year of Expiration</u> | <u>Net Operating Loss Carryforwards</u> |
|---------------------------|---|
| 2023 | \$ 762 |
| 2024 | 1,523 |
| 2025 | 1,456 |
| 2026 | 1,171 |
| 2027 | 365 |
| 2028 | <u>400</u> |
| Total | <u>\$ 5,677</u> |

At December 31, 2011, the Bank assessed its earnings history and trend over the past two years, its estimate of future earnings, and the expiration dates of its net operating loss carryforwards. This assessment included an analysis of the impact of the IRC Section 382 limitations on loss utilization, which amounts to \$354,000 per year. Based on this assessment, the Bank determined that it was more likely than not that its deferred tax assets will be realized before their expiration.

At January 1, 2011 and December 31, 2011, the Bank had no unrecognized tax benefits recorded. The Bank does not expect the amount of the unrecognized tax benefits to significantly change within the next twelve months.

NOTE 9 - 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 2011 and 2010, the Bank's matching contributions totaled approximately \$20,000 and \$16,000, respectively.

NOTE 10 - CAPITAL REQUIREMENTS

The Bank is subject to various regulatory capital requirements administered by the federal 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. Management believes as of December 31, 2011, the Bank meets all capital adequacy requirements to which it is subject.

(Continued)

GREATER HUDSON BANK, N.A.
NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2011 and 2010

NOTE 10 - CAPITAL REQUIREMENTS (Continued)

Quantitative measures established by regulation to ensure capital adequacy require the maintenance of minimum amounts and ratios (set forth in the tables below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 Capital (as defined) to average assets (as defined).

At year end December 31, 2011 and 2010, the most recent notifications from the OCC 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, 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.

The Bank's actual capital ratios as of December 31, 2011 and 2010, 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> |
| 2011 | | | | | | |
| Tier 1 leverage ratio (to average assets) | \$ 35,727 | 11.9% | \$ 11,980 | ≥4.0% | \$ 14,975 | ≥5.0% |
| Tier 1 risk-based capital ratio (to risk-weighted assets) | 35,727 | 16.4 | 8,718 | ≥4.0 | 13,078 | ≥6.0 |
| Total risk-based capital ratio (to risk-weighted assets) | 38,033 | 17.4 | 17,437 | ≥8.0 | 21,796 | ≥10.0 |
| 2010 | | | | | | |
| Tier 1 leverage ratio (to average assets) | \$ 31,985 | 12.6% | \$ 10,184 | ≥4.0% | \$ 12,731 | ≥5.0% |
| Tier 1 risk-based capital ratio (to risk-weighted assets) | 31,985 | 17.7 | 7,231 | ≥4.0 | 10,846 | ≥6.0 |
| Total risk-based capital ratio (to risk-weighted assets) | 33,878 | 18.7 | 14,461 | ≥8.0 | 18,076 | ≥10.0 |

NOTE 11 - SHAREHOLDERS' EQUITY AND DIVIDENDS

The OCC 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, 2011, the Bank did not meet regulatory guidelines necessary to pay dividends.

NOTE 12 - RELATED PARTY TRANSACTIONS

Loans to principal officers, directors, significant stockholders, and their affiliates at December 31, 2011, were \$7,610,000, of which \$2,785,000 was outstanding and \$4,866,000 was in unused lines of credit. At December 31, 2010 there were \$5,251,000, of which \$2,251,000 was outstanding and \$3,000,000 was in unused lines of credit in loans outstanding to principal officers, directors, significant stockholders, and their affiliates.

(Continued)

GREATER HUDSON BANK, N.A.
NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2011 and 2010

NOTE 12 - RELATED PARTY TRANSACTIONS (Continued)

The Bank held related party deposits of approximately \$10,655,000 and \$8,508,000 at December 31, 2011 and 2010, respectively.

The Bank leases the Bardonia, New York, branch and office space from significant stockholders of the Bank. 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. The rent expense for the Bardonia lease amounted to \$155,000 and \$139,000 as of December 31, 2011 and 2010, respectively.

NOTE 13 - 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.

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, 2011 and 2010, were as follows (in thousands):

| | <u>2011</u> | <u>2010</u> |
|------------------------------|-------------------------|-------------------------|
| Commitments to extend credit | \$ 3,191 | \$ 4,895 |
| Unused credit lines | <u>19,166</u> | <u>18,927</u> |
| | <u>\$ 22,357</u> | <u>\$ 23,822</u> |

Commitments to extend credit include mortgage loans, term loans, home equity, and commercial lines of credit expiring within 90 days. At December 31, 2011 and 2010, there were no commitments to extend credit expiring prior to 90 days at fixed rates. At December 31, 2011 and 2010, outstanding letters of credit approximated \$3,191,000 and \$1,526,000, respectively.

NOTE 14 - STOCK BASED COMPENSATION

Share Award Plan: On February 17, 2011, a grant of 16,675 shares of restricted stock was made to employees, which vests over five years. These grants were from authorized and unissued shares. A grant of 10,000 shares of restricted stock was made during 2008 to one executive officer, which vested over two years. Compensation expense is recognized over the vesting period of the awards based on the fair value of the stock at issue date. Total compensation cost that has been charged against income was \$15,000 for 2011. The total compensation cost that was charged against income in 2010 related to a grant of restricted stock to one executive officer in 2008 was \$12,000. The total income tax benefit was \$6,000 for 2011 and \$5,000 for 2010. 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.

(Continued)

GREATER HUDSON BANK, N.A.
NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2011 and 2010

NOTE 14 - STOCK BASED COMPENSATION (Continued)

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

| <u>Nonvested Shares</u> | <u>Shares</u> | <u>Weighted-Average Grant-Date Fair Value</u> |
|---------------------------------------|----------------------|---|
| Nonvested at January 1, 2011 | - | \$ - |
| Granted | 16,675 | 5.49 |
| Vested | - | - |
| Forfeited | <u>(1,000)</u> | 5.49 |
| Nonvested at December 31, 2011 | <u>15,675</u> | \$ 5.49 |

As of December 31, 2011, there was \$70,000 of total unrecognized compensation cost related to the nonvested shares granted under the 2011 Restricted Stock Plan. The remaining cost is expected to be recognized over a weighted-average period of 4.2 years. The total fair value of shares vested during the years ended December 31, 2011 and 2010, was \$0 and \$21,550, respectively.

NOTE 15 - 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.

(Continued)

GREATER HUDSON BANK, N.A.
NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2011 and 2010

NOTE 15 - FAIR VALUE (Continued)

Nonrecurring adjustments to certain commercial and residential real estate properties classified as other real estate owned ("OREO") are measured at 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.

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) |
| 2011 | | | |
| Assets: | | | |
| Available for sale securities | | | |
| U.S. Government agencies | \$ - | \$ 48,482 | \$ - |
| Corporate securities | 1,850 | - | - |
| Obligations of states and political subdivisions | - | 14,024 | - |
| Mortgage backed securities - residential | - | 35,716 | - |
| Collateralized mortgage obligation - residential | - | 13,728 | - |
| Total Available for Sale Securities | <u>\$ 1,850</u> | <u>\$ 111,950</u> | <u>\$ -</u> |
| 2010 | | | |
| Assets: | | | |
| Available for sale securities | | | |
| U.S. Government agencies | \$ - | \$ 60,927 | \$ - |
| Corporate securities | 979 | - | - |
| Mortgage backed securities - residential | - | 31,582 | - |
| Collateralized mortgage obligation - residential | - | 4,068 | - |
| Money market securities | 432 | - | - |
| Total Available for Sale Securities | <u>\$ 1,411</u> | <u>\$ 96,577</u> | <u>\$ -</u> |

(Continued)

GREATER HUDSON BANK, N.A.
NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2011 and 2010

NOTE 15 - 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 <u>(Level 1)</u> | Significant Other Observable Inputs <u>(Level 2)</u> | Significant Unobservable Inputs <u>(Level 3)</u> |
| <u>2011</u> | | | |
| Assets: | | | |
| Impaired loans | | | |
| Commercial | \$ - | \$ - | \$ 13 |
| Commercial real estate | | | |
| Construction | - | - | 769 |
| Other real estate owned, net | | | |
| Commercial real estate | | | |
| Real estate | - | - | 327 |
| | | | |
| <u>2010</u> | | | |
| Assets: | | | |
| Impaired loans | | | |
| Commercial | \$ - | \$ - | \$ 2 |
| Commercial real estate | | | |
| Construction | - | - | 772 |
| Other real estate owned, net | | | |
| Commercial real estate | | | |
| Real estate | - | - | 327 |

The following represent impairment charges recognized during the period:

At December 31, 2011 and 2010, impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had net carrying amounts of \$984,000 and \$954,000 with a valuation allowance of \$202,000 and \$180,000 resulting in an additional provision for loan losses of \$202,000 and \$180,000, respectively. At December 31, 2011 and 2010, other real estate owned measured at fair value less costs to sell, had a net carrying amount of \$327,000 and \$327,000, respectively. Write-downs of \$23,000 were taken on the property in 2010. There was no valuation allowance on these assets during 2011 or 2010.

(Continued)

GREATER HUDSON BANK, N.A.
NOTES TO FINANCIAL STATEMENTS
Years ended December 31, 2011 and 2010

NOTE 15 - FAIR VALUE (Continued)

Estimated fair values of financial instruments at December 31, 2011 and 2010, were as follows (in thousands):

| | 2011 | | 2010 | |
|--|-----------------|------------|-----------------|------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| <u>Financial assets</u> | | | | |
| Cash and due from banks | \$ 6,005 | \$ 6,005 | \$ 12,450 | \$ 12,450 |
| Federal funds sold | 64 | 64 | 1,675 | 1,675 |
| Securities available for sale | 113,800 | 113,800 | 97,988 | 97,988 |
| Securities held to maturity | 16,845 | 17,144 | 15,217 | 15,991 |
| Restricted bank stock | 1,908 | N/A | 1,240 | N/A |
| Loans receivable, net | 154,682 | 157,999 | 122,627 | 126,615 |
| Accrued interest receivable | 1,210 | 1,210 | 1,090 | 1,090 |
| <u>Financial liabilities</u> | | | | |
| Deposits | \$ 245,811 | \$ 248,929 | \$ 218,412 | \$ 221,060 |
| Securities sold under agreements to repurchase | 5,000 | 5,513 | 5,000 | 5,208 |
| Federal Home Loan Bank advances | 10,000 | 10,080 | - | - |
| Accrued interest payable | 456 | 456 | 388 | 388 |

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

Carrying amount is the estimated fair value for cash and due from banks, federal funds sold, interest bearing deposits, accrued interest receivable and payable, demand deposits, short-term debt, and variable rate loans or deposits that reprice frequently and fully. The methods for determining the fair values for securities were described previously. For fixed rate loans or deposits and for variable rate loans or deposits with infrequent repricing or repricing limits, fair value is based on discounted cash flows using current market rates applied to the estimated life and credit risk including consideration of widening credit spreads. Fair value of debt is based on current rates for similar financing. It was not practicable to determine the fair value of restricted bank stock due to restrictions placed on its transferability. The fair value of off-balance-sheet items is not considered material.

NOTE 16 - CONTINGENCIES

The Bank may, from time to time, be a party to legal proceedings relating to the conduct of its business. The Bank is not presently a party to any material pending legal proceedings.

SHAREHOLDER INFORMATION

Corporate Offices

Greater Hudson Bank, N.A.
643 Route 211 East
Middletown, N.Y. 10941
(845) 215-1000
www.greaterhudsonbank.com
Telebank: 1-866-226-2766

Annual Meeting of Shareholders

The annual meeting of Greater Hudson Bank, N.A. will be held on May 22, 2012 at 10:00 a.m. at the Salvation Army Conference Center, 440 West Nyack Road, West Nyack, NY 10994-1739

Stock Transfer Agent & Registrar

Shareholders wishing to change its name, address or ownership of stock, or to report lost certificates or to consolidate accounts should contact the Bank's stock registrar and transfer agent directly at:

Registrar & Transfer Company
10 Commerce Drive
Cranford, New Jersey 07016-3572
(800) 368-5948

Regulatory Counsel & Bank Counsel

Windels Marx Lane & Mittendorf, LLP
120 Albany Street Plaza
New Brunswick, New Jersey 08901
(732) 448-2548

Independent Registered Public Accounting Firm

Crowe Horwath LLP
354 Eisenhower Parkway, Suite 2050
Livingston, New Jersey 07039-1025
(973) 422-2420

Branch Offices:

Bardonia Office

715 Route 304
Bardonia, NY 10954
(845) 215-1000
Marshanette Patterson, Branch Manager

Middletown Office

643 Route 211 East
Middletown, NY 10941
(877) 692-1170
Mary Borcsik, Branch Manager

Monroe Office (new location)

360 Route 17M
Monroe, NY 10950
(855) 637-2265
Gina L. Herska, Branch Operations Manager
Walter Popailo, Orange County Relationship Manager

Warwick Office

25 Elm Street/Mitchel Corners
Warwick, NY 10990
(877) 248-2398
Susan Ronga, Branch Manager

Branch Offices Continued:

White Plains Office

567 North Broadway
White Plains, NY 10603
(914) 618-4393
Peter Moncada, AVP, Branch Manager
Rori Sagal, AVP, Westchester Relationship Manager

DIRECTORS AND OFFICERS

Board of Directors

Kenneth J. Torsoe: Chairman of the Board, Served on the Board of Directors of Union State Bank since 1982 and its holding company, USB Holding Co., Inc., until its sale to Key Bancorp in 2007; currently the president and majority owner of Torsoe Bros. Construction Corp. based in Suffern, New York and the managing partner of Normandy Village Company

Edward T. Lutz: Vice-Chairman of the Board, Served on the Board of Union State Bank and its holding company USB Holding Co., Inc., which was sold to Key Bancorp in 2007. President and CEO of Lutz Advisors, Inc. (Bank Consulting)

Daniel E. Rifkin: Vice-Chairman of the Board, Managing partner of Rifkin & Company, CPA's, LLP and president of PayServ Corporation

Steven B. Bakst: Founder and president of Just-A-Buck Licensing, Inc.; Vice Chairman of the Bank from 2003 until 2008

Ray S. Pantel: President and owner of Pantel Electric Company

Eric J. Wiggins: President and Chief Executive Officer of Greater Hudson Bank

Executive Officers

Eric J. Wiggins: President and Chief Executive Officer

Lynne C. Allan: Executive Vice President, Chief Operating Officer and Corporate Secretary

F. Thomas Cornelius: Senior Vice President and Chief Financial Officer

Gregory B. Monteith: Senior Vice President and Chief Lending Officer

Basel Rabie: Senior Vice President and Branch Administrator



**GREATER
HUDSON BANK^{NA}**

BRANCH OFFICES

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