



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

**2009**

**ANNUAL  
REPORT**



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

## **FINANCIAL REPORT**

**DECEMBER 31, 2009 AND 2008**

### **TABLE OF CONTENTS**

	<b>PAGE NO.</b>
<b>FINANCIAL STATEMENTS:</b>	
Report of Independent Auditors .....	3
Statements of Financial Condition .....	4
Statements of Operations .....	5
Statements of Changes in Shareholders' Equity .....	6
Statements of Cash Flows .....	7
Notes to Financial Statements .....	8

To Our Shareholders:

It gives me great pleasure to inform you that net income for the year ending 2009 was \$670,000 compared to a net loss of \$1,850,000 for 2008, thus marking the first profitable year in Greater Hudson Bank's history. As a result, return on average common stockholders' equity increased from (15.12) percent for the year ended December 31, 2008 to 2.38 percent for the year ended December 31, 2009. This is a tremendous achievement given the difficult economy and the many challenges facing the banking industry.

As I reported to you last year, 2008 was marked by transition and significant change for the Bank. As a company we were building the framework and planning the initiatives to move us forward toward a profitable future. This year I am reporting that 2009 will be known as the year the Bank turned the corner on profitability. The Bank took much satisfaction in being able to report the first quarterly profit in its history in the second quarter of 2009, followed by two more quarters of increased profits in the third and fourth quarters of 2009.

As a result of the Bank turning profitable, we were able to benefit from prior year net operating losses. Net income in the fourth quarter benefited from the reversal of a portion (\$600,000) of the reserve established against the Bank's deferred tax asset. On a pre-tax basis and without utilizing this benefit, the Bank still reported positive pre-tax net income of \$70,000.

Becoming profitable took a lot of hard work and so it is with great pride that I share with you some highlights from 2009:

- Total assets increased \$67.6 million or 64.4 percent to \$172.5 million at December 31, 2009 from \$104.9 million at December 31, 2008.
- The Bank's tier 1 capital ratio declined from 30.31 percent at December 31, 2008 to 17.50 percent at December 31, 2009; however, the Bank remains exceedingly well capitalized. This decline simply reflects the Bank's success in leveraging its capital into earning assets and growing our balance sheet.
- The Bank's overall deposit base grew 93.7 percent to \$138.3 million at December 31, 2009 from \$71.4 million at December 31, 2008. Demand deposits, a source of low cost funds for the Bank, grew over 45 percent. All three of our branches recorded impressive growth. The Branch staff in each of our locations, led by Basel Rabie (Bardonia Branch Manager), Veronica Dubetsky (Middletown Branch Manager) and Susan Ronga (Warwick Branch Manager) are to be commended on their teams' efforts.
- Our Bardonia branch opened in November 2008 and in less than a year (as of June 30, 2009) it held over \$50.0 million in deposits.

- Net loans outstanding increased 83.0 percent to \$89.4 million at December 31, 2009. Loan growth reflects the tremendous effort put forth by the entire lending team, led by Greg Monteith. During 2009, the Bank's lending team closed approximately \$70.0 million in new loans.
- Net charge-offs increased from \$0.6 million for 2008 to \$0.9 million for 2009. Non-performing loans increased from \$1.2 million at December 31, 2008 to \$2.2 million at December 31, 2009. While we will never be happy with an increase in problem assets, we believe this small increase, in the context of our current economic environment, shows the strength of our credit quality. To put things in context, our ratio of non-performing loans to total loans outstanding decreased from 2.39 percent at December 31, 2008 to 2.38 percent at December 31, 2009.
- Investment securities increased by \$25.5 million or 66.3 percent to \$64.1 million at December 31, 2009 from \$38.5 million at December 31, 2008.
- By closely managing the investment portfolio, net security gains in the amount of \$99,000 were realized for 2009 compared to no security gains for 2008.
- Many enhancements and upgrades to our telecommunications systems and computer network were implemented, which will enable us to ultimately provide better customer service. With the completion of the data communications project, we have positioned ourselves for growth as we add branch locations in the future.
- The implementation of Back Office Teller, which processes daily teller work at each branch location, was completed during 2009. This system has increased efficiency and reduced overall processing costs.
- The Bank has been accepted as an approved depository institution by many municipalities in the markets we serve. This gives us another source of funding to provide loans in the communities that we serve.

Many banks struggled and even failed during the last two years as the recession proved to be deeper and the economy more difficult than originally thought. While the recession has eased, the labor and housing markets continue to be challenged and will take additional time to heal. During the past year a trend has continued to emerge that has many consumers and businesses alike returning to banking with a strong local community bank. We at Greater Hudson Bank have been able to capitalize on this trend as evidenced by our strong growth over the last year. Our capital position continues to provide us the strength and stability to better meet our customer's financial needs. Our tier 1 capital ratio of 17.50 percent at December 31, 2009, demonstrates that the Bank remains exceedingly well capitalized.

Management worked diligently to deploy the significant capital invested in the fourth quarter of 2008, as well as sizable deposits that were gathered during 2009. While there has been much press regarding a decline in lending by the large banks in 2009, Greater

Hudson Bank is proud to be one of the banks that continues to lend in the communities that it serves. Providing loans to qualified borrowers in our market has been our primary focus. At the same time, we controlled expenses and saw our margins improve as our cost of funds declined measurably. In a challenging rate environment, the Bank's margins continued to improve as high cost deposits rolled off and were replaced with deposits at lower rates. Average earning assets increased \$65.6 million or 95.4 percent during 2009. In addition, the Bank's net margin improved 60 basis points to 3.54 percent.

During 2009, two of the Bank's founding directors, Anthony Ingrassia and Sheila Fishman, resigned from the Board to pursue other interests. In addition, Kevin Plunkett, a director that joined the Board as part of the investor group in 2008, resigned from the Board effective December 31, 2009 to pursue a career change. I personally thank each of them for their support and their contributions to the Bank during their tenure as Directors. The Employees, Officers and Directors of the Bank wish them all well.

Our Finance Department was strengthened in 2009 by the addition of Tom Cornelius, the Bank's current Chief Financial Officer. Tom joined the Bank in July as Controller and worked tirelessly along with the entire Finance Department staff in an effort to move the Bank forward. Tom has played a major role in upgrading the management of our investment portfolio to provide a satisfactory yield while at the same time keeping a close eye on credit quality and interest rate and duration risks. After serving as Interim CFO during the fall of 2009, Tom earned a well deserved promotion to become the Bank's Chief Financial Officer in February 2010. I am happy to report as well the promotion of James Haralambie to the position of Controller. Jim joined the Bank not long after the recapitalization and has been an integral part in our success. I hope you will join me in wishing both of them much success in their new positions.

We are very encouraged by our success in Rockland County and thus are really looking forward to opening our first branch in Westchester County, N.Y. during the spring of 2010. Subsequent to year end the Bank received regulatory approval for its fourth branch to be located at 567 North Broadway, White Plains, N.Y. Our intended growth in Westchester is a natural extension of our geographic presence in the Hudson Valley and will help to better serve our customers. I look forward to sharing with you our success in this new market next year.

I am extremely proud of the significant progress made in 2009. I sincerely thank Lynne Allan, Chief Operating Officer, Tom Cornelius, Chief Financial Officer and Greg Monteith, Chief Lending Officer for all that they have done to make this past year such a success.

I want to publicly recognize and thank our Chairman, Kenneth Torsoe, for leading the investment group that made such a significant capital infusion into the Bank in 2008. The capital investment made by the Torsoe led group provided the resources for Greater Hudson Bank to achieve exceptional 2009 results. Chairman Torsoe's belief in the need for a strong local community bank and in the team he has put together has set the Bank

on the right course to achieve great things. His continued service and guidance as our Chairman is invaluable. Chairman Torsoe's commitment to the success of the Bank is evident everyday and he sets a positive example for all of us to follow.

We thank all of our customers for remaining loyal to Greater Hudson Bank during our transition at the end of 2008 and we thank all of the new customers that joined the Greater Hudson family during the last year.

Our employees deserve special recognition for all of their efforts during the past year. Without their commitment to the success of Greater Hudson Bank, these exceptional results would not have been possible.

With the contributions of our entire Greater Hudson team we were able to experience the many successes mentioned within this letter. Our commitment to our Customers, Shareholders, and Employees continues as the foundation on which our organization operates.

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

In closing, I want to let you know that the Directors, Officers, and Employees of your Bank are working together to achieve success. Your continued support enables us to consistently meet the high standards we are trying to achieve on an everyday basis. As our institution continues to grow and compete within the Hudson Valley region, management remains focused on effectively controlling expenses while continuing to provide exceptional customer service. Even with the tremendous success that took place in 2009, we all look forward to an even more successful and profitable 2010.

Expect Greater Things.



Eric J. Wiggins  
President and CEO



Crowe Horwath LLP  
Independent Member Crowe Horwath International

## REPORT OF INDEPENDENT AUDITORS

To the 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, 2009 and 2008, 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 audits 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, 2009 and 2008, 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.

A handwritten signature in black ink that reads "Crowe Horwath LLP".

Crowe Horwath LLP

Livingston, New Jersey  
April 8, 2010

# GREATER HUDSON BANK, N.A.

## STATEMENTS OF FINANCIAL CONDITION

	December 31,	
	2009	2008
	(In Thousands, Except for Share Data)	
<b>ASSETS</b>		
Cash and due from banks	\$ 10,265	\$ 1,860
Federal funds sold	4,693	14,057
Cash and Cash Equivalents	<u>14,958</u>	<u>15,917</u>
Securities available for sale	55,048	32,750
Securities held to maturity (fair value of \$10,093 in 2009; \$5,946 in 2008)	9,045	5,800
Loans receivable, net of allowance for loan losses of \$1,051 in 2009 and \$1,134 in 2008	89,407	48,862
Premises and equipment	854	843
Restricted investments in bank stock	965	340
Accrued interest receivable	922	264
Other assets	<u>1,327</u>	<u>161</u>
<b>Total Assets</b>	<u><u>\$172,526</u></u>	<u><u>\$104,937</u></u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>LIABILITIES</b>		
Deposits:		
Non-interest bearing	\$ 12,457	\$ 8,540
Interest bearing	<u>125,803</u>	<u>62,844</u>
Total Deposits	<u>138,260</u>	<u>71,384</u>
Securities sold under agreements to repurchase	5,000	5,000
Other liabilities	<u>649</u>	<u>193</u>
<b>Total Liabilities</b>	<u>143,909</u>	<u>76,577</u>
<b>SHAREHOLDERS' EQUITY</b>		
Common stock and paid-in capital, \$5 par value; 20,000,000 shares authorized; issued and outstanding 10,000,000 shares in 2009 and 2008	37,598	37,580
Accumulated deficit	(8,120)	(8,790)
Accumulated other comprehensive loss	<u>(861)</u>	<u>(430)</u>
<b>Total Shareholders' Equity</b>	<u>28,617</u>	<u>28,360</u>
<b>Total Liabilities and Shareholders' Equity</b>	<u><u>\$172,526</u></u>	<u><u>\$104,937</u></u>

*See notes to financial statements.*

# GREATER HUDSON BANK, N.A.

## STATEMENTS OF OPERATIONS

	Years Ended December 31,	
	2009	2008
	(In Thousands)	
<b>INTEREST INCOME</b>		
Loans receivable, including fees	\$4,843	\$2,947
Securities	2,114	735
Federal funds sold and dividend income	68	126
Interest bearing time deposit	-	8
<b>Total Interest Income</b>	<b>7,025</b>	<b>3,816</b>
<b>INTEREST EXPENSE</b>		
Deposits	2,062	1,583
Securities sold under agreements to repurchase	205	207
<b>Total Interest Expense</b>	<b>2,267</b>	<b>1,790</b>
<b>Net Interest Income</b>	<b>4,758</b>	<b>2,026</b>
<b>PROVISION FOR LOAN LOSSES</b>	<b>786</b>	<b>1,080</b>
<b>Net Interest Income after Provision for Loan Losses</b>	<b>3,972</b>	<b>946</b>
<b>NON-INTEREST INCOME</b>		
Service charges on deposit accounts	115	139
Other income	33	5
Net gains on securities transactions	99	-
<b>Total Non-Interest Income</b>	<b>247</b>	<b>144</b>
<b>NON-INTEREST EXPENSES</b>		
Salaries and employee benefits	1,927	1,429
Occupancy and equipment	712	464
Advertising, marketing and business development	194	66
Data processing expenses	327	246
Professional fees	198	350
FDIC	257	41
Other non-interest expenses	534	344
<b>Total Other Expenses</b>	<b>4,149</b>	<b>2,940</b>
<b>Income (Loss) Before Tax Expense</b>	<b>70</b>	<b>(1,850)</b>
<b>Income Tax Expense (Benefit)</b>	<b>(600)</b>	<b>-</b>
<b>Net Income (Loss)</b>	<b>\$ 670</b>	<b>\$(1,850)</b>

See notes to financial statements.

# GREATER HUDSON BANK, N.A.

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## STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY Years Ended December 31, 2009 and 2008

	<b>Common Stock And Paid-In Capital</b>	<b>Accumulated Income/(Deficit)</b>	<b>Accumulated Other Comprehensive Loss</b>	<b>Total</b>
	(In Thousands, Except per Share Data)			
<b>BALANCE – JANUARY 1, 2008</b>	\$14,138	\$(6,940)	\$(40)	\$7,158
Comprehensive loss:				
Net loss	-	(1,850)	-	(1,850)
Unrealized loss on securities available for sale	-	-	(390)	(390)
<b>Total Comprehensive Loss</b>				<u>(2,240)</u>
Issuance of 7,814,039 shares of stock, net of issuance costs	<u>23,442</u>	<u>-</u>	<u>-</u>	<u>23,442</u>
<b>BALANCE - DECEMBER 31, 2008</b>	37,580	(8,790)	(430)	28,360
Comprehensive income:				
Net income	-	670	-	670
Unrealized loss on securities available for sale, net of net realized gains on available for sale securities of \$84,700	-	-	(431)	(431)
<b>Total Comprehensive Income</b>				<u>239</u>
Stock based compensation expense	<u>18</u>	<u>-</u>	<u>-</u>	<u>18</u>
<b>BALANCE - DECEMBER 31, 2009</b>	<u>\$37,598</u>	<u>\$(8,120)</u>	<u>\$ (861)</u>	<u>\$ 28,617</u>

*See notes to financial statements.*

# GREATER HUDSON BANK, N.A.

## STATEMENTS OF CASH FLOWS

	Years Ended December 31,	
	2009	2008
	(In Thousands)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income (loss)	\$ 670	\$ (1,850)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Provision for loan losses	786	1,080
Provision for depreciation and amortization	135	106
Net amortization (accretion) of securities, premiums and discounts	(27)	(3)
Deferred income taxes	(607)	-
Net realized (gain) loss on sale of foreclosed real estate	17	-
Net realized (gain) loss on sale of securities	99	-
(Increase) decrease in accrued interest receivable and other assets	(1,217)	84
Increase (decrease) in accrued interest payable and other liabilities	456	(183)
Stock compensation expense	18	-
	<u>330</u>	<u>(766)</u>
<b>Net Cash Provided by (Used in) Operating Activities</b>		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of securities available for sale	(83,052)	(28,996)
Purchases of securities held to maturity	(3,343)	(5,789)
Calls, maturities and principal repayments on securities available for sale	34,661	9,200
Proceeds from sales of securities available for sale	25,463	-
Proceeds from sales of securities held to maturity	225	-
Net increase in loans	(41,348)	(6,395)
Purchases of premises and equipment	(146)	(194)
(Purchases) redemption of restricted bank stock	(625)	3
Net maturities (purchases) of interest bearing time deposit	-	788
	<u>(68,165)</u>	<u>(31,383)</u>
<b>Net Cash Used in Investing Activities</b>		
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net increase in deposits	66,876	18,538
Proceeds from issuance of common stock	-	23,442
	<u>66,876</u>	<u>41,980</u>
<b>Net Cash Provided by Financing Activities</b>		
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(959)	9,831
<b>CASH AND CASH EQUIVALENTS - BEGINNING</b>	<u>15,917</u>	<u>6,086</u>
<b>CASH AND CASH EQUIVALENTS - ENDING</b>	<u>\$14,958</u>	<u>\$15,917</u>
<b>SUPPLEMENTARY CASH FLOWS INFORMATION</b>		
Interest paid	\$2,100	\$1,804

*See notes to financial statements.*

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

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## **NOTES TO FINANCIAL STATEMENTS**

### **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 and Rockland 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 Company has evaluated subsequent events for recognition and disclosure through April 8, 2010, 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.

## **NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **Significant Group Concentrations of Credit Risk**

Most of the Bank's activities are with customers located within Orange County, 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.

### **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.

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

**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.

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.

## **NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **Allowance for Loan Losses (Continued)**

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 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"), 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 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 \$194,000 and \$66,000 for the years ended December 31, 2009 and 2008, 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.

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

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## **NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **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.

The Company adopted guidance by the FASB with respect to accounting for uncertainty in income taxes as of January 1, 2009. 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. The adoption had no effect on the Bank's financial statements.

### **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.

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

**Adoption of New Accounting Standards**

In September 2006, the FASB issued guidance that defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This guidance also establishes a fair value hierarchy about the assumptions used to measure fair value and clarifies assumptions about risk and the effect of a restriction on the sale or use of an asset. The guidance was effective for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued guidance that delayed the effective date of this fair value guidance for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value on a recurring basis (at least annually) to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. The impact of adoption was not material.

In May 2009, the Financial Accounting Standards Board (“FASB”) issued guidance which requires the effects of events that occur subsequent to the balance-sheet date be evaluated through the date the financial statements are either issued or available to be issued. Companies should disclose the date through which subsequent events have been evaluated and whether that date is the date the financial statements were issued or the date the financial statements were available to be issued. Companies are required to reflect in their financial statements the effects of subsequent events that provide additional evidence about conditions at the balance-sheet date (recognized subsequent events). Companies are also prohibited from reflecting in their financial statements the effects of subsequent events that provide evidence about conditions that arose after the balance-sheet date (nonrecognized subsequent events), but requires information about those events to be disclosed if the financial statements would otherwise be misleading. This guidance was effective for interim and annual financial periods ending after June 15, 2009 with prospective application. The impact of adoption was not material.

In April 2009, the FASB amended existing guidance for determining whether impairment is other-than-temporary for debt securities. The guidance requires an entity to assess whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of these criteria is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) other-than-temporary impairment (OTTI) related to other factors, which is recognized in other comprehensive income and 2) OTTI related to credit loss, which must be recognized in the income statement. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. Additionally, disclosures about other-than-temporary impairments for debt and equity securities were expanded. This guidance was effective for interim and annual reporting periods ending after June 15, 2009. The impact of adoption was not material.

In April 2009, the FASB issued guidance that emphasizes that the objective of a fair value measurement does not change even when market activity for the asset or liability has decreased significantly. Fair value is the price that would be received for an asset sold or paid to transfer a liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. When observable transactions or quoted prices are not considered orderly, then little, if any, weight should be assigned to the indication of the asset or liability’s fair value. Adjustments to those transactions or prices should be applied to determine the appropriate fair value. The guidance, which was applied prospectively, was effective for interim and annual reporting periods ending after June 15, 2009, early adoption for periods ending after March 15, 2009. The effect of adopting this new guidance was not material.

# GREATER HUDSON BANK, N.A.

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## NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In June 2009, the FASB replaced *The Hierarchy of Generally Accepted Accounting Principles*, with the *FASB Accounting Standards Codification*<sup>TM</sup> (The Codification) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. Rules and interpretive releases of the Securities and Exchange Commission under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The Codification was effective for financial statements issued for periods ending after September 15, 2009.

## NOTE 2 - SECURITIES

Amortized cost and fair value of securities available for sale were as follows:

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
	(In Thousands)			
<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
	<u>\$55,909</u>	<u>\$54</u>	<u>\$(915)</u>	<u>\$55,048</u>
<b>December 31, 2008:</b>				
U.S. Government agencies securities	\$8,269	\$35	\$(188)	\$8,116
Mortgage-backed securities - residential	5,497	40	(26)	5,511
Collateralized mortgage obligations - residential	2,222	3	(294)	1,931
Money market funds	17,192	-	-	17,192
	<u>\$33,180</u>	<u>\$78</u>	<u>\$(508)</u>	<u>\$32,750</u>

# GREATER HUDSON BANK, N.A.

## NOTE 2 – SECURITIES (CONTINUED)

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

	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
	(In Thousands)			
<b>December 31, 2009:</b>				
Corporate Bonds	\$9,045	\$1,048	\$-	\$10,093
<b>December 31, 2008:</b>				
Corporate Bonds	\$5,800	\$146	\$-	\$5,946

At December 31, 2009 and 2008, securities with amortized cost of \$14,323,000 and \$6,205,000 and fair values of \$14,153,000 and \$6,148,000, respectively, were pledged to secure public funds on deposit and borrowings at PNC Bank.

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. During the year ended December 31, 2008, there were no sales of securities available for sale or held to maturity.

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:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In Thousands)					
<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>
<b>December 31, 2008:</b>						
U.S. Government agencies securities	\$6,055	\$(188)	\$ -	\$ -	\$6,055	\$(188)
Mortgage-backed securities – residential	1,789	(26)	-	-	1,789	(26)
Collateralized mortgage obligations - residential	774	(222)	549	(72)	1,323	(294)
	<u>\$8,618</u>	<u>\$(436)</u>	<u>\$549</u>	<u>\$(72)</u>	<u>\$9,167</u>	<u>\$(508)</u>

As of December 31, 2009 and 2008, there were no unrealized losses on HTM securities.

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

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## **NOTE 2 – SECURITIES (CONTINUED)**

At December 31, 2009, unrealized losses involved forty-one U.S. Government agencies securities, four mortgage backed securities and three collateralized mortgage obligations. 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.

The amortized cost and fair value of the Bank's securities available for sale at December 31, 2009, 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.

	<b>December 31, 2009</b>	
	<b>Amortized Cost</b>	<b>Fair Value</b>
	(In Thousands)	
1 year or less	\$ -	\$ -
Over 1 year through 5 years	14,490	14,377
Over 5 years through 10 years	17,499	17,265
Over 10 years	14,998	14,686
Mortgage-backed securities - residential	7,594	7,530
Collateralized mortgage obligations - residential	1,132	994
	<u>\$55,713</u>	<u>\$54,852</u>

# GREATER HUDSON BANK, N.A.

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## NOTE 2 – SECURITIES (CONTINUED)

The amortized cost and fair value of the Bank's securities held to maturity at December 31, 2009, by contractual maturity are shown below. Expected maturities will differ from contractual maturities because issues may have the right to call or prepay with or without penalties.

	December 31, 2009	
	Amortized Cost	Fair Value
	(In Thousands)	
1 year or less	\$ -	\$ -
Over 1 year through 5 years	8,545	9,564
Over 5 years through 10 years	500	529
Over 10 years	-	-
	<u>\$9,045</u>	<u>\$10,093</u>

## NOTE 3 - LOANS

Loans at year end were as follows:

	December 31,	
	2009	2008
	(In Thousands)	
Real estate:		
Commercial	\$50,121	\$28,126
Land acquisition	9,401	750
Construction	5,054	2,098
Home equity	3,448	3,083
One-to-four family residential	1,254	1,470
Commercial	21,372	14,613
Consumer	338	436
<b>Total</b>	<u>90,988</u>	<u>50,576</u>
Allowance for loan losses	(1,051)	(1,134)
Loans in process	-	(547)
Deferred loan fees and costs, net	<u>(530)</u>	<u>(33)</u>
<b>Loans</b>	<u>\$89,407</u>	<u>\$48,862</u>

# GREATER HUDSON BANK, N.A.

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## NOTE 3 - LOANS (CONTINUED)

Changes in the allowance for loan losses for the years ended December 31, 2009 and 2008, were as follows:

	<u>2009</u>	<u>2008</u>
	(In Thousands)	
Balance - beginning	\$1,134	\$ 657
Provisions for loan losses	786	1,080
Recoveries of charged off loans	36	3
Loans charged off	<u>(905)</u>	<u>(606)</u>
Balance - ending	<u>\$1,051</u>	<u>\$1,134</u>

The following is a summary of information pertaining to impaired and non-accrual loans at December 31, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
	(In Thousands)	
Impaired loans without valuation allowance	\$ 751	\$ -
Impaired loans with valuation allowance	<u>529</u>	<u>1,013</u>
<b>Total impaired loans</b>	<u><u>\$ 1,280</u></u>	<u><u>\$ 1,013</u></u>
Valuation allowance related to impaired loans	\$ 46	\$ 356
Total non-accrual loans	\$ 1,187	\$ 1,211
Total loans past-due ninety days or more and still accruing	\$ 976	\$ -

During the year ended December 31, 2009 and 2008, the average investment in impaired loans was \$1,245,000 and \$1,678,000, respectively. During the year ended December 31, 2009 and 2008, the interest collected on these loans was approximately \$31,000 and \$42,000, respectively, all on a cash basis. No additional funds are committed to be advanced on impaired loans.

The Bank had one loan with a balance of \$976,000 greater than 90 days delinquent and still accruing interest at December 31, 2009. The Bank had no loans greater than 90 days delinquent and still accruing interest at December 31, 2008. The total interest earned on these loans for the year ended December 31, 2009 totaled approximately \$55,000.

# GREATER HUDSON BANK, N.A.

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## NOTE 4 - PREMISES AND EQUIPMENT

	December 31,	
	2009	2008
	(In Thousands)	
Leasehold improvements	\$ 562	\$ 497
Furniture, fixtures and equipment	1,007	961
	<u>1,569</u>	<u>1,458</u>
Accumulated depreciation	(715)	(615)
	<u>\$ 854</u>	<u>\$ 843</u>

The amount charged to depreciation expense was approximately \$135,000 and \$106,000 for the years ended December 31, 2009 and 2008, respectively.

## NOTE 5 – DEPOSITS

Deposits at year end were as follows:

	December 31,			
	2009		2008	
	Weighted Average Rate	Amount	Weighted Average Rate	Amount
	(In Thousands)			
Noninterest bearing demand	-	\$ 12,457	-	\$ 8,540
Interest bearing demand	0.23	2,603	0.45	2,651
Money market	1.72	63,781	2.25	21,907
Savings	0.80	6,135	1.09	3,844
Time deposits	2.29	<u>53,284</u>	3.82	<u>34,442</u>
	1.72 %	<u>\$138,260</u>	2.62 %	<u>\$71,384</u>

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

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## **NOTE 5 – DEPOSITS (CONTINUED)**

Scheduled maturities of time deposits at December 31, 2009, were as follows (in thousands):

2010	\$44,676
2011	8,012
2012	591
2013 and thereafter	<u>5</u>
	<u><u>\$53,284</u></u>

At December 31, 2009 and 2008, time deposits of \$100,000 or more totaled \$25.0 million and \$14.2 million, respectively.

## **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% 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 \$5,830,000 and fair value of \$5,749,000 as of December 31, 2009.

The Bank has available Federal Funds lines of credit for \$3,000,000 at The Independent Bankers Bank and \$3,000,000 at Atlantic Central Bankers 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, 2009 and 2008.

## **NOTE 7 - OPERATING LEASES**

The Bank leases office space for use as an administrative and branch office in Middletown, New York, and branch offices in Warwick and Bardonia, New York. In January 2010, the Bank signed a ten year lease for a branch location in White Plains, New York which will commence on March 1, 2010 and end December 31, 2019. Rental expense totaled approximately \$270,000 and \$178,000 for the years ended December 31, 2009 and 2008, respectively.

At December 31, 2009 (including lease signed in January 2010), the minimum rental commitments required under the leases are as follows (in thousands):

2010	\$ 339
2011	239
2012	246
2013	254
Thereafter	<u>1,303</u>
	<u><u>\$2,381</u></u>

# GREATER HUDSON BANK, N.A.

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## NOTE 8 - INCOME TAXES

For the years ended December 31, 2009 and 2008, the Bank was subject to minimum New York State taxes of approximately \$17,000 and \$7,000, respectively, which is included in other non-interest expense. There were no interest and penalties for the year ended December 31, 2009 and 2008. The Bank is no longer subject to examination by the taxing authorities for the years ended before December 31, 2006. Income tax expense consists of the following:

	<u>2009</u>	<u>2008</u>
	(In Thousands)	
Current		
Federal	\$ -	\$ -
State	7	-
	<u>7</u>	<u>-</u>
Deferred		
Federal	6	(527)
State	12	(164)
	<u>18</u>	<u>(691)</u>
Change in valuation allowance	<u>(625)</u>	<u>691</u>
Income tax expense (benefit)	<u><u>\$(600)</u></u>	<u><u>\$ -</u></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:

	<u>Years ended December 31,</u>	
	<u>2009</u>	<u>2008</u>
	(In Thousands)	
Federal income tax (benefit) at statutory rate	\$ 24	\$(629)
State income tax, net of federal income tax effect	3	(103)
Other items	(2)	41
Change in valuation allowance	<u>(625)</u>	<u>691</u>
<b>Effective Income Tax</b>	<u><u>\$(600)</u></u>	<u><u>\$ -</u></u>

# GREATER HUDSON BANK, N.A.

## NOTE 8 - INCOME TAXES (CONTINUED)

The Bank's deferred tax assets, liabilities and valuation allowances at December 31, 2009 and 2008, are as follows:

	<u>2009</u>	<u>2008</u>
	(In Thousands)	
Deferred tax assets:		
Net operating losses carried forward	\$3,309	\$3,200
Allowance for loan losses	183	343
Other items	79	8
<b>Total Deferred Tax Assets</b>	<u>3,571</u>	<u>3,551</u>
Valuation allowance	<u>(2,867)</u>	<u>(3,492)</u>
<b>Total Deferred Tax Assets Net of Valuation Allowance</b>	704	59
Deferred tax liabilities:		
Depreciation	<u>(97)</u>	<u>(59)</u>
<b>Net Deferred Tax Assets</b>	<u>\$ 607</u>	<u>\$ -</u>

Realization of deferred tax assets associated with the net operating loss carryforwards is dependent upon generating sufficient taxable income prior to their expiration. A valuation allowance to reflect management's estimate of the temporary deductible differences that may expire prior to their utilization has been recorded at year end 2009 and 2008. The \$625,000 reversal in 2009 represents the amount management expects to realize within the next twelve months.

At December 31, 2009, the Bank has available unused net operating loss and charitable contribution carryforwards that may be applied against future taxable income and that expire as follows:

	<u>Net Operating Loss Carryforwards</u>	<u>Charitable Contribution Carryforwards</u>
	(In Thousands)	
Year of expiration:		
2010	\$ -	\$ 1
2011	-	7
2013	-	1
2014	-	4
2022	439	-
2023	1,740	-
2024	1,523	-
2025	1,456	-
2026	1,171	-
2027	365	-
2028	1,359	-
2029	<u>264</u>	<u>-</u>
<b>Total</b>	<u>\$8,317</u>	<u>\$13</u>

# GREATER HUDSON BANK, N.A.

## 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 2009 and 2008, the Bank's matching contributions totaled approximately \$13,000 and \$8,000, 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, 2009, the Bank meets all capital adequacy requirements to which it is subject.

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, 2009 and 2008, and the minimum ratios required for capital adequacy purposes and to be well capitalized under the prompt correction action provisions are as follows:

	Actual		For Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>As of December 31, 2009:</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
<b>As of December 31, 2008:</b>						
Tier 1 leverage ratio (to average assets)	\$28,790	30.3 %	\$≥3,800	≥4.0 %	\$≥4,749	≥ 5.0 %
Tier 1 risk-based capital ratio (to risk-weighted assets)	28,790	36.1	≥3,187	≥4.0	≥4,781	≥ 6.0
Total risk-based capital ratio (to risk-weighted assets)	29,786	37.4	≥6,375	≥8.0	≥7,968	≥10.0

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

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## **NOTE 11 - SHAREHOLDERS' EQUITY AND DIVIDENDS**

During 2008, the Bank issued 7,814,039 shares of common stock to a group of private investors at \$3.00 per share for net proceeds of \$23,442,117. There were no stock offering costs associated with this transaction.

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 a result of the accumulated deficit at December 31, 2009, the Bank is restricted from paying any dividends at this time without special approval.

## **NOTE 12 - RELATED PARTY TRANSACTIONS**

Loans to principal officers, directors, significant stockholders, and their affiliates at December 31, 2009 were \$5,298,000, of which \$298,000 was outstanding and \$5,000,000 was in unused lines of credit. At December 31, 2008 there was \$2,597,000 in loans outstanding to principal officers, directors, significant stockholders, and their affiliates.

The Bank held related party deposits of approximately \$10,168,000 and \$11,853,000 at December 31, 2009 and 2008, 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 \$123,000 and \$27,000 as of December 31, 2009 and 2008, 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, 2009 and 2008, were as follows:

	<u>2009</u>	<u>2008</u>
	(In Thousands)	
Commitments to extend credit	\$ 3,118	\$1,147
Unused credit lines	<u>16,920</u>	<u>5,195</u>
	<u>\$20,038</u>	<u>\$6,342</u>

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

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## **NOTE 13 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (CONTINUED)**

Commitments to extend credit include mortgage loans, term loans, home equity, and commercial lines of credit expiring within 90 days. 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, 2008, there were no commitments to extend credit, expiring prior to 90 days at fixed rates. At December 31, 2008, unused credit lines included commercial lines of \$3,576,000 at adjustable rates of prime to prime + 4.00 percent and home equity lines of credit of \$1,619,000 at adjustable rates of prime minus 1.76 percent to prime + 0.50 percent. At December 31, 2009 and 2008, outstanding letters of credit approximated \$414,000 and \$162,000, respectively.

## **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 \$18,000 for 2009 and \$0 for 2008. The total income tax benefit was \$7,000 for 2009 and \$0 for 2008.

### **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>
Unvested at January 1, 2009	10,000	\$3.00
Granted	-	-
Vested	5,000	\$3.00
Forfeited	<u>-</u>	-
Unvested at December 31, 2009	<u>5,000</u>	<u>\$3.00</u>

As of December 31, 2009, there was \$12,000 of total unrecognized compensation cost related to nonvested shares granted under the Plan. The cost is expected to be recognized over a weighted-average period 0.6 years. The total fair value of shares vested during the years ended December 31, 2009, was \$21,550.

# GREATER HUDSON BANK, N.A.

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## 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.

### Assets and Liabilities Measured on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis are summarized below:

	<b>Fair Value Measurements</b>		
	<b>At December 31, 2009, 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>(In Thousands)</b>		
Assets:			
Available for sale securities			
U.S. Government agencies	\$ -	\$46,328	\$ -
Mortgage backed securities - residential	-	7,530	-
Collateralized mortgage obligation – residential	-	994	-
Money market securities	196	-	-
<b>Total Available for Sale Securities</b>	<b>\$ 196</b>	<b>\$54,852</b>	<b>\$ -</b>

# GREATER HUDSON BANK, N.A.

## NOTE 15 - FAIR VALUE (CONTINUED)

	Fair Value Measurements At December 31, 2008, Using		
	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:			
Available for sale securities			
U.S. Government agencies	\$ 8,116	\$ -	\$ -
Mortgage backed securities - residential	-	5,511	-
Collateralized mortgage obligation – residential	-	1,931	-
Money market securities	17,192	-	-
<b>Total Available for Sale Securities</b>	<b>\$ 25,308</b>	<b>\$7,442</b>	<b>\$ -</b>

### Assets and Liabilities Measured on a Non-Recurring Basis

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

	Fair Value Measurements At December 31, 2009, Using		
	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:			
Impaired loans	\$-	\$-	\$483

	Fair Value Measurements At December 31, 2008, Using		
	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:			
Impaired loans	\$-	\$-	\$657

The following represent impairment charges recognized during the period:

At December 31, 2009 and 2008, impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had net carrying amounts of \$483,000 and \$657,000 with a valuation allowance of \$46,000 and \$356,000 resulting in an additional provision-for loan losses of \$46,000 and \$306,000, respectively.

# GREATER HUDSON BANK, N.A.

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## NOTE 15 - FAIR VALUE (CONTINUED)

Estimated fair values of financial instruments at December 31, 2009 and 2008, were as follows:

	2009		2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In Thousands)			
<b>Financial assets</b>				
Cash and due from banks	\$ 10,265	\$ 10,265	\$ 1,860	\$ 1,860
Federal funds sold	4,693	4,693	14,057	14,057
Securities available for sale	55,048	55,048	32,750	32,750
Securities held to maturity	9,045	10,093	5,800	5,946
Restricted bank stock	965	N/A	340	N/A
Loans receivable, net	89,407	93,592	48,862	46,193
Accrued interest receivable	922	922	264	264
<b>Financial liabilities</b>				
Deposits	138,260	138,834	71,384	71,932
Securities sold under agreements to repurchase	5,000	4,909	5,000	5,630
Accrued interest payable	232	232	65	65

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) 695 – 7400  
[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 2, 2010 at 10:00am at the Hampton Inn, 20 Crystal Run Crossing, Middletown, New York 10941

### **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:**

#### **Middletown Office**

643 Route 211 East  
Middletown, NY 10941  
(845) 695 – 7400

**Mary Borcsik**, *Acting Branch Manager*

#### **Warwick Office**

25 Elm Street/Mitchel Corners  
Warwick, NY 10990  
(845) 987-7400

**Susan Ronga**, *Branch Manager*

#### **Bardonia Office**

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

**Basel Rabie**, *Vice President, Branch/Regional Manager*

#### **White Plains Office (opening May 2010)**

567 North Broadway  
White Plains, NY 10603

**Peter Moncada**, *Assistant Vice President, Branch Manager*

**Rori Sagal**, *Assistant Vice President, 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**: *Senior 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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25 ELM STREET  
WARWICK, NY 10990  
TEL: (877) 248-2398

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MIDDLETOWN, NY 10941  
TEL: (877) 692-1170

715 E. ROUTE 304  
BARDONIA, NY 10954  
TEL: (845) 215-1000

567 NORTH BROADWAY  
WHITE PLAINS, NY 10603  
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