

CATSKILL HUDSON BANCORP, INC.

CATSKILL HUDSON BANK

LUXURY EXPENDITURES POLICY

The Department of the U.S. Treasury released an interim final rule dated June 15, 2009 pursuant to Section 111 of the Emergency Economic Stabilization Act of 2008, as amended by the American Recovery and Reinvestment Act of 2009 which requires each recipient of funds under the Capital Purchase Program (CPP) of the Troubled Assets Relief Program (TARP) to have in place a company-wide policy regarding excessive or luxury expenditures, as identified by the Secretary of the Department of the U.S. Treasury.

Catskill Hudson Bancorp, Inc. (Company) and its subsidiary, Catskill Hudson Bank (Bank) prohibit excessive or luxury expenditures on (1) entertainment or events; (2) office and facility renovations; (3) aviation or other transportation services; or (4) other activities or events that are not reasonable expenditures for staff development, reasonable performance incentives, or other similar measures conducted in the normal course of business operations.

Entertainment or Events

Entertainment is defined as an activity that an employee, officer, or director would use corporate funds for business development purposes relating to a current customer(s) or prospective customer(s) or to further enhance the Company's marketing efforts.

Our expectation is that all expenses ultimately paid by the Company would be for company purposes, and used to drive business to the bank. Occasional events involving customers or prospects are a necessary part of the Bank's marketing efforts and are not deemed as "entertainment" or a violation of the Luxury Expenditures Policy. These expenditures will be documented and detailed as to the benefit derived by the Bank.

Office or Facility Renovations

Office and facility renovations should be designed to: enhance operational efficiency; comply with applicable fire codes and ADA requirements; maintain a safe, sanitary and clean working environment; enhance the public image of the organization; improve employee morale; or such other worthwhile purpose as may be identified by the organization.

Renovations of offices and facilities should be relative to the approved annual budget. An exception of this can be allowed if management must deal with an emergency situation as an act of nature and the expenditure is necessary to make the facility operational for either employee or customer use.

At no time should renovations be considered that would have the appearance of being extraordinary or excessive from a shareholder prospective.

Aviation or Other Transportation Services

Excessive aviation or other transportation services expenditures are prohibited. The Company does not own corporate aircraft and does not provide for everyday use either chauffeured automobiles or personal luxury vehicles. Transportation for all banking activities will be conducted in the most cost appropriate way for the Company

Other Events or Activities

We encourage our staff to attend conferences that are appropriate educational opportunities. These conferences should be related to the financial services industry and have a direct correlation to the employee's job. At times it may be appropriate that a spouse would travel to these conferences with Company attendees. Typically these conferences are sponsored by vendors, banking associations, or other industry related entities.

Expenses for activities or events that enhance staff development or provide reasonable appreciation for employees, should be local in geographic nature and be in line with the approved annual budget.

Required Reporting

The process for approving and reporting expenditures covered by this policy, as well as the actual amount of expenditures incurred, may be subject to audit by the Bank's internal auditor to confirm policy compliance.

Any violations or departures from policy requirements shall be promptly reported to the President and CEO, unless such violations or departures relate to the President and CEO. Violations or departures from this policy by the President and CEO should be promptly reported to the Chairman of the Board.

The President and CEO and the Executive Vice President and CFO shall certify on an annual basis that the approval of any expenditure under this policy was properly obtained with respect to each such expenditure.