

Catskill Hudson Bancorp, Inc.

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March 23, 2010

Dear Shareholders:

Enclosed herein are the audited consolidated financial statements for Catskill Hudson Bancorp, Inc. (“The Company”) and its wholly-owned subsidiary Catskill Hudson Bank (“The Bank”) for the year ended December 31, 2009 and 2008.

Even in these difficult economic times, the Company accomplished a number of very aggressive goals in 2009. We are pleased to report that the Company increased its total assets to \$275,687,000 at December 31, 2009 compared to \$221,811,000 at December 31, 2008, an increase of \$53,876,000 or 24.3%. Investment securities increased to \$98,914,000 at December 31, 2009 from \$73,904,000 at December 31, 2008, an increase of \$25,010,000 or 33.8%. Net loans increased to \$159,874,000 at December 31, 2009 from \$137,780,000 at December 31, 2008, an increase of \$22,094,000 or 16.0%. The growth in investment securities and net loans was primarily funded through increased deposits, which aggregated \$246,232,000 at December 31, 2009 compared to \$204,364,000 at December 31, 2008, an increase of \$41,868,000 or 20.5%. Total stockholders’ equity was \$18,289,000 at December 31, 2009 compared to \$11,331,000 at December 31, 2008, an increase of \$6,958,000 or 61.4%.

In 2009, the Company achieved net income of \$1,266,000 compared to \$586,000 in 2008, an increase of \$680,000 or 116.0%. Income before income taxes was \$1,590,000 in 2009 compared to \$687,000 in 2008, an increase of \$903,000 or 131.4%. Net interest income after provision for loan losses was \$7,835,000 in 2009 compared to \$6,269,000 in 2008, an increase of \$1,566,000 or 25.0%. The provision for loan losses was \$1,595,000 in 2009 compared to \$445,000 in 2008, an increase of \$1,150,000 or 258.4%. The results of operations continue to be impacted by additional provisions for loan losses as a result of the continuing economic difficulties for our customers.

The Company and its wholly-owned subsidiary, Catskill Hudson Bank, has increased its assets from \$74 million at December 31, 2004 to \$276 million at December 31, 2009, while at the same time expanding from three to eleven banking offices. Our primary goal over the last five years has been and continues to be to increase our sources of raw materials, namely deposits. We certainly accomplished that mission with a \$180 million or 270.2% increase over the five year period. These additional deposits allow the Bank to lend those funds back into our local communities during these difficult economic times and as the economy recovers gradually over the next several years. During the last five years, we increased our net loans by \$109 million or 214.1%. While at the same time, we have supported our local economy by creating additional employment opportunities at the Bank for forty-four individuals within our targeted market area.

This growth necessitates that we continually provide the required capital to maintain the requirements of a “well capitalized” Company. As we continue to grow our deposits and loans, we need additional capital to support that growth. In spite of the current economic conditions, the Company continues to grow and expects to be able to take advantage of opportunities in our targeted marketing area that will



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no longer be met by larger competitive financial service providers. After extensive review and careful consideration, the Board opted to participate in the U.S. Treasury Troubled Asset Relief Program (TARP) Capital Purchase Program (CPP) in the amount of \$6.5 million during 2009 which was invested in the Bank as Tier 1 capital. The Company concluded that the CPP represented the most prudent source of capital for the immediate future. The Company does not consider this "bailout" funding, but a temporary loan from the U. S. Treasury to support the Company's growth. These funds provide the capital that is not readily available from traditional sources due to the current financial upheaval. The Company's goal is to repay this capital funding within the next five years from earnings and/or raising funds from traditional sources as economic conditions return to a more settled environment. The Company continues to monitor the creation of a new Small Business Lending Fund outside TARP to support small business lending whereby the existing CPP loans could possibly be refinanced at a lower dividend rate.

While this additional capital should support assets approximating \$300 million, the Bank will temporarily invest excess deposit funds in its investment securities portfolio pending the ability to increase its lending portfolio. We also recognize our responsibility to continue improving the Company's profitability, while at the same time minimizing the exposure to interest rates and credit risk when rates increase. While we go through these uncertain economic times, we believe that we have avoided many of the situations affecting the financial institution industry but not without loan charge-offs. The Company has also absorbed a special FDIC assessment during 2009 in the amount of \$118,000 and remitted a prepaid advance to the FDIC in the amount of \$1.2 million which is now a non-earning asset covering the estimated FDIC insurance premium for the years 2010 to 2012. We are confident that as a "well capitalized" Company, we can maximize our opportunities to protect and ultimately reward our shareholders.

We wish to thank our customers, employees and our fellow members of the Board of Directors for their support in 2009. The Bank has an outstanding staff that continuously delivers exceptional customer service, and we asked a great deal from them again in 2009. We wish to acknowledge their efforts and thank each of them for being a member of the team and their contribution to the Bank's success in 2010. We will maintain our customer service and continue increasing our customer base allowing our communities to experience what "COMMUNITY BANKING" is all about.

We wish to thank each of you as a shareholder for your support to "YOUR COMPANY" and "YOUR COMMUNITY BANK." We hope that you will join us at the shareholders' meeting to be held at 5:00 p.m. on Tuesday, April 20, 2010 in the Auditorium of the Frontier Insurance Building in Rock Hill, New York.

Sincerely,



Mario L. Martinez
Chairman of the Board



Glenn B. Sutherland
President and CEO