



**GREATER  
HUDSON BANK<sup>NA</sup>**

# **ANNUAL REPORT**

**2010**



# ***GREATER HUDSON BANK, N.A.***

## FINANCIAL REPORT

DECEMBER 31, 2010 AND 2009

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To Our Shareholders:

2010 was a record year for Greater Hudson Bank in many significant ways. Not only did your Bank experience its most successful and profitable year in its history, reporting net income of \$4.06 million for the year, but we continued to invest and work on strategies and initiatives that we feel will help position us for continued growth into the future. Our impressive net income numbers represent an increase in net income of 506 percent from \$670 thousand in 2009. Earnings per share increased from \$0.07 per share in 2009 to \$0.41 in 2010 and return on average common stock-holders' equity was 13.24 percent for 2010 versus 2.38 percent for 2009.

Net income in 2010 benefitted from the reversal of the \$2.2 million valuation allowance established against the deferred tax asset related primarily to the net operating losses in prior years. On a pre-tax operating basis Greater Hudson reported operating income of \$1.8 million for the year ended December 31, 2010 compared with \$70 thousand for the year ended December 31, 2009. This represents an increase of 2,492 percent from 2009's pre-tax operating income.

I am extremely proud of these results as we were able to achieve them in light of the very challenging economy we have all been experiencing. We continued to build on our early success following the Bank's first profitable year in its history in 2009 with a significant improvement in 2010. We have now reported seven consecutive quarters of net income and we are adding to our capital base and increasing our book value.

Your Management Team has worked very hard to effectively deploy our capital in a safe and sound manner, develop and grow our franchise and operate profitably. We continue to execute on our strategy of seeking profitable growth while maintaining credit quality and a strong balance sheet in an effort to build long-term shareholder value.

It is with great pride that I share with you some highlights from 2010:

- Total assets increased \$85.0 million or 49.3 percent to \$257.5 million at December 31, 2010 from \$172.5 million at December 31, 2009.
- 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 17.50 percent at December 31, 2009 to 12.56 percent at December 31, 2010; however, the Bank remains exceedingly well capitalized.
- Net interest income increased 72 percent or \$3.4 million to \$8.2 million for 2010 from \$4.8 million for 2009. Our net interest margin also increased 29 basis points from 3.48 percent to 3.77 percent.
- The Bank's overall deposit base grew 58.0 percent to \$218.4 million at December 31, 2010 from \$138.3 million at December 31, 2009. Even with the significant growth in deposits, our cost of funds continued to decline from 2.00 percent for

2009 to 1.49 percent for 2010. Demand deposits, a source of low cost funds for the Bank, grew over 16 percent for 2010.

- All three of our branches that were open in 2009 again recorded impressive growth. Based on data compiled annually as of June 30<sup>th</sup> each year by the FDIC, our deposits for our four branches at June 30, 2010 versus June 30, 2009 were as follows:

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Middletown	\$76.4 million	\$47.4 million
Warwick	\$26.2 million	\$13.8 million
Bardonia	\$96.7 million	\$50.7 million

\*Note: Our White Plains branch opened in June, 2010, and had nearly \$14 million in deposits by year end 2010.

- Total loans outstanding increased 37.5 percent to \$124.4 million at December 31, 2010. During 2010, the Bank's lending team closed approximately \$70.0 million in new loans and generated in excess of \$550 thousand in loan fees.
- Non-performing assets declined significantly from \$2.2 million at December 31, 2009 to \$850 thousand at December 31, 2010, and the ratio of non-performing assets to total assets declined from 1.28 percent at year end 2009 to 0.33 percent at year end 2010. 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 \$900 thousand for 2009 to \$300 thousand for 2010. Non-performing loans declined significantly from \$2.2 million at December 31, 2009 to \$500 thousand at December 31, 2010.
- The Bank's efficiency ratio, the approximate measure of the cost required to generate a dollar of revenue, improved considerably from 84.6 percent at December 31, 2009 to 67.0 percent at December 31, 2010.
- Non-interest expense increased \$1.5 million or 35.1 percent, to \$5.6 million, as the Bank opened its fourth branch located in Westchester, NY in the second quarter of 2010 and incurred additional expense in connection with its continuing growth.
- Investment securities increased by \$49.1 million or 76.6 percent to \$113.2 million at December 31, 2010 from \$64.1 million at December 31, 2009. The portfolio consists of all investment grade securities which are primarily government agencies and mortgage-backed securities.

- The Bank became a member of the Federal Home Loan Bank of NY. As a member, the Bank now has the opportunity to participate in their many programs, which provides the Bank access to alternative sources of funding for loans in the communities that we serve as well as the ability to better manage our interest rate risk. Access to advances from the FHLBNY also provides a source of additional liquidity.

We have grown our franchise significantly in the past two years, providing credit to local businesses, property owners and consumers in the markets that we serve. During the same period we have offered competitive deposit rates and products and services that businesses and consumers alike have come to rely on. According to the FDIC data compiled on all FDIC-Insured institutions, our market share has grown from 34<sup>th</sup> out of 52 banks operating in Orange, Rockland and Westchester counties to 27<sup>th</sup> of 51 banks operating in the same market. At the same time we have also kept a close eye on credit quality and our expenses and our ratios demonstrate this. Greater Hudson remains exceedingly well capitalized and our capital position continues to provide us the strength and stability to better meet our customer's financial needs.

I am pleased to say that over the last two years, during a very challenging economic environment and without sacrificing credit quality, Greater Hudson Bank has provided approximately \$140 million in credit to local businesses, property owners and consumers without sacrificing credit quality. We are especially proud that we have been able to help a number of borrowers in our market that other banks would not. We have developed quality relationships with these customers that will pay dividends for many years to come.

I am also very proud that Greater Hudson Bank is a productive member of the communities where it is located. Many of our employees sit on Boards and volunteer their time with local charities and non-for-profit organizations. Your Bank grows stronger when the communities where we are located flourish. I thank each of our employees that have volunteered some time in this manner.

While the Bank experienced tremendous success and reported exceptional results during the past year, we are cognizant of the fact that unemployment remains stubbornly high and the economy remains soft. Although our markets have held up better than many other areas in the country, we are conscious of the fact that it will take a much longer period of time for the labor and real estate markets to heal. As a result of the growth and success of the Bank, I am very proud that we have been able to create twenty-two new jobs in the Hudson Valley over the last few years, more than doubling the size of our organization.

As I mentioned in my letter to you last year, we planned to build on our successful branch opening in Rockland County with expansion into the Westchester County market. In June of 2010 we opened our White Plains branch, located at 567 North Broadway, White Plains, N.Y. We are very pleased with the positive reception we have received from not only the White Plains community but the broader Westchester County community as

well. We hired an experienced commercial banking team for this location including John Kenny, Vice President, Commercial Loan Officer; Peter Moncada, Assistant Vice President, Branch Manager and Rori Sagal, Assistant Vice President, Relationship Manager. They have all been doing a great job with this very important initiative.

In order to continue our growth and successfully compete with financial institutions many times our size, we are planning additional investments in technology in the coming year. In previous years we've made significant upgrades to our online banking and implemented remote deposit capture. Going from an information only website in 2008 to fully functional online banking with bill pay capabilities was essential. Working with our core technology provider, we intend to make significant upgrades to our online banking product and redesign our website in the coming year. We also plan to continue to provide remote deposit capture for business clients thus enabling us to service clients who are not located within close proximity to one of our four branch branches. We are also investigating mobile banking capabilities as that technology continues to emerge.

With these investments in technology we can conveniently service business clients without having to make significant investments in branch locations. Our technology offerings can be leveraged across our entire footprint more efficiently and with a better return on investment than building out a sizable network of branches. We continue, however, to look for strategic additions to our branch network when it makes sense and when we feel it will allow us to better serve our customer base.

We are also looking at our product offerings in the loan area for other opportunities for growth. For example, we are reviewing plans to offer a Greater Hudson Bank branded credit card, as well as, providing residential mortgages in our market area.

Your management team, along with the entire Bank staff, has worked very hard during the past year to achieve these outstanding results. Lynne Allan, Chief Operating Officer, Tom Cornelius, Chief Financial Officer and Greg Monteith, Chief Lending Officer, have worked tirelessly to move Greater Hudson Bank forward. Each of them sets a wonderful example with their work ethic, professionalism and dedication to the organization for others to follow. I personally thank each of them for their contributions during this past year.

Although numerous individuals have contributed to the success of the Bank, I would like to note a few promotions that occurred in 2010. Lynne Allan, our Chief Operating Officer, was promoted to Executive Vice President based on her significant contributions to the organization and in recognition of her overall responsibilities. Lynne is relied upon as an invaluable part of the Senior Management Team. Basel Rabie was promoted to Senior Vice President, Branch Administrator. Basel has been directly responsible for gathering significant deposits for the Bank, as well as, taking a leadership role in our business development efforts. Finally, Raymond Francis was promoted to Vice President, Commercial Loan Officer in our Rockland County office. Ray has done a wonderful job at not only managing a sizable loan portfolio but developing profitable customer relationships since joining the Bank in 2008.

I would be remiss if I did not acknowledge the foresight of our Chairman, Kenneth J. Torsoe, and his personal commitment on a daily basis to the success of the Bank. At a time when many feared the collapse of the financial markets, Chairman Torsoe moved forward in 2008 with his plan to create what is now Greater Hudson Bank. It's been his vision, leadership and sincere desire to help people that laid the foundation for Greater Hudson's success. As an employee and a fellow shareholder of the Bank, I sincerely thank Chairman Torsoe for all that he has done and continues to do for not only our Bank, but for our community as well.

Once again, our employees deserve special recognition for all of their efforts during the past year. Their commitment to the success of Greater Hudson Bank is what sets Greater Hudson Bank apart from the competition.

I also thank all of our customers that have become part of the Greater Hudson Bank family. At a time when your relationship with your financial institution is more important than ever, we thank each of our customers for making the choice to bank with Greater Hudson.

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.

Our employees and the entire Greater Hudson team are committed to the success of your Bank. Our commitment to our Customers, Shareholders, and Employees, which is evident from the many successes mentioned within this letter, continues as the foundation on which our organization operates.

With your continued trust, confidence and support, the Directors, Officers and Employees of Greater Hudson Bank look forward to another successful and profitable year in 2011.

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, 2010 and 2009, 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, 2010 and 2009, 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 25, 2011

**GREATER HUDSON BANK, N.A.**  
**STATEMENTS OF FINANCIAL CONDITION**  
December 31, 2010 and 2009  
*(Dollar amounts in thousands, except per share data)*

	<u>2010</u>	<u>2009</u>
<b>ASSETS</b>		
Cash and due from banks	\$ 12,450	\$ 10,265
Federal funds sold	<u>1,675</u>	<u>4,693</u>
<b>Cash and cash equivalents</b>	<b>14,125</b>	<b>14,958</b>
Securities available for sale	97,988	55,048
Securities held to maturity (fair value of \$15,991 in 2010; \$10,093 in 2009)	15,217	9,045
Loans receivable, net of allowance for loan losses of \$1,737 in 2010 and \$1,051 in 2009	122,627	89,407
Premises and equipment	1,143	854
Restricted investments in Bank stock	1,240	965
Accrued interest receivable	1,090	922
Other assets	<u>4,116</u>	<u>1,327</u>
<b>Total Assets</b>	<b><u>\$ 257,546</u></b>	<b><u>\$ 172,526</u></b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Deposits:		
Non-interest bearing	\$ 14,480	\$ 12,457
Interest bearing	<u>203,932</u>	<u>125,803</u>
<b>Total deposits</b>	<b>218,412</b>	<b>138,260</b>
Securities sold under agreements to repurchase	5,000	5,000
Other liabilities	<u>1,138</u>	<u>649</u>
<b>Total Liabilities</b>	<b><u>224,550</u></b>	<b><u>143,909</u></b>
<b>Shareholders' Equity</b>		
Common stock and paid-in capital, \$0.01 par value in 2010 and \$5.00 par value in 2009; 20,000,000 shares authorized; issued and outstanding 10,000,000 shares in 2010 and 2009	37,610	37,598
Accumulated deficit	(4,063)	(8,120)
Accumulated other comprehensive loss	<u>(551)</u>	<u>(861)</u>
<b>Total Shareholders' Equity</b>	<b><u>32,996</u></b>	<b><u>28,617</u></b>
<b>Total Liabilities and Shareholders' Equity</b>	<b><u>\$ 257,546</u></b>	<b><u>\$ 172,526</u></b>

See accompanying notes to financial statements.

**GREATER HUDSON BANK, N.A.**  
**STATEMENTS OF OPERATIONS**  
Years ended December 31, 2010 and 2009  
*(Dollar amounts in thousands, except per share data)*

	<u>2010</u>	<u>2009</u>
<b>Interest income</b>		
Loans receivable, including fees	\$ 7,814	\$ 4,843
Securities	3,370	2,114
Federal funds sold and dividend income	<u>9</u>	<u>68</u>
<b>Total Interest Income</b>	<b><u>11,193</u></b>	<b><u>7,025</u></b>
<b>Interest expense</b>		
Deposits	2,792	2,062
Securities sold under agreements to repurchase	<u>205</u>	<u>205</u>
<b>Total Interest Expense</b>	<b><u>2,997</u></b>	<b><u>2,267</u></b>
<b>Net interest income</b>	<b>8,196</b>	<b>4,758</b>
<b>Provision for loan losses</b>	<b><u>1,007</u></b>	<b><u>786</u></b>
<b>Net interest income after provision for loan losses</b>	<b>7,189</b>	<b>3,972</b>
<b>Non-interest income</b>		
Service charges on deposit accounts	84	115
Other income	86	33
Net gains on securities transactions	<u>61</u>	<u>99</u>
<b>Total Non-Interest Income</b>	<b><u>231</u></b>	<b><u>247</u></b>
<b>Non-interest expense</b>		
Salaries and employee benefits	2,542	1,927
Occupancy and equipment	1,046	712
Advertising, marketing and business development	258	194
Data processing expenses	273	327
Professional fees	247	198
Federal Deposit Insurance Corporation ("FDIC")	270	257
Other non-interest expenses	<u>968</u>	<u>534</u>
<b>Total Other Expenses</b>	<b><u>5,604</u></b>	<b><u>4,149</u></b>
<b>Income Before Tax Expense</b>	<b>1,816</b>	<b>70</b>
<b>Income Tax Expense (Benefit)</b>	<b><u>(2,241)</u></b>	<b><u>(600)</u></b>
<b>Net Income</b>	<b><u>\$ 4,057</u></b>	<b><u>\$ 670</u></b>

See accompanying notes to financial statements.

**GREATER HUDSON BANK, N.A.**  
**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
Years ended December 31, 2010 and 2009  
*(Dollar amounts in thousands, except per share data)*

	<b>Common Stock and Paid-In Capital</b>	<b>Accumulated Income (Deficit)</b>	<b>Accumulated Other Comprehensive Loss</b>	<b>Total</b>
<b>Balance at January 1, 2009</b>	\$ 37,580	\$ (8,790)	\$ (430)	\$ 28,360
Comprehensive income				
Net income	-	670	-	670
Unrealized loss on securities available for sale, net of net reclassification effects of \$84	-	-	(431)	<u>(431)</u>
<b>Total comprehensive income</b>				<b><u>239</u></b>
Stock based compensation expense	<u>18</u>	<u>-</u>	<u>-</u>	<u>18</u>
<b>Balance at December 31, 2009</b>	<b>37,598</b>	<b>(8,120)</b>	<b>(861)</b>	<b>28,617</b>
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>
<b>Total comprehensive income</b>				<b><u>4,367</u></b>
Stock based compensation expense	<u>12</u>	<u>-</u>	<u>-</u>	<u>12</u>
<b>Balance at December 31, 2010</b>	<b><u>\$ 37,610</u></b>	<b><u>\$ (4,063)</u></b>	<b><u>\$ (551)</u></b>	<b><u>\$ 32,996</u></b>

See accompanying notes to financial statements.

**GREATER HUDSON BANK, N.A.**  
**STATEMENTS OF CASH FLOWS**  
Years ended December 31, 2010 and 2009  
*(Dollar amounts in thousands, except per share data)*

	<u>2010</u>	<u>2009</u>
<b>Cash flows from operating activities</b>		
Net income	\$ 4,057	\$ 670
Adjustments to reconcile net income to net cash used in operating activities		
Provision for loan losses	1,007	786
Provision for depreciation and amortization	190	135
Net amortization of securities, premiums and discounts	773	171
Deferred income taxes	(2,614)	(607)
Net realized gain on sale of foreclosed real estate	-	17
Net realized gain on sale of securities	(61)	(99)
Increase in accrued interest receivable and other assets	(16)	(1,217)
Increase in accrued interest payable and other liabilities	444	456
Stock compensation expense	12	18
	<u>3,792</u>	<u>330</u>
<b>Net cash provided by operating activities</b>	<b><u>3,792</u></b>	<b><u>330</u></b>
<b>Cash flows from investing activities</b>		
Purchases of securities available for sale	(144,657)	(83,052)
Purchases of securities held to maturity	(6,000)	(3,343)
Calls, maturities and principal repayments on securities available for sale	88,260	34,661
Proceeds from sales of securities available for sale	12,509	25,463
Proceeds from sales of securities held to maturity	-	225
Net increase in loans	(26,922)	(41,348)
Increase in purchased loans	(7,632)	-
Purchases of premises and equipment	(479)	(146)
Purchases of restricted bank stock	(275)	(625)
Proceeds from sale foreclosed real estate	419	-
	<u>(84,777)</u>	<u>(68,165)</u>
<b>Net cash used in investing activities</b>	<b><u>(84,777)</u></b>	<b><u>(68,165)</u></b>
<b>Cash flows from financing activities</b>		
Net increase in deposits	80,152	66,876
	<u>80,152</u>	<u>66,876</u>
<b>Net cash provided by financing activities</b>	<b><u>80,152</u></b>	<b><u>66,876</u></b>
<b>Net decrease in cash and cash equivalents</b>	<b>(833)</b>	<b>(959)</b>
<b>Beginning cash and cash equivalents</b>	<b><u>14,958</u></b>	<b><u>15,917</u></b>
<b>Ending cash and cash equivalents</b>	<b><u>\$ 14,125</u></b>	<b><u>\$ 14,958</u></b>
<b>Supplemental cash flow information:</b>		
Interest paid	\$ 2,841	\$ 2,100
Taxes paid	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, 2010 and 2009

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**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 25, 2011, which is the date the financial statements were available to be issued.

**Change in Control and Recapitalization:** On October 6, 2008, 78 percent 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 and Cash Equivalents:** For purposes of the statements of cash flows, cash and cash equivalents include cash on hand, amounts due from banks, and federal funds sold with original maturities of ninety days or less. Net cash flows are reported for customer loans and deposit transactions and federal funds sold.

**GREATER HUDSON BANK, N.A.**  
NOTES TO FINANCIAL STATEMENTS  
Years ended December 31, 2010 and 2009

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**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, including impaired 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, including impaired 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.

**GREATER HUDSON BANK, N.A.**  
NOTES TO FINANCIAL STATEMENTS  
Years ended December 31, 2010 and 2009

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**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. Generally, the factors are considered to have no significant impact to the Bank's historical loss experience. However, 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 100 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, 2010, 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, 2010, is presented in the recorded investment in nonaccrual loans table.

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.

**GREATER HUDSON BANK, N.A.**  
NOTES TO FINANCIAL STATEMENTS  
Years ended December 31, 2010 and 2009

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**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.

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.

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

**Restricted Investments in Bank Stock:** Restricted investments in bank stock include 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.

**GREATER HUDSON BANK, N.A.**  
NOTES TO FINANCIAL STATEMENTS  
Years ended December 31, 2010 and 2009

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**Advertising, Marketing and Business Development Costs:** Advertising, marketing and business development costs are charged to operations in the year incurred. Advertising expense was approximately \$258,000 and \$194,000 for the years ended December 31, 2010 and 2009, 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 position. 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.

**GREATER HUDSON BANK, N.A.**  
NOTES TO FINANCIAL STATEMENTS  
Years ended December 31, 2010 and 2009

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**Adoption of New Accounting Standards:** In July 2010, the FASB amended previous guidance relating to the disclosure of the allowance for credit losses and the credit quality of financing receivables. The objective of the amendments is for an entity to provide disclosures that facilitate financial statement users' evaluation of the nature of credit risk inherent in the entity's portfolio of financing receivables, how that risk is analyzed and assessed in arriving at the allowance for credit losses and the changes and reasons for those changes in the allowance for credit losses. This update provides a list of amendments to existing disclosures about financing receivables on a disaggregated basis with two levels - portfolio segment and class of financing receivable, as well as a list of additional disclosures about financing receivables. The disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. The adoption of this guidance on December 31, 2010, expanded the Bank's disclosures surrounding credit quality of financing receivables and the related allowance for credit losses.

In January 2011, the FASB temporarily delayed the effective date of the disclosures about troubled debt restructurings.

Those disclosures will be effective for interim and annual reporting periods ending after June 15, 2011. The Bank does not expect the adoption of this standard to have 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):

	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
<b>December 31, 2010</b>				
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
	<b><u>\$ 98,907</u></b>	<b><u>\$ 334</u></b>	<b><u>\$ (1,253)</u></b>	<b><u>\$ 97,988</u></b>
<b>December 31, 2009</b>				
U.S. Government agencies securities	\$ 46,987	\$ 11	\$ (670)	\$ 46,328
Mortgage-backed securities – residential	7,594	43	(107)	7,530
Collateralized mortgage obligations – residential	1,132	-	(138)	994
Money market funds	196	-	-	196
	<b><u>\$ 55,909</u></b>	<b><u>\$ 54</u></b>	<b><u>\$ (915)</u></b>	<b><u>\$ 55,048</u></b>

**GREATER HUDSON BANK, N.A.**  
NOTES TO FINANCIAL STATEMENTS  
Years ended December 31, 2010 and 2009

**NOTE 2 – SECURITIES** (Continued)

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 Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
<b><u>December 31, 2010</u></b>				
Corporate bonds	\$ 15,217	\$ 899	\$ (125)	\$ 15,991
<b><u>December 31, 2009</u></b>				
Corporate bonds	\$ 9,045	\$ 1,048	\$ -	\$ 10,093

At December 31, 2010 and 2009, securities with amortized cost of \$45,497,000 and \$14,323,000 and fair values of \$45,348,000 and \$14,153,000, respectively, were pledged to secure public funds on deposit and borrowings at PNC Bank.

During the year ended December 31, 2010, the Bank sold fifteen available for sale securities with a combined amortized cost of \$9,601,000 for a gain of \$67,000 and one available for sale securities with an amortized cost of \$988,000 at a loss of \$6,000. During the year ended December 31, 2009, the Bank sold seventeen available for sale securities with a combined amortized cost of \$9,273,000 for a gain of \$84,000, seven available for sale securities with a combined amortized cost of \$420,000 at a loss of \$600, and one held to maturity security at an amortized cost of \$225,000 for a gain of \$14,000. Management made the decision to sell the held to maturity security as a result of downgrade in the rating of the security, which was below the minimal acceptable rating permissible by the Bank's board approved investment policy.

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>
<b><u>December 31, 2010</u></b>						
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	1,764	(6)	524	(46)	2,288	(52)
	<u>\$ 56,847</u>	<u>\$ (1,207)</u>	<u>\$ 524</u>	<u>\$ (46)</u>	<u>\$ 57,371</u>	<u>\$ (1,253)</u>

**GREATER HUDSON BANK, N.A.**  
NOTES TO FINANCIAL STATEMENTS  
Years ended December 31, 2010 and 2009

**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>
<b>December 31, 2009</b>						
U.S. Government agencies securities	\$ 31,548	\$ (661)	\$ 991	\$ (9)	\$ 32,539	\$ (670)
Mortgage-backed securities – residential	3,947	(107)	-	-	3,947	(107)
Collateralized mortgage obligations – residential	-	-	994	(138)	994	(138)
	<u>\$ 35,495</u>	<u>\$ (768)</u>	<u>\$ 1,985</u>	<u>\$ (147)</u>	<u>\$ 37,480</u>	<u>\$ (915)</u>

As of December 31, 2010, there were two HTM corporate securities with combined unrealized losses of \$124,900 for less than twelve months and no HTM securities with unrealized losses greater than twelve months.

At December 31, 2010, unrealized losses involved thirty-one U.S. Government agencies securities, twenty-five mortgage backed securities, four collateralized mortgage obligations, 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.

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 and 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.

The amortized cost and fair value of the Bank's securities available for sale at December 31, 2010, by contractual maturity are shown below excluding money market funds. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay with or without penalties.

**GREATER HUDSON BANK, N.A.**  
NOTES TO FINANCIAL STATEMENTS  
Years ended December 31, 2010 and 2009

**NOTE 2 – SECURITIES** (Continued)

	<b>December 31, 2010</b>	
	<b>Amortized Cost</b>	<b>Fair Value</b>
	<b>(In thousands)</b>	
One year or less	\$ -	\$ -
Over one year through five years	43,927	43,756
Over five years through ten years	12,496	12,310
Over ten years	5,991	5,840
Mortgage-backed securities – residential	31,953	31,582
Collateralized mortgage obligations – residential	4,108	4,068
	<b><u>\$ 98,475</u></b>	<b><u>\$ 97,556</u></b>

The amortized cost and fair value of the Bank's securities held to maturity at December 31, 2010, 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.

	<b>December 31, 2010</b>	
	<b>Amortized Cost</b>	<b>Fair Value</b>
One year or less	\$ -	\$ -
Over one year through five years	12,217	13,108
Over five years through ten years	1,000	1,008
Over ten years	2,000	1,875
	<b><u>\$ 15,217</u></b>	<b><u>\$ 15,991</u></b>

**NOTE 3 - LOANS**

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

	<b>December 31,</b>	
	<b>2010</b>	<b>2009</b>
Real estate		
Commercial	\$ 73,280	\$ 49,521
Land acquisition	11,536	9,401
Construction	8,885	5,054
Home equity	3,742	3,448
One-to-four family residential / multi family	5,299	1,854
Commercial	22,451	21,372
Consumer	182	338
<b>Total</b>	<b>125,375</b>	<b>90,988</b>
Allowance for loan losses	(1,737)	(1,051)
Loans in process	(66)	-
Deferred loan fees and costs, net	(945)	(530)
<b>Loans, net</b>	<b><u>\$ 122,627</u></b>	<b><u>\$ 89,407</u></b>

**GREATER HUDSON BANK, N.A.**  
NOTES TO FINANCIAL STATEMENTS  
Years ended December 31, 2010 and 2009

**NOTE 3 – LOANS** (Continued)

Changes in the allowance for loan losses for the years ended December 31, 2010 and 2009, were as follows (in thousands):

	<u>2010</u>	<u>2009</u>
Beginning balance	\$ 1,051	\$ 1,134
Provisions for loan losses	1,007	786
Recoveries of charged off loans	71	36
Loans charged off	<u>(392)</u>	<u>(905)</u>
<b>Ending balance</b>	<b><u>\$ 1,737</u></b>	<b><u>\$ 1,051</u></b>

The following table presents 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, 2010 (in thousands):

	<u>Commercial</u>	Commercial Real Estate	Residential/ Multi Family Real Estate	Construction/ Development	Consumer Other	<u>Total</u>
<b>Allowance for loan losses:</b>						
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>
<b>Total ending allowance balance</b>	<b><u>\$ 366</u></b>	<b><u>\$ 857</u></b>	<b><u>\$ 77</u></b>	<b><u>\$ 436</u></b>	<b><u>\$ 1</u></b>	<b><u>\$ 1,737</u></b>
<b>Loans:</b>						
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>
<b>Total ending loans balance</b>	<b><u>\$ 22,451</u></b>	<b><u>\$ 73,280</u></b>	<b><u>\$ 9,041</u></b>	<b><u>\$ 20,421</u></b>	<b><u>\$ 182</u></b>	<b><u>\$ 125,375</u></b>

**GREATER HUDSON BANK, N.A.**  
NOTES TO FINANCIAL STATEMENTS  
Years ended December 31, 2010 and 2009

**NOTE 3 – LOANS** (Continued)

The following is a summary of information pertaining to impaired and non-accrual loans at December 31, 2010 and 2009 (in thousands):

	<u>2010</u>	<u>2009</u>
Impaired loans without valuation allowance	\$ 518	\$ 751
Impaired loans with valuation allowance	<u>954</u>	<u>529</u>
<b>Total impaired loans</b>	<b><u>\$ 1,472</u></b>	<b><u>\$ 1,280</u></b>
Valuation allowance related to impaired loans	\$ 180	\$ 46
Total non-accrual loans	520	1,187
Total loans past-due ninety days or more and still accruing	-	976

The following table presents loans individually evaluated for impairment by class of loans as of December 31, 2010 (in thousands):

	<u>Unpaid Principal Balance</u>	<u>Recorded Investment</u>	<u>Allowance for Loan Losses Allocated</u>
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>
<b>Total</b>	<b><u>\$ 1,495</u></b>	<b><u>\$ 1,472</u></b>	<b><u>\$ 180</u></b>

**GREATER HUDSON BANK, N.A.**  
NOTES TO FINANCIAL STATEMENTS  
Years ended December 31, 2010 and 2009

**NOTE 3 – LOANS** (Continued)

The following table presents the recorded investment in nonaccrual and loans past due over 90 days still on accrual by class of loans as of December 31, 2010 (in thousands):

	<u>Nonaccrual</u>	<u>Loans Past Due Over 90 Days Still Accruing</u>
Real estate		
Commercial	\$ 333	\$ -
Construction	185	-
Residential	-	-
Commercial	2	-
Consumer	-	-
<b>Total</b>	<b><u>\$ 520</u></b>	<b><u>\$ -</u></b>

During the year ended December 31, 2010 and 2009, the average investment in impaired loans was \$1,358,000 and \$1,245,000, respectively. During the year ended December 31, 2010 and 2009, the interest collected on these loans was approximately \$86,000 and \$31,000, respectively, all on a cash basis. No additional funds are committed to be advanced on impaired loans.

The following table presents the aging of the recorded investment in past due loans as of December 31, 2010, by class of loans (in thousands):

	<u>30 – 59 Days Past Due</u>	<u>60 – 89 Days Past Due</u>	<u>Greater Than 90 Days Past Due</u>	<u>Total Past Due</u>	<u>Loans Not Past Due</u>	<u>Total</u>
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
Multi family	-	-	-	-	4,158	4,158
Other	-	-	-	-	-	-
Commercial	207	42	2	251	22,200	22,451
Consumer						
Credit	-	5	-	5	177	182
Other	-	-	-	-	-	-
<b>Total</b>	<b><u>\$ 207</u></b>	<b><u>\$ 47</u></b>	<b><u>\$ 520</u></b>	<b><u>\$ 774</u></b>	<b><u>\$ 124,601</u></b>	<b><u>\$ 125,375</u></b>

**GREATER HUDSON BANK, N.A.**  
NOTES TO FINANCIAL STATEMENTS  
Years ended December 31, 2010 and 2009

**NOTE 3 – LOANS** (Continued)

**Credit Quality Indicators:**

The Bank categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. 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. This analysis is performed on a quarterly basis. The Bank uses the following definitions for risk ratings:

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

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

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

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans. Loans listed as not rated are either less than \$100,000 or are included in groups of homogeneous loans. As of December 31, 2010, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows (in thousands):

	<b><u>Pass</u></b>	<b><u>Special Mention</u></b>	<b><u>Substandard</u></b>	<b><u>Doubtful</u></b>	<b><u>Not Rated</u></b>
Real estate					
Commercial	\$ 70,239	\$ 2,069	\$ 972	\$ -	\$ -
Construction	13,162	6,122	1,137	-	-
Residential	-	-	-	-	-
Single family / multi family	5,046	-	253	-	-
Home Equity	3,692	-	50	-	-
Commercial	21,005	597	849	-	-
Consumer	100	-	-	-	82
<b>Total</b>	<b><u>\$ 113,244</u></b>	<b><u>\$ 8,788</u></b>	<b><u>\$ 3,261</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 82</u></b>

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.

**GREATER HUDSON BANK, N.A.**  
NOTES TO FINANCIAL STATEMENTS  
Years ended December 31, 2010 and 2009

**NOTE 4 - PREMISES AND EQUIPMENT**

	<b>December 31,</b>	
	<b><u>2010</u></b>	<b><u>2009</u></b>
	<b>(in thousands)</b>	
Leasehold improvements	\$ 759	\$ 562
Furniture, fixtures and equipment	<u>1,019</u>	<u>1,007</u>
	<b>1,778</b>	<b>1,569</b>
Accumulated depreciation	<u>(635)</u>	<u>(715)</u>
	<b><u>\$ 1,143</u></b>	<b><u>\$ 854</u></b>

The amount charged to depreciation expense was approximately \$190,000 and \$135,000 for the years ended December 31, 2010 and 2009, respectively.

**NOTE 5 – DEPOSITS**

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

	<b><u>December 31, 2010</u></b>		<b><u>December 31, 2009</u></b>	
	<b>Weighted</b>	<b>Amount</b>	<b>Weighted</b>	<b>Amount</b>
	<b>Average</b>		<b>Average</b>	
	<b>Rate</b>		<b>Rate</b>	
Noninterest bearing demand	-%	\$ 14,480	-%	\$ 12,457
Interest bearing demand	0.27	4,131	0.23	2,603
Money market	1.41	97,740	1.75	63,781
Savings	0.74	12,427	0.80	6,135
Time deposits	1.80	<u>89,634</u>	2.29	<u>53,284</u>
	<b>1.42%</b>	<b><u>\$ 218,412</u></b>	<b>1.72%</b>	<b><u>\$ 138,260</u></b>

Scheduled maturities of time deposits at December 31, 2010, were as follows (in thousands):

2011	\$ 65,348
2012	19,981
2013	2,722
2014	324
2015	1,259
Thereafter	<u>-</u>
	<b><u>\$ 89,634</u></b>

At December 31, 2010 and 2009, time deposits of \$100,000 or more totaled \$52.2 million and \$25.0 million, respectively.

**GREATER HUDSON BANK, N.A.**  
NOTES TO FINANCIAL STATEMENTS  
Years ended December 31, 2010 and 2009

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**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 4.04 percent 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 \$6,044,000 as of December 31, 2010.

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, and \$3,000,000 at M&T 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, 2010 and 2009.

**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 \$402,000 and \$270,000 for the years ended December 31, 2010 and 2009, respectively.

At December 31, 2010, the minimum rental commitments required under the leases are as follows (in thousands):

2011	\$ 418
2012	429
2013	442
2014	430
2015	420
Thereafter	<u>921</u>
	<u><b>\$ 3,060</b></u>

**GREATER HUDSON BANK, N.A.**  
NOTES TO FINANCIAL STATEMENTS  
Years ended December 31, 2010 and 2009

**NOTE 8 - INCOME TAXES**

For the years ended December 31, 2010 and 2009, the Bank was subject to minimum New York State taxes of approximately \$27,500 and \$17,000, respectively, which is included in other non-interest expense. There were no interest and penalties for the year ended December 31, 2010 and 2009. The Bank is no longer subject to examination by the taxing authorities for the years ended before December 31, 2007. Income tax expense consists of the following (in thousands):

	<u>2010</u>	<u>2009</u>
Current		
Federal	\$ 6	\$ -
State	-	7
	<u>6</u>	<u>7</u>
Deferred		
Federal	511	6
State	109	12
	<u>620</u>	<u>18</u>
Change in valuation allowance	<u>(2,867)</u>	<u>(625)</u>
<b>Income tax expense (benefit)</b>	<b><u>\$ (2,241)</u></b>	<b><u>\$ (600)</u></b>

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 percent to income (loss) before income taxes (benefit) at years ended December 31 (in thousands):

	<u>2010</u>	<u>2009</u>
Federal income tax (benefit) at statutory rate	\$ 576	\$ 24
State income tax, net of federal income tax effect	72	3
Other items	(22)	(2)
Change in valuation allowance	<u>(2,867)</u>	<u>(625)</u>
<b>Effective income tax</b>	<b><u>\$ (2,241)</u></b>	<b><u>\$ (600)</u></b>

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

	<u>2010</u>	<u>2009</u>
<b>Deferred tax assets</b>		
Net operating losses carried forward	\$ 2,412	\$ 3,309
Allowance for loan losses	399	183
Unrealized gain on sale of securities	367	-
Other items	164	79
<b>Total deferred tax assets</b>	<b><u>3,342</u></b>	<b><u>3,571</u></b>
Valuation allowance	<u>-</u>	<u>(2,867)</u>
<b>Total deferred tax assets net of valuation allowance</b>	<b>3,342</b>	<b>704</b>
Deferred tax liabilities		
Depreciation	<u>(121)</u>	<u>(97)</u>
<b>Net deferred tax assets</b>	<b><u>\$ 3,221</u></b>	<b><u>\$ 607</u></b>

**GREATER HUDSON BANK, N.A.**  
NOTES TO FINANCIAL STATEMENTS  
Years ended December 31, 2010 and 2009

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**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.

At December 31, 2010, the Bank had \$12,000 of charitable contribution carryforwards that was converted to net operating loss carryforwards. 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>	<u>Charitable Contribution Carryforwards</u>
2022	\$ 85	\$ 85
2023	1,385	1,385
2024	1,523	1,523
2025	1,456	1,456
2026	1,171	1,171
2027	365	365
2028	46	366
2029	-	-
<b>Total</b>	<b><u>\$ 6,031</u></b>	<b><u>\$ 6,351</u></b>

**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 percent to 15 percent 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 2010 and 2009, the Bank's matching contributions totaled approximately \$16,000 and \$13,000, 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, 2010, the Bank meets all capital adequacy requirements to which it is subject.

**GREATER HUDSON BANK, N.A.**  
NOTES TO FINANCIAL STATEMENTS  
Years ended December 31, 2010 and 2009

**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).

The most recent notification 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, 2010 and 2009, 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>
<b><u>2010</u></b>						
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
<b><u>2009</u></b>						
Tier 1 leverage ratio (to average assets)	\$ 29,477	17.5%	\$ ≥6,737	≥4.0%	\$ ≥8,421	≥5.0%
Tier 1 risk-based capital ratio (to risk-weighted assets)	29,477	24.9	≥4,730	≥4.0	≥7,096	≥6.0
Total risk-based capital ratio (to risk-weighted assets)	30,528	25.8	≥9,461	≥8.0	≥11,826	≥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, 2010, the Bank could pay \$4.7 million in dividends.

**GREATER HUDSON BANK, N.A.**  
NOTES TO FINANCIAL STATEMENTS  
Years ended December 31, 2010 and 2009

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**NOTE 12 - RELATED PARTY TRANSACTIONS**

Loans to principal officers, directors, significant stockholders, and their affiliates at December 31, 2010 were \$5,251,000, of which \$2,251,000 was outstanding and \$3,000,000 was in unused lines of credit. At December 31, 2009 there were \$5,298,000, of which \$298,000 was outstanding and \$5,000,000 was in unused lines of credit in loans outstanding to principal officers, directors, significant stockholders, and their affiliates.

The Bank held related party deposits of approximately \$8,508,000 and \$10,168,000 at December 31, 2010 and 2009, respectively.

The Bank leases the Bardonia, New York branch office from significant stockholders of the Bank. The Bank is committed for an escalating 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 \$139,000 and \$97,000 as of December 31, 2010 and 2009, 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, 2010 and 2009, were as follows (in thousands):

	<u>2010</u>	<u>2009</u>
Commitments to extend credit	\$ 4,895	\$ 3,118
Unused credit lines	<u>18,927</u>	<u>16,920</u>
	<b><u>\$ 23,822</u></b>	<b><u>\$ 20,038</u></b>

Commitments to extend credit include mortgage loans, term loans, home equity, and commercial lines of credit expiring within 90 days. At December 31, 2010, there were no commitments to extend credit expiring prior to 90 days at fixed rates. At December 31, 2010, unused credit lines include commercial lines of \$17,378,000 at adjustable rates of prime to prime +3.00 percent, with floor rates as high as 7.00 percent and home equity lines of credit of \$1,549,000 at adjustable rates of prime minus 1.76 percent to prime floating with floor rates as high as 5.0 percent. At December 31, 2009, there were no commitments to extend credit expiring prior to 90 days at fixed rates. At December 31, 2009, unused credit lines include commercial lines of \$15,029,000 at adjustable rates of prime to prime + 2.00 percent, with floor rates as high as 6.50 percent and home equity lines of credit of \$1,891,000 at adjustable rates of prime minus 1.76 percent to prime floating with floor rates as high as 5.00 percent. At December 31, 2010 and 2009, outstanding letters of credit approximated \$1,526,000 and \$414,000, respectively.

**GREATER HUDSON BANK, N.A.**  
NOTES TO FINANCIAL STATEMENTS  
Years ended December 31, 2010 and 2009

**NOTE 14 - STOCK BASED COMPENSATION**

The Bank has one share based compensation arrangement as described below. Total compensation cost that has been charged against income for this plan was \$12,000 for 2010 and \$18,000 for 2009. The total income tax benefit was \$5,000 for 2010 and \$7,000 for 2009.

Share Award Plan: A grant of 10,000 shares of restricted stock was made during 2008 to one executive officer, which vests 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. 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. RRP shares fully vest on the second anniversary of the grant date.

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, 2010	5,000	\$ 3.00
Granted	-	-
Vested	5,000	\$ 3.00
Forfeited	-	-
<b>Nonvested at December 31, 2010</b>	<b>==</b>	<b>\$ -</b>

As of December 31, 2010, all shares granted under the plan were vested. The total fair value of shares vested during the years ended December 31, 2010 and 2009 was \$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).

**GREATER HUDSON BANK, N.A.**  
NOTES TO FINANCIAL STATEMENTS  
Years ended December 31, 2010 and 2009

**NOTE 15 - FAIR VALUE** (Continued)

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.

**Assets and Liabilities Measured on a Recurring Basis**

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

	<b>Fair Value Measurements</b>		
	<b>At December 31 Using</b>		
	<b>Quoted Prices In Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
<b><u>2010</u></b>			
<b>Assets:</b>			
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	<u>432</u>	<u>-</u>	<u>-</u>
<b>Total Available for Sale Securities</b>	<b><u>\$ 1,411</u></b>	<b><u>\$ 96,577</u></b>	<b><u>\$ -</u></b>
<b><u>2009</u></b>			
<b>Assets:</b>			
Available for sale securities			
U.S. Government agencies	\$ -	\$ 46,328	\$ -
Mortgage backed securities - residential	-	7,530	-
Collateralized mortgage obligation – residential	-	994	-
Money market securities	<u>196</u>	<u>-</u>	<u>-</u>
<b>Total Available for Sale Securities</b>	<b><u>\$ 196</u></b>	<b><u>\$ 54,852</u></b>	<b><u>\$ -</u></b>

**GREATER HUDSON BANK, N.A.**  
NOTES TO FINANCIAL STATEMENTS  
Years ended December 31, 2010 and 2009

**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):

	<b>Fair Value Measurements At December 31 Using</b>		
	<b>Quoted Prices In Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
<b>2010</b>			
<b>Assets:</b>			
Impaired loans			
Commercial	\$ -	\$ -	\$ 2
Commercial real estate			
Construction	-	-	952
Other	-	-	-
<b>2009</b>			
<b>Assets:</b>			
Impaired loans	\$ -	\$ -	\$ 483

The following represent impairment charges recognized during the period:

At December 31, 2010 and 2009, impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had net carrying amounts of \$1,472,000 and \$483,000 with a valuation allowance of \$180,000 and \$46,000 resulting in an additional provision for loan losses of \$180,000 and \$46,000, respectively.

Estimated fair values of financial instruments at December 31, 2010 and 2009, were as follows (in thousands):

	<b>2010</b>		<b>2009</b>	
	<b>Carrying Amount</b>	<b>Fair Value</b>	<b>Carrying Amount</b>	<b>Fair Value</b>
<b><u>Financial assets</u></b>				
Cash and due from banks	\$ 12,450	\$ 12,450	\$ 10,265	\$ 10,265
Federal funds sold	1,675	1,675	4,693	4,693
Securities available for sale	97,988	97,988	55,048	55,048
Securities held to maturity	15,217	15,991	9,045	10,093
Restricted bank stock	1,240	N/A	965	N/A
Loans receivable, net	122,627	126,615	89,407	93,592
Accrued interest receivable	1,090	1,090	922	922
<b><u>Financial liabilities</u></b>				
Deposits	\$ 218,412	\$ 221,060	\$ 138,260	\$ 138,834
Securities sold under agreements to repurchase	5,000	5,208	5,000	4,909
Accrued interest payable	388	388	232	232

**GREATER HUDSON BANK, N.A.**  
NOTES TO FINANCIAL STATEMENTS  
Years ended December 31, 2010 and 2009

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**NOTE 15 - FAIR VALUE** (Continued)

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  
(877) 692-1170  
[www.greaterhudsonbank.com](http://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 26, 2011 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:**

**Basel Rabie:** *SVP and Branch Administrator*

#### **Middletown Office**

643 Route 211 East  
Middletown, NY 10941  
(877) 692-1170

**Mary Borcsik,** *Branch Manager*

#### **Warwick Office**

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

**Susan Ronga,** *Branch Manager*

#### **Bardonia Office**

715 Route 304  
Bardonia, NY 10954  
(845) 215-1000

**Marshanette Patterson,** *Acting Branch Manager*

#### **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*

**Thomas F. Egan:** *Private investor and business consultant. Former investment banker with Citigroup Global Markets. Past Chairman of Board of Trustees of the State University of New York*

**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*





**GREATER  
HUDSON BANK<sup>NA</sup>**

BRANCH OFFICES

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