ESB BANCSHARES, INC.

2019 Annual Report

March 31, 2020

Dear Shareholder:

We are pleased to submit our 2019 Annual Report to Shareholders of ES Bancshares, Inc. and its subsidiary, Empire State Bank. The year 2019 was one of change as the Bank embarked upon an initiative to raise capital to support balance sheet growth. In addition to achieving moderate growth of $18 million, our capital raising efforts were successful in the fourth quarter of 2019 with the closing of a $10.5 million private placement of common stock.

The Bank is now positioned to return to growth mode in 2020. We are excited about our renewed efforts to expand the Bank's core deposits and loan portfolio within our marketplace. Further, the Bank's loan portfolio has performed well and asset quality has improved consistently over the past year.

That having been said, the more recent developments of the COVID-19 pandemic have impacted nearly every aspect of our community. Businesses have been closed, community members have been quarantined, and we are working to minimize any impact on the Bank's operations. As part of this community in which we live and work, we understand the economic impact the COVID-19 pandemic has had on both businesses and individuals, and we are committed to helping small businesses navigate through disruptions from the spread of the Coronavirus.

On March 27, 2020 the Coronavirus Aid, Relief and Economic Security Act (CARES Act) was signed into law. The CARES Act created the Paycheck Protection Program (PPP), which will serve as an extension of the Small Business Administration (SBA) 7(a) loan program, aimed at helping small businesses who have been severely impacted by COVID-19. Empire State Bank is participating in every aspect of this program in an effort to work with our community to help restore businesses and the households they serve.

While many of the Bank staff are now working remotely as a precaution against the pandemic, we are all here for you, committed to our community, and ready to help in every way we can. We would like to thank you, our shareholders, for your continued support as we execute our corporate strategy. We feel this is in the best interest of shareholder value and trust that you can appreciate its results. We hope you continue to share in our excitement about our commitment to deliver results to our customers and shareholders.

Sincerely,

David Freer Jr. | Philip Guarnieri | Thomas Sperzel

Crowe LLP
Independent Member Crowe Global

INDEPENDENT AUDITOR'S REPORT

Board of Directors
ES Bancshares, Inc.
Newburgh, New York

We have audited the accompanying consolidated financial statements of ES Bancshares, Inc. (the "Company"), which comprise the consolidated statements of financial condition as of December 31, 2019 and 2018, and the related consolidated statements of operations, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Crowe LLP

Crowe LLP

New York, New York
April 2, 2020

ES BANCSHARES, INC
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(Dollars In thousands)

	December 31, 2019	December 31, 2018
ASSETS		
Cash and cash equivalents	$ 25,275	$ 19,924
Securities available for sale, at fair value	3,304	3,855
Securities held to maturity, at amortized cost (fair value of $12,584 and $14,363 at December 31, 2019 and December 31, 2018, respectively)	12,265	14,337
Equity Securities	-	1,978
Total securities	15,569	20,170
Loans receivable	366,615	351,071
Deferred cost	2,579	2,291
Allowance for loan losses	(3,539)	(3,358)
Total loans receivable, net	365,655	350,004
Accrued interest receivable	1,483	1,417
Federal Reserve Bank stock	917	827
Federal Home Loan Bank stock	2,412	3,442
Goodwill	581	581
Premises and equipment, net	4,606	4,549
Repossessed assets	219	435
Net deferred tax asset	-	432
Other assets	4,106	1,125
Total assets	$ 420,823	$ 402,906
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	$ 65,720	$ 69,583
Interest bearing	262,142	227,678
Total deposits	327,862	297,261
Borrowed funds	51,500	77,500
Accrued interest payable	185	203
Net deferred tax liability	36	-
Other liabilities	8,014	6,095
Total liabilities	387,597	381,059
Commitments and contingencies (Note 9)		
Stockholders' equity:		
Capital stock (par value $0.01; 10,000,000 shares authorized; 6,648,320 at December 31, 2019 and 4,120,613 shares December 31, 2018)	66	41
Additional paid-in-capital	35,816	26,107
Accumulated deficit	(2,630)	(4,225)
Accumulated other comprehensive loss	(26)	(76)
Total stockholders' equity	33,226	21,847
Total liabilities and stockholders' equity	$ 420,823	$ 402,906

See accompanying notes to financial statements

ES BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in thousands)

	For the Twelve Months Ended December 31, 2019	2018
Interest and dividend income:		
Loans	$ 16,985	$ 13,840
Securities	511	499
Fed Funds and other earning assets	410	421
Total interest and dividend income	17,906	14,760
Interest expense:		
Deposits	4,953	2,857
Borrowed funds	1,551	1,268
Total interest expense	6,504	4,125
Net interest income	11,402	10,635
Provision for loan losses	325	1,865
Net interest income after provision for loan losses	11,077	8,770
Non-interest income:		
Service charges and fees	1,030	1,098
Net gain (loss) on sales of participating interests in loans	(80)	67
Recovery of certificate of deposit placement	-	8
Gain or (Loss) on Sale of Repossessed Assets	30	-
Other	15	17
Total non-interest income	995	1,190
Non-interest expense:		
Compensation and benefits	5,283	4,897
Occupancy and equipment	1,678	1,194
Data processing service fees	616	459
Professional fees	535	402
FDIC assessment	249	257
Advertising	206	256
Insurance	107	114
Other	1,291	1,230
Total non-interest expense	9,965	8,809
Income before income taxes	2,107	1,151
Income tax expense	512	272
Net income	$ 1,595	$ 879

See accompanying notes to financial statements.

ES BANCSHARES, INC.
CONSOLIDATED STATEMENTS COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(Dollars in thousands)

	For the Twelve Months Ended December 31, 2019	For the Twelve Months Ended December 31, 2018
Net income	$ 1,595	$ 879
Other comprehensive income (loss):		
Unrealized gains/losses on securities available for sale:		
Unrealized holding gain/(loss) arising during the period	63	(42)
Reclassification adjustment for (gains) losses included in net income	-	-
	63	(42)
Tax effect	(13)	17
Total other comprehensive income (loss)	50	(25)
Comprehensive income	$ 1,645	$ 854

See accompanying notes to financial statements.

ES BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(Dollars in thousands)

	Capital Stock		Additional Paid-In	Accumulated	Accumulated Other Comprehensive	
	Shares	Amount	Capital	Deficit	Income (Loss)	Total
Balance at January 1, 2018	3,864,888	$ 39	$ 24,808	$ (5,143)	$ (12)	$ 19,692
Stock based compensation, net			28			28
Comprehensive income:						
Net income for the period				879		879
Other comprehensive income/(loss)					(25)	(25)
Impact of adoption of ASU 2016-01				39	(39)	-
Net proceeds from issuance of common stock	255,725	2	1,271	-	-	1,273
Balance at December 31, 2018	4,120,613	41	26,107	(4,225)	(76)	21,847
Stock based compensation, net			36			36
Comprehensive income:						
Net income for the period				1,595		1,595
Other comprehensive income/(loss)					50	50
Net proceeds from issuance of common stock	2,527,707	25	9,673	-	-	9,698
Balance at December 31, 2019	6,648,320	66	35,816	(2,630)	$ (26)	$ 33,226

See accompanying notes to financial statements.

ES BANCSHARES INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31,
(Dollars in thousands)

	2019	2018
Cash flows from operating activities:		
Net income for period	$ 1,595	$ 879
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision for loan losses	325	1,865
Depreciation expense	576	360
Amortization (accretion) of deferred fees, discounts and premiums, net	306	778
Net gain on sales of participating interests in loans	80	(67)
Stock based compensation expense	36	28
Deferred tax expense	427	218
Changes in assets and liabilities:		
(Increase) decrease in other assets	(414)	(633)
(Decrease) increase in accrued expenses and other liabilities	(1,131)	3,088
Net cash provided by (used in) operating activities	1,800	6,516
Cash flows from investing activities:		
Proceeds from sale of equity securities	1,978	-
Proceeds from principal payments and maturities of AFS securities	596	382
Proceeds from principal payments and maturities of HTM securities	3,105	1,659
Purchase of available for sale securities	-	(1,898)
Purchase of held-to-maturity securities	(1,051)	(10,839)
Net repayments (originations) of loans	(44,275)	(96,439)
Proceeds from sales of participating interests in loans	27,633	1,342
Purchases of loans	-	(3,672)
Redemption/ (purchase) of Federal Home Loan Bank stock	1,030	(1,377)
Redemption/(purchase) of Federal Reserve Bank stock	(90)	(100)
Leasehold improvements and acquisitions of capital assets, net of disposals	(633)	(1,946)
Proceeds from sale of repossessed assets	959	235
Net cash provided by (used in) investing activities	(10,748)	(112,653)
Cash flows from financing activities:		
Net increase (decrease) in deposits	30,601	80,043
Proceeds of advances from line of credit & FHLB	787,000	248,770
Repayment of advances	(813,000)	(219,770)
Proceeds from issuance of common stock	9,698	1,273
Net cash provided by (used in) financing activities	14,299	110,316
Net increase (decrease) in cash and cash equivalents	5,351	4,179
Cash and cash equivalents at beginning of period	19,924	15,745
Cash and cash equivalents at end of period	$ 25,275	$ 19,924
Supplemental cash flow information		
Interest paid	$ 4,935	$ 4,089
Income taxes paid	45	86
Transfer of securities from available for sale to Equity	-	1,978
Transfer of loans to other assets	743	235
Lease liabilities arising from obtaining right-of-use assets	3,060	-

See accompanying notes to financial statements

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The consolidated financial statements include the accounts of ES Bancshares, Inc. (the "Company") and Empire State Bank (the"Bank"), the Company's wholly owned subsidiary, and the Bank's wholly owned subsidiaries, Iron Creek LLC and North Plank Realty Inc. II. The Company's financial condition and operating results principally reflect those of the Bank. All intercompany balances and amounts have been eliminated.

The Bank was organized under federal law in 2004 as a national bank regulated by the Office of the Comptroller of the Currency ("OCC"). The Bank's deposits are insured up to legal limits by the FDIC. In March 2009, the Bank converted its charter to a New York State commercial bank charter, with the New York State Department of Financial Services becoming its primary regulator.

The Bank is a full service commercial bank that offers a variety of financial services to meet the needs of communities in its market area. The Bank attracts deposits from the general public and uses such deposits to originate commercial loans, commercial revolving lines of credit and term loans including USDA and SBA guaranteed loans, commercial real estate, mortgage loans secured by one-to four-family residences and to a lesser extent construction and land loans. The Bank also invests in mortgage-backed and other securities permissible for a New York State chartered commercial bank. The Bank's primary area for deposits includes the communities of Richmond, Kings and Orange counties in New York. The Bank's primary market area for its lending activities also consists of Kings, Richmond and Orange County, New York.

Basis of Presentation

The financial statements have been prepared in conformity with generally accepted accounting principles of the United States. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expense. Actual results could differ significantly from these estimates.

Cash Flows

Cash and cash equivalents include cash, deposits with other financial institutions excluding certificates of deposit, and federal funds sold. Net cash flows are reported for customer loan and deposit transactions.

Securities

The Company is required to report readily-marketable debt securities in one of the following categories: (i) "held-to-maturity" (management has the positive intent and ability to hold to maturity), which are reported at amortized cost; (ii) "trading" (held for current resale), which are to be reported at fair value, with unrealized gain and losses included in earnings; and (iii) "available for sale" (all other debt securities), which are to be reported at fair value, with unrealized gains and losses reported net of taxes, as accumulated other comprehensive income, a separate component of stockholders' equity. Beginning in 2018 with the adoption of ASU 2016-01, equity securities were carried at fair value with changes in fair value reported in net income.

Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments, except for mortgage backed securities where prepayments are anticipated. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

The Company evaluates debt securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to the length of time and the extent to which the fair value has been less than cost, the financial condition and near term prospects of the issuer, and whether management intends to sell or it is more likely than not that management would be required to sell the debt securities prior to their anticipated recovery.

Loans Receivable

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoffs are reported at their unpaid principal adjusted for any charge-offs, the allowance for loan losses, any deferred fees and costs on originated loans, and any unamortized premiums or discounts. Loan origination and commitment fees and certain direct loan origination costs will be deferred and the net amount amortized as an adjustment of the related loan's yield using methods that approximate the interest method over the contractual life of the loan. Loan interest income is accrued daily on outstanding balances. A loan is impaired when full payment under the loan terms is not expected. Commercial and commercial real estate loans are individually evaluated for impairment. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loans' existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Large groups of smaller balance homogeneous loans, such as consumer loans, are collectively evaluated for impairment, and accordingly, they are not separately identified for impairment disclosure unless considered troubled debt restructurings. The accrual of income on all classes of loans is generally discontinued when a loan becomes more than 90 days delinquent as to principal and interest or when other circumstances indicate that collection is questionable, unless the loan is well secured and in the process of collection. Income on all classes of nonaccrual loans will be recognized only in the period in which it is collected, and only if management determines that the loan principal is fully collectable. Loans are returned to an accrual status when a loan is brought current as to principal and interest and when reasons for doubtful collection no longer exist.

We may agree to modify the contractual terms of a borrower's loan. In cases where such modifications represent a concession to a borrower experiencing financial difficulty, the modification is considered a troubled debt restructuring. Modifications as a result of a troubled debt restructuring may include, but are not limited to, interest rate modifications, payment deferrals, restructuring of payments to interest-only from amortizing and/or extensions of maturity dates. Modifications which result in insignificant payment delays and payment shortfalls are generally not classified as troubled debt restructurings. Loans modified in a troubled debt restructuring are included in impaired loans.

Allowance for Loan Losses

The allowance for loan losses is increased by provisions for loan losses charged to income. For all portfolio segments, losses are charged to the allowance when all or a portion of a loan is deemed to be uncollectible. Subsequent recoveries of loans previously charged off are credited to the allowance for loan losses when realized.

The allowance for loan losses is a significant estimate based upon management's periodic evaluation of each segment of the loan portfolio under current economic conditions, considering factors such as the Company's past loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, and the estimated value of the underlying collateral. Establishing the allowance for loan losses involves significant management judgment, utilizing the best available information at the time of review. Those judgments are subject to further review by various sources, including the Bank's regulators, who may require the Company to recognize additions to the allowance based on their judgment about information available to them at the time of their examination. While management estimates probable incurred loan losses using the best available information, future adjustments to the allowance may be necessary based on changes in economic and real estate market conditions, further information obtained regarding known problem loans, the identification of additional problem loans, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that in management's judgment should be charged off.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired. The general component covers non-impaired loans and is based for all portfolio segments on historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio segment and is supplemented with other economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations.

In estimating specific allocations, we review loans deemed to be impaired, including loans modified in troubled debt restructurings, and measure impairment losses based on either the fair value of collateral, the present value of expected future cash flows, or the loan's observable market price. When an impairment analysis indicates the need for a specific allocation on an individual loan, the amount must be sufficient to cover probable incurred losses at the evaluation date based on the facts and circumstances of the loan. When available information confirms that specific loans, or portions thereof, are uncollectible, these amounts are promptly charged-off against the allowance for loan losses.

Premises and Equipment

Land is carried at cost. Bank premises, leasehold improvements and furniture and equipment are carried at cost less accumulated depreciation and amortization. Depreciation expense is recognized on a straight-line basis over the estimated useful lives of the related assets, which are 35 years for bank premises and 2 to 7 years for furniture and equipment. Amortization of leasehold improvements is recognized on a straight-line basis over the lesser of lease term or estimated useful lives, resulting in amortization periods ranging from approximately 5 to 15 years. Costs incurred to improve or extend the life of existing assets are capitalized. Repairs and maintenance are charged to expense.

Leases

Leases are classified as operating or finance leases at the lease commencement date. Lease expense for operating leases and short-term leases is recognized on a straight-line basis over the lease term. Right-of-use assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term.

The Company uses its incremental borrowing rate at lease commencement to calculate the present value of lease payments when the rate implicit in a lease is not known. The Company's incremental borrowing rate is based on the FHLB advance rate, adjusted for the lease term and other factors.

Goodwill

Goodwill results from business acquisitions and represents the excess of the purchases price over the fair value of the acquired assets and liabilities and identifiable intangible assets. Goodwill is assessed at least annually for impairment and any such impairment will be recognized in the period identified.

Income Taxes

Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using tax rates. Temporary differences are differences between the tax basis of assets and liabilities and their reported amounts in the financial statements that will result in taxable or deductible amounts in future years. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. Realization of deferred tax assets is dependent upon the generation of future taxable income. A valuation allowance is provided when it is more likely than not that some portion of the deferred tax asset will not be realized.

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 Company recognizes interest and/or penalties related to income tax matters in income tax expense. The Company and its subsidiaries are subject to U.S. federal income tax as well as income tax of the state of New York and the City of New York. The Company is no longer subject to examination by taxing authorities for years before 2015.

Federal Reserve Bank

As a member of the Federal Reserve Bank ("FRB") system, the Bank is required to maintain a minimum investment in FRB stock. Any excess may be redeemed by the Bank or called by the FRB at par. At its discretion, the FRB may declare dividends on this stock. The Bank had $917 thousand and $827 thousand invested in FRB stock at December 31, 2019 and December 31, 2018, respectively, which is carried at cost due to the fact that it is a restricted security.

Federal Home Loan Bank of New York

The Bank is a member of the Federal Home Loan Bank of New York ("FHLB"). As a member the Bank was required to maintain FHLB capital stock, in the amount of $2.4 million and $3.4 million at December 31, 2019 and 2018, respectively. The amount is carried at cost because it is a restricted security. The FHLB may declare dividends on this stock at its discretion.

Comprehensive Income

Comprehensive income represents the sum of the net income and items of "other comprehensive income" that are reported directly in stockholders' equity, such as the change during the period in the net unrealized gain or loss on securities available for sale.

Stock Options

The Company has a stock-based compensation plan as more fully described in Note 10. For accounting purposes, the Company recognizes expense for options to purchase common stock awarded under the Company's Stock Option Plan over the vesting period at the fair market value of the options on the date they are awarded.

Loss Contingencies

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there now are such matters that will have a material effect on the financial statements.

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.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Company, 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 the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Sales of Participating Interests in Loans

Gains or losses recognized on the sale of participating interests in loans are determined on a specific identification basis. Gains or losses are determined by allocating the carrying amount between the participating interest sold and the Company's retained interest, based on their relative fair values and taking into account any servicing rights retained. The retained interests, net of any discounts or premiums, are included in loans, net of allowance for loan losses, in the accompanying statements of financial condition.

Loan Servicing Rights

Servicing assets are recognized when participating interests in loans are sold with servicing retained, with the income statement effect recorded in gain on sale of participating interests in loans. Servicing rights are initially recorded at fair value. Fair value is based on market prices for comparable servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income.

Servicing rights are subsequently measured using the amortization method, which requires servicing rights to be amortized into non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying participating interests. Servicing rights are evaluated for impairment based upon the fair value of the rights compared to the carrying amount. Impairment is recognized through a valuation allowance, to the extent that fair value is less than the carrying amount. If the Company later determines that all or a portion of the impairment no longer exists, a reduction of the allowance may be recorded as an increase to income.

Repossessed Assets

Real estate and other assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Operating costs after acquisition are expensed.

Restrictions on Cash

Cash on hand or on deposit with the Federal Reserve Bank was required to meet regulatory reserve and clearing requirements.

Reclassifications

Some items in the prior year financial statements were reclassified to conform to the current presentation. Reclassifications had no effect on prior year net income or stockholders' equity.

Adoption of New Accounting Standards

On January 1, 2019, the Company adopted ASU No. 2016-02" Leases (Topic 842)" and subsequent amendments thereto, which requires the Company to recognize most leases on the balance sheet. We adopted the standard under a modified retrospective approach as of the date of adoption and elected to apply several of the available practical expedients, including:

- Carry over of historical lease determination and lease classification conclusions
- Carry over of historical initial direct cost balances for existing leases
- Accounting for lease and non-lease components in contracts in which the Company is a lessee as
- a single lease component

Adoption of the leasing standard resulted in the recognition of operating right-of-use assets of $2.7 million, and operating lease liabilities of $2.8 million as of January 1, 2019. These amounts were determined based on the present value of remaining minimum lease payments, discounted using the Company's incremental borrowing rate as of the date of adoption. There was no material impact to the timing of expense or income recognition in the Company's Consolidated Income Statements. Prior periods were not restated and continue to be presented under legacy GAAP. Disclosures about the Company's leasing activities are presented in Note 9 – Commitments and Contingencies.

There were no other accounting standards adopted during 2019 that had a material impact on the Company's financial position, results of operations or disclosures.

Not Yet Effective Accounting Standards

In June 2016, FASB issued guidance to replace incurred loss model with an expected loss model, which is referred to as current expected credit loss (CECL) model. The CECL model is applicable to the measurement of credit losses on financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities. It also applies to off balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in certain leases recognized by a lessor. In addition, the amendments in this update require credit losses to be presented as an allowance rather than as a write-down on available-for-sale debt securities. Public business entities that are not SEC filers are required to adopt the new CECL standard for reporting periods beginning after December 15, 2022. The Company has not yet determined the impact of the adoption this standard.

NOTE 2 – INVESTMENT SECURITIES

The following is a summary of the amortized cost, gross unrealized/unrecognized gains and losses, and estimated fair market value of investment securities available-for-sale and held-to-maturity at December 31, 2019 and December 31, 2018.

	December 31, 2019 (in thousands)			
	Amortized	Gross Unrecognized		Fair
	Cost	Gains	Losses	Value
Held to Maturity:				
Mortgage-backed securities – residential	$ 12,265	$ 329	$ (10)	$ 12,584
Total	$ 12,265	$ 329	$ (10)	$ 12,584

	December 31, 2019 (in thousands)			
	Amortized	Gross Unrealized		Fair
	Cost	Gains	Losses	Value
Available-for-Sale:				
Mortgage-backed securities – residential	$ 2,337	$ 15	$ --	$ 2,352
Bank preferred debt securities	1,000	--	(48)	952
Total	$ 3,337	$ 15	$ (48)	$ 3,304

	December 31, 2018 (in thousands)			
	Amortized	Gross Unrecognized		Fair
	Cost	Gains	Losses	Value
Held to Maturity:				
Mortgage-backed securities – residential	$ 14,337	$ 60	$ (34)	$ 14,363
Total	$ 14,337	$ 60	$ (34)	$ 14,363

	December 31, 2018 (in thousands)			
	Amortized	Gross Unrealized		Fair
	Cost	Gains	Losses	Value
Available-for-Sale:				
Mortgage-backed securities – residential	$ 2,952	$ --	$ (41)	$ 2,911
Bank preferred debt securities	1,000	--	(56)	944
Total	$ 3,952	$ --	$ (97)	$ 3,855

As a result of the adoption of ASU 2016-01, bank preferred equity securities with a fair value of $2.0 million were reclassified as of January 1, 2018 to equity securities and are excluded from the above table as of December 31, 2018.

The following tables summarize the amortized cost and estimated fair market value of investment securities available-for-sale and held-to-maturity at December 31, 2019 and December 31, 2018, with amounts shown by remaining term to contractual maturity. Securities not due at a single maturity date, primarily mortgaged-backed securities are shown separately.

	At December 31, 2019		At December 31, 2019	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In Thousands)		(In Thousands)	
	Available for Sale		Held to Maturity	
Mortgage-backed securities (1)	$ 2,337	$ 2,352	$ 12,265	$ 12,584
Bank preferred debt securities				
Due less than one year	-	-	-	-
One year to less than three years	-	-	-	-
Three years to less than five years	-	-	-	-
Five years to ten years	1,000	952	-	-
More than ten years	-	-	-	-
Total securities	$ 3,337	$ 3,304	$ 12,265	$ 12,584

(1) Consisted of government agency and government sponsored enterprises issuances

	At December 31, 2018		At December 31, 2018	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In Thousands)		(In Thousands)	
	Available for Sale		Held to Maturity	
Mortgage-backed securities (1)	$ 2,952	$ 2,911	$ 14,337	$ 14,363
Bank preferred debt securities	-	-	-	-
Due less than one year	-	-	-	-
One year to less than three years	-	-	-	-
Three years to less than five years	-	-	-	-
Five years to ten years	1,000	944	-	-
More than ten years	-	-	-	-
Total securities	$ 3,952	$ 3,855	$ 14,337	$ 14,363

The following tables summarize, for Available for Sale securities in an unrealized loss position at December 31, 2019 and December 31, 2018, the aggregate fair values and gross unrealized losses by the length of time those securities had been in a continuous loss position.

	December 31, 2019					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	(In thousands)					
Available for Sale:						
Mortgage-backed securities...........	$ -	$ -	$ -	$ -	$ -	$ -
Bank Preferred Debt Securities.....	-	-	952	(48)	952	(48)
Total temporarily impaired	$ -	$ -	$ 952	$ (48)	$ 952	$ (48)

	December 31, 2018					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	(In thousands)					
Available for Sale:						
Mortgage-backed securities...........	$ 1,705	$ (10)	$ 1,206	$ (31)	$ 2,911	$ (41)
Bank Preferred Debt Securities.....	-	-	944	(56)	944	(56)
Total temporarily impaired	$ 1,705	$ (10)	$ 2,150	$ (87)	$ 3,855	$ (97)

The following table summarizes, for Held to Maturity securities in an unrecognized loss position at December 31, 2018, the aggregate fair values and gross unrecognized losses by the length of time those securities had been in a continuous loss position.

	December 31, 2019					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrecognized Loss	Fair Value	Unrecognized Loss	Fair Value	Unrecognized Loss
	(In thousands)					
Held to Maturity:						
Mortgage-backed securities..........	$ 1,040	$ (10)	$ -	$ -	$ 1,040	$ (10)
Total temporarily impaired ...	$ 1,040	$ (10)	$ -	$ -	$ 1,040	$ (10)

	December 31, 2018					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	(In thousands)					
Held to Maturity:						
Mortgage-backed securities..........	$ 1,727	$ (9)	$ 2,363	$ (25)	$ 4,090	$ (34)
Total temporarily impaired ...	$ 1,727	$ (9)	$ 2,363	$ (25)	$ 4,090	$ (34)

The Company evaluates debt securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to the length of time and the extent to which the fair value has been less than cost, the financial condition and near term prospects of the issuer, and whether management intends to sell or it is not more likely than not that management would be required to sell the debt securities prior to their anticipated recovery. In analyzing an issuer's financial condition, the Company may consider whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. Management has reviewed the portfolio for other than temporary impairment and has determined that none exists as of December 31, 2019.

The Company did not sell any debt securities during 2019 or 2018.

The Company had one security pledged at year end 2019 with a fair value of $1.1 million. The Company had one security pledged at year end 2018 with a fair value of $1.2 million.

NOTE 3 – LOANS

The following is a summary of loans receivable at December 31, 2019 and December 31, 2018.

	December 31, 2019	December 31, 2018
	(Dollars in thousands)	
Real estate loans:		
One-to four-family	$ 166,065	$ 132,236
Commercial		
Owner Occupied	38,235	45,864
Non Owner Occupied	104,996	107,222
Multi-family	33,281	37,334
Construction or development	100	-
Home equity		
Open Ended / Revolving	2,685	2,715
Closed Ended	333	489
Total real estate loans	345,695	325,860
Other loans:		
Commercial business		
Taxi Medallion	2,230	3,023
US Govt. Agency Guaranteed	1,524	1,786
Commercial Business Lines of Credit and Term Loans	17,053	20,019
Consumer	113	383
Total other loans	20,920	25,211
Total loans receivable	366,615	351,071
Deferred loan costs (fees) net	2,579	2,291
Allowance for loan losses	(3,539)	(3,358)
Total loans receivable, net	$ 365,655	$ 350,004

Risk characteristics of the Company's portfolio segments include the following:

One-to Four- Family Real Estate Loans – Owner occupied loans secured by residential real estate properties are no longer offered by the Company but are held in the loan portfolio. Loans to investors of residential real estate properties, however, are still offered. Repayment of such loans may be negatively impacted should the borrower default, should there be a significant decline in the value of the property securing the loan or should there be a decline in general economic conditions.

Commercial Real Estate Loans – In underwriting commercial real estate loans, the Company evaluates both the prospective borrower's ability to make timely payments on the loan and the value of the property securing the loan. Repayment of such loans may be negatively impacted should the borrower default or should there be a substantial decline in the value of the property securing the loan, or a decline in general economic conditions. Where the owner occupies the property, the Company also evaluates the business's ability to repay the loan on a timely basis. In addition, the Company may require personal guarantees, lease assignments and/or the guarantee of the operating company when the property is owner occupied. These types of loans may involve greater risks than other types of lending, because payments on such loans are often dependent on the successful operation of the business involved, therefore, repayment of such loans may be negatively impacted by adverse changes in economic conditions affecting the borrowers' business.

Multifamily Real Estate Loans - In underwriting multifamily real estate loans, the Company evaluates both the prospective borrower's ability to make timely payments on the loan and the value of the property securing the loan. Repayment of such loans may be negatively impacted should the borrower default, should there be a significant decline in the value of the property securing the loan or should there be a decline in general economic conditions.

Construction or Development Loans – Construction loans are short-term loans (generally up to 18 months) secured by land for both residential and commercial development. The loans are generally made for acquisition and improvements. Funds are disbursed as phases of construction are completed. Most non-residential construction loans require preapproved permanent financing or pre-leasing by the Company or another bank providing the permanent financing. The Company funds construction of single family homes and commercial real estate, when no contract of sale exists, based upon the experience of the builder, the financial strength of the owner, the type and location of the property and other factors. Construction loans are generally personally guaranteed by the principal(s). Repayment of such loans may be negatively impacted by the builders' inability to complete construction, by a downturn in the new construction market, by a significant increase in interest rates or by a decline in general economic conditions.

Home Equity Loans – Home equity loans secured by residential real estate properties are no longer offered by the Company but are held in the loan portfolio. Repayment of such loans may be negatively impacted should the borrower default, should there be a significant decline in the value of the property securing the loan or should there be a decline in general economic conditions.

Commercial Business Loans – The Company's commercial and industrial loan portfolio consists primarily of commercial business loans and lines of credit to businesses and professionals. These loans are usually made to finance the purchase of inventory, new or used equipment or other short or long term working capital purposes. These loans are generally secured by corporate assets, often with real estate as secondary collateral, but are also offered on an unsecured basis. In granting this type of loan, the Company primarily looks to the borrower's cash flow as the source of repayment with collateral and personal guarantees, where obtained, as a secondary source. Commercial loans are often larger and may involve greater risks than other types of loans offered by the Company. Payments on such loans are often dependent upon the successful operation of the underlying business involved and, therefore, repayment of such loans may be negatively impacted by adverse changes in economic conditions, management's inability to effectively manage the business, claims of others against the borrower's assets which may take priority over the Company's claims against assets, death or disability of the borrower or loss of market for the borrower's products or services.

The Company also originates Small Business Administration (SBA) loans to businesses within its lending market. These loans are underwritten substantially similar to commercial business loans discussed above and also in accordance with the SBA's guidelines and Standard Operating Procedure. A percentage, (50-85%) of each SBA loan is guaranteed by the SBA and the full faith and credit of the United States. The Company from time to time may sell the guaranteed portion of these loans into the secondary market.

Loans on New York City taxi medallions are no longer offered by the Company. USDA guaranteed loans are, at times, purchased in the secondary market and have varying terms. Principal balance of these loans is guaranteed by the full faith and credit of the USDA.

The following table presents loans individually evaluated for impairment by class of loans as of December 31, 2019 and December 31, 2018.

	December 31, 2019			December 31, 2018		
	Unpaid Principal Balance	Recorded Investment	Allowance For Loan Losses Allocated	Unpaid Principal Balance	Recorded Investment	Allowance For Loan Losses Allocated
		(In thousands)			(In thousands)	
With no related allowance recorded:						
Real estate loans:						
One-to four family	$ 1,932	$ 1,932	$ -	$ 1,350	$ 1,350	$ -
Commercial						
Owner Occupied	377	377	-	764	764	-
Non Owner Occupied	186	186	-	1,177	1,177	-
Multi-family	-	-	-	-	-	-
Construction or development	-	-	-	-	-	-
Home equity						
Open Ended/Revolving	-	-	-	-	-	-
Closed Ended	-	-	-	-	-	-
Total real estate loans	2,495	2,495	-	3,291	3,291	-
Other loans:						
Commercial business						
Taxi Medallion	1,525	1,525	-	242	242	-
US Govt. Agency Guaranteed	-	-	-	-	-	-
All Other	32	32	-	802	802	-
Consumer	-	-	-	-	-	-
Total other loans	1,557	1,557	-	1,044	1,044	-
Total loans	$ 4,052	$ 4,052	$ -	$ 4,335	$ 4,335	$ -
With an allowance recorded:						
Real estate loans:						
One-to four family	$ -	$ -	$ -	$ -	$ -	$ -
Commercial						
Owner Occupied	325	325	79	385	385	17
Non Owner Occupied	-	-	-	-	-	-
Multi-family	-	-	-	-	-	-
Construction or development	-	-	-	-	-	-
Home equity						
Open Ended/Revolving	-	-	-	-	-	-
Closed Ended	-	-	-	-	-	-
Total real estate loans	325	325	79	385	385	17
Other loans:						
Commercial business						
Taxi Medallion	-	-	-	2,222	2,222	181
US Govt. Agency Guaranteed	-	-	-	-	-	-
All Other	579	579	335	611	611	242
Consumer	-	-	-	-	-	-
Total other loans	579	579	335	2,833	2,833	423
Total loans	$ 904	$ 904	$ 414	$ 3,218	$ 3,218	$ 440
Grand totals	$ 4,956	$ 4,956	$ 414	$ 7,553	$ 7,553	$ 440

The recorded investment in loans excludes accrued interest and deferred loan costs (fees) due to immateriality.

	2019	2018
	(In thousands)	
Average of individually impaired loans during year	$ 6,501	$ 7,321
Interest income recognized during impairment	296	478
Cash-basis interest income recognized	-	-

The following tables present the aging of the recorded investment in past due loans as of December 31, 2019 and December 31, 2018 by class of loans:

	30 - 59 Days Past Due	60 - 89 Days Past Due	Loans Past Due Over 90 Days Still Accruing	Non Accrual	Total Past Due	Loans Not Past Due	Total
				(In thousands)			
Real estate loans:							
One-to four family	$ 66	$ -	$ -	$ 593	$ 659	$ 165,406	$ 166,065
Commercial							
Owner Occupied	602	-	-	325	927	37,308	38,235
Non Owner Occupied	-	-	-	-	-	104,996	104,996
Multi-family	-	-	-	-	-	33,281	33,281
Construction or development	-		-	-	-	100	100
Home equity							
Open Ended/Revolving	-	-	-	-	-	2,685	2,685
Closed Ended	-	-	-	-	-	333	333
Total real estate loans	668	-	-	918	1,586	344,109	345,695
Other loans:							
Commercial business							
Taxi Medallion	219	-	-	219	438	1,792	2,230
US Govt. Agency Guaranteed	-	-	-	-	-	1,524	1,524
All Other	74	-	-	576	650	16,403	17,053
Consumer	-	-	-	-	-	113	113
Total other loans	293	-	-	795	1,088	19,832	20,920
Total loans	$ 961	$ -	$ -	$ 1,713	$ 2,674	$ 363,941	$ 366,615

	30 - 59 Days Past Due	60 - 89 Days Past Due	Loans Past Due Over 90 Days Still Accruing	Non Accrual	Total Past Due	Loans Not Past Due	Total
				(In thousands)			
Real estate loans:							
One-to four family	$ -	$ -	$ -	$ -	$ -	$ 132,236	$ 132,236
Commercial							
Owner Occupied	-	-	-	820	820	45,044	45,864
Non Owner Occupied	-	-	-	1,035	1,035	106,187	107,222
Multi-family	-	-	-	-	-	37,334	37,334
Construction or development	-		-	-	-	-	-
Home equity							
Open Ended/Revolving	-	-	-	-	-	2,715	2,715
Closed Ended	-	-	-	-	-	489	489
Total real estate loans	-	-	-	1,855	1,855	324,005	325,860
Other loans:							
Commercial business							
Taxi Medallion	-	-	-	-	-	3,023	3,023
US Govt. Agency Guaranteed	-	-	-	-	-	1,786	1,786
All Other	24	1	-	487	512	19,507	20,019
Consumer	-	-	-	-	-	383	383
Total other loans	24	1	-	487	512	24,699	25,211
Total loans	$ 24	$ 1	$ -	$ 2,342	$ 2,367	$ 348,704	$ 351,071

At year-end 2019 and 2018, the Company had $1.3 million and $1.6 million, respectively in interest only loans, excluding lines of credit and construction loans, and no loans with potential for negative amortization.

The Bank has extended credit to various directors, senior officers and their affiliates. Loans to related parties during 2019 were as follows:

	(In thousands)
Beginning balance at December 31, 2018	$ 5,231
New loans	302
Repayment	1,982
Ending balance at December 31, 2019	$ 3,551

The balance at December 31, 2019 does not include unused commitments totaling $617 thousand.

Credit Quality Indicators:

The Company 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 Company analyzes loans individually by classifying the loans as to credit risk. This analysis includes all loans, regardless of the outstanding balance, and non-homogenous loans, such as commercial and commercial real estate loans. This analysis is performed on an ongoing basis and results are reviewed each month. The Company uses the following definitions for risk ratings:

Special Mention. Loans classified as special mention have a potential weakness that deserves managements close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institutions credit positions 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 consumer loans or are included in groups of homogeneous loans. As of December 31, 2019, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

	Not Classified	Special Mention	Sub-standard	Doubtful	Total Loans
			(In thousands)		
Real estate loans:					
One-to four family	$ 165,315	$ 91	$ 659	$ -	$ 166,065
Commercial					
Owner Occupied	37,308	225	702	-	38,235
Non Owner Occupied	102,600	2,396	-	-	104,996
Multi-family	31,957	1,324	-	-	33,281
Construction or development	-	100	-	-	100
Home equity					
Open Ended/Revolving	2,685	-	-	-	2,685
Closed Ended	333	-	-	-	333
Total real estate loans	340,198	4,136	1,361	-	345,695
Other loans:					
Commercial business					
Taxi Medallion	705	868	657	-	$ 2,230
US Govt. Agency Guaranteed	1,524	-	-	-	1,524
All Other	16,302	65	686		17,053
Consumer	113	-	-	-	113
Total other loans	18,644	933	1,343	-	20,920
Total loans	$ 358,842	$ 5,069	$ 2,704	$ -	$ 366,615

As of December 31, 2018, the risk category of loans by class of loans is as follows:

	Not Classified	Special Mention	Sub-standard	Doubtful	Total Loans
			(In thousands)		
Real estate loans:					
One-to four family	$ 132,130	$ 106	$ -	$ -	$ 132,236
Commercial					
Owner Occupied	43,560	369	1,935	-	45,864
Non Owner Occupied	106,717	505	-	-	107,222
Multi-family	37,334	-	-	-	37,334
Construction or development	-	-	-	-	-
Home equity					
Open Ended/Revolving	2,715	-	-	-	2,715
Closed Ended	489	-	-	-	489
Total real estate loans	322,945	980	1,935	-	325,860
Other loans:					
Commercial business					
Taxi Medallion	559	1,474	990	-	$ 3,023
US Govt. Agency Guaranteed	1,786	-	-	-	1,786
All Other	18,492	114	1,413		20,019
Consumer	383	-	-	-	383
Total other loans	21,220	1,588	2,403	-	25,211
Total loans	$ 344,165	$ 2,568	$ 4,338	$ -	$ 351,071

Troubled Debt Restructurings:

From time to time, the terms of certain loans, for which the borrower is experiencing financial difficulties, are modified as troubled debt restructurings. In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under the company's internal underwriting policy. The modification of the terms of such loans include one or a combination of the following: a reduction of the stated interest rate of the loan; an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk; or a permanent reduction of the recorded investment in the loan.

Troubled debt restructurings totaled $3.7 million and $5.5 million as of December 31, 2019 and 2018, respectively. Of these amounts approximately $510 thousand and $291 were non-accrual at December 31, 2019 and 2018, respectively. There was $242 thousand of specific reserves allocated to such restructured loans as of December 31, 2019. There was $292 thousand of specific reserves allocated to such restructured loans as of December 31, 2018.

Of the $3.7 million of troubled debt restructurings as of December 31, 2019, seven loans totaling $1.5 million are loans collateralized by New York City Taxi Medallions. None of these modification occurred in 2019, while one occurred in 2018 and the remainder occurred in 2017 and 2016. During the year ended December 31, 2019, the Company charged off $168 thousand of taxi medallion loans relative to these modifications. During the year ended December 31, 2018, the Company charged off $1.4 million of taxi medallion loans relative to these modifications. Six of these loans are current on payments and are accruing interest while one loan is non-accrual at December 31, 2019. The Company has no commitments to lend additional amounts to customers with outstanding loans that are classified as troubled debt restructurings.

Three of the troubled debt restructurings are commercial real estate loans with an aggregate balance of $563 thousand, one loan is a residential property with a balance of $1.3 million and the remaining five loans are commercial loans with an aggregate balance of $1.0 million. Of these amounts, four commercial loans for $291 thousand are non-accrual as of December 31, 2019.

There were no loans modified and classified as troubled debt restructurings during the year ended December 31, 2019. The following table presents loans by class modified as troubled debt restructurings that occurred during the year ended December 31, 2018.

December 31, 2018	# Loans	Pre-Modification O/S Recorded Investment	Post-Modification O/S Recorded Investment
Troubled Debt Restructurings:		(Dollars in thousands)	
Residential	1	1,405	1,350
Commercial and Industrial	1	680	715
SBA Loans	4	291	291
Taxi Medallions	1	545	400
Total	7	2,921	2,756

The troubled debt restructurings described above increased the allowance for loan losses by $98 thousand for the year ended December 31, 2018.

The troubled debt restructurings described above resulted in charge offs of $168 thousand during the year ended December 31, 2019. There were $145 thousand of charge offs related to troubled debt restructurings in 2018.

During 2019, there were 4 defaults of 2018 troubled debt restructurings totaling $291 thousand. There was also one default of a 2017 troubled debt restructuring in the amount of $219 thousand.

NOTE 4 – ALLOWANCE FOR LOAN LOSSES

The following table presents the balance in the allowance for loan losses by portfolio segment as of December 31, 2019 and 2018.

	For the Twelve Months Ended December 31, 2019 (in thousands)								
	One-to-Four Family	Commercial Real Estate	Multifamily Real Estate	Construction or Development	Home Equity	Commercial Business	Consumer	Unallocated	Total
Beginning Balance	$ 734	$ 644	$ 115	$ -	$ 3	$ 1,511	$ -	$ 351	$ 3,358
Charge-offs	-	-	-	-	-	(168)	-	-	(168)
Recoveries	-	-	-	-	-	24	-	-	24
Provision for loan losses	241	58	87	-	-	(53)	-	(8)	325
Ending Balance	$ 975	$ 702	$ 202	$ -	$ 3	$ 1,314	$ -	$ 343	$ 3,539

	For the Twelve Months Ended December 31, 2018 (in thousands)								
	One-to-Four Family	Commercial Real Estate	Multifamily Real Estate	Construction or Development	Home Equity	Commercial Business	Consumer	Unallocated	Total
Beginning Balance	$ 245	$ 540	$ 108	$ -	$ 24	$ 1,946	$ 1	$ 118	$ 2,982
Charge-offs	-	-	-	-	-	(1,489)	-	-	(1,489)
Recoveries	-	-	-	-	-	-	-	-	-
Provision for loan losses	489	104	7	-	(21)	1,054	(1)	233	1,865
Ending Balance	$ 734	$ 644	$ 115	$ -	$ 3	$ 1,511	$ -	$ 351	$ 3,358

The following table presents the balance of recorded investment in loans by portfolio segment based on the impairment method and the corresponding balance in allowance for loan losses as of December 31, 2019 and December 31, 2018.

December 31, 2019

	1-4 Family Residential Real Estate	Commercial Real Estate	Multifamily Real Estate	Construction or Development	Home Equity	Commercial Business	Consumer	Unallocated	Total
					(In thousands)				
Allowance for loan losses:									
Individually evaluated for impairment	$ -	$ 79	$ -	$ -	$ -	$ 335	$ -	$ -	$ 414
Collectively evaluated for impairment	975	623	202	-	3	979	-	343	3,125
Total allowance balance	$ 975	$ 702	$ 202	$ -	$ 3	$ 1,314	$ -	$ 343	$ 3,539
Loans:									
Loans individually evaluated for impairment	$ 1,932	$ 888	$ -	$ -	$ -	$ 2,136	$ -	$ -	$ 4,956
Loans collectively evaluated for impairment	164,133	142,343	33,281	100	3,018	18,671	113	-	361,659
Total ending loans balance	$ 166,065	$ 143,231	$ 33,281	$ 100	$ 3,018	$ 20,807	$ 113	$ -	$ 366,615

December 31, 2018

	1-4 Family Residential Real Estate	Commercial Real Estate	Multifamily Real Estate	Construction or Development	Home Equity	Commercial Business	Consumer	Unallocated	Total
					(In thousands)				
Allowance for loan losses:									
Individually evaluated for impairment	$ -	$ 17	$ -	$ -	$ -	$ 423	$ -	$ -	$ 440
Collectively evaluated for impairment	734	627	115	-	3	1,088	-	351	2,918
Total allowance balance	$ 734	$ 644	$ 115	$ -	$ 3	$ 1,511	$ -	$ 351	$ 3,358
Loans:									
Loans individually evaluated for impairment	$ 1,350	$ 2,326	$ -	$ -	$ -	$ 3,877	$ -	$ -	$ 7,553
Loans collectively evaluated for impairment	130,886	150,760	37,334	-	3,204	20,951	383	-	343,518
Total ending loans balance	$ 132,236	$ 153,086	$ 37,334	$ -	$ 3,204	$ 24,828	$ 383	$ -	$ 351,071

NOTE 5 – PREMISES AND EQUIPMENT

The following is a summary of premises and equipment at December 31, 2019 and December 31, 2018.

	December 31, 2019	December 31, 2018
	(In thousands)	
Land	$ 193	$ 193
Furniture, fixtures, and equipment	2,000	1,624
Bank Premises	1,959	1,970
Leasehold Improvements	2,408	2,225
	6,560	6,012
Less: accumulated depreciation and amortization	(1,954)	(1,463)
Total premises and equipment, net	$ 4,606	$ 4,549

Depreciation expense was $576 thousand and $360 thousand for 2019 and 2018, respectively.

NOTE 6 – DEPOSITS

The following is a summary of deposit balances at December 31, 2019 and December 31, 2018.

	December 31, 2019	December 31, 2018
	(in thousands)	
Demand deposit accounts	$ 79,177	$ 82,246
NOW accounts	1,612	1,270
Money market accounts	9,624	11,389
Regular savings accounts	118,000	80,832
Certificates of Deposit	119,449	121,524
Total	$ 327,862	$ 297,261

The following summarizes certificates of deposit by remaining term to contractual maturity at December 31, 2019 (in thousands).

Under one year	$ 99,920
One year to under two years	17,888
Two years to under three years	891
Three years to under four years	423
Four years to under five years	327
Five years to under six years	-
Total Certificates of Deposit	119,449

Certificates of deposit of $250 thousand or more totaled $30.8 million and $27.0 million at December 31, 2019 and December 31, 2018, respectively. The Company utilizes brokered deposits. As of December 31, 2019 and 2018, $13.1 million and $13.1 million, respectively, of brokered deposits were included in certificates of deposit.

Deposits from directors, senior officers and their affiliates were approximately $6.0 million and $8.4 million at December 31, 2019 and December 31, 2018, respectively.

NOTE 7 – BORROWINGS

Federal Home Loan Bank Advances

The Company had $44.0 million and $70.0 million in outstanding Federal Home Loan Bank Advances as of December 31, 2019 and 2018.

Advances from the Federal Home Loan Bank were as follows (in thousands):

	2019	2018
Fixed rates with an average rate of 2.08% and 2.34%	$ 44,000	$ 70,000

Each advance is payable at its maturity date, with a prepayment penalty for fixed rate advances. The advances were fully collateralized by pledged loans, consisting of commercial real estate and residential mortgages from the Company. Based on this collateral, available investment security collateral, and the Company's holdings of FHLB stock, the Company is eligible to borrow up to a total of $158.0 million at year-end 2019 including the $44.0 million in term advances outstanding at December 31, 2019.

Payment Information: Required principal payments over the next five years are as follows (in thousands):

2020	24,000
2021	15,000
2022	-
2023	-
2024	5,000
	44,000

Lines of Credit

The Company has a line of credit with a correspondent bank for an amount of up to $7.5 million. This credit facility is secured by 100% of the outstanding shares of the Bank. As of December 31, 2019 and December 31, 2018 the outstanding balance was $7.5 million. The Company utilized this credit facility primarily to downstream funds to the Bank to enable it to maintain strong capital ratios and leverage the balance sheet by increasing assets. This line of credit matures in June 2026 and is interest only for a maximum of five years. After five years the principal balance due will amortize for the remaining five years based on a ten year payout. A balloon payment would be due at maturity. It carries a fixed interest rate of 5.75%.

Under the debt covenants on this line of credit, the Bank is required to maintain minimum capital ratios of 8% Tier 1 Leverage, 10% Tier 1 Risk Based and 11% Total Risk Based. As of December 31, 2019, the Empire State Bank's Tier 1 Leverage, Tier 1 Risk Based and Total Risk Based capital ratios were 9.26%, 13.64% and 14.88%, respectively. These ratios are above the minimum required by the abovementioned debt covenant.

The Company also has a line of credit with another correspondent bank for an amount of up to $7.0 million. This credit facility is on a secured basis for $3.0 million for a period of one hundred eighty (180) calendar days and an unsecured basis of $4.0 million for a period of fourteen (14) calendar days. The Bank did not utilize this credit facility at any time during 2019 or 2018.

The Company also has a line of credit with a third correspondent bank for $6.0 million. This credit facility is intended solely for the Bank's overnight use.

NOTE 8 – INCOME TAXES

The following summarizes components of income tax expense for the years ended December 31, 2019 and December 31, 2018.

	December 31, 2019	December 31, 2018
	(in thousands)	
Current:		
Federal expense (benefit)	$ 48	$ -
State and local expense (benefit)	37	54
Total	85	54
Deferred:		
Federal expense (benefit)	$ 531	$ 322
State and local expense (benefit)	(483)	(550)
Tax Expense (Benefit) Before Valuation Allowance	48	(228)
Change in Valuation Allowance	379	446
Total Tax Expense	$ 512	$ 272

The following is a reconciliation of the Company's statutory federal income tax rate, 21%, to its effective tax rate at December 31, 2019 and December 31, 2018.

	December 31, 2019	December 31, 2018
	(in thousands)	
	21%	21%
Federal expense (benefit) at statutory rate	$ 442	$ 242
State and local income taxes, net of federal income tax benefit	(353)	(392)
Other	44	(24)
Tax benefit before valuation allowance	133	(174)
Change in Valuation Allowance	379	446
Income tax expense	$ 512	$ 272

The following summarizes the balance of the Company's deferred tax assets and deferred tax liabilities at December 31, 2019 and December 31, 2018.

	December 31, 2019	December 31, 2018
	(in thousands)	
Deferred Tax Assets	$ 3,991	$ 3,739
Less: Valuation allowance	(1,995)	(1,616)
Net deferred tax assets	1,996	2,123
Deferred tax liabilities	2,032	1,691
Net deferred tax asset (liability)	$ (36)	$ 432

Deferred taxes relate primarily to net operating loss carryforwards and timing differences associated with the allowance for loan losses.

The Company has Federal net operating loss carryforwards available of $1.6 million to reduce future taxable income expiring between years 2026 and 2033. In addition, the Company has New York State and New York City net operating loss carryforwards available of $23.1 million and $13.6 million, respectively, expiring between years 2025 and 2039.

The Company has recorded a federal deferred tax asset that, based upon an analysis of the evidence, it expects such federal deferred tax asset to be realizable. The federal deferred tax asset is included in other assets on the balance sheet. However, due to the change in New York State tax legislation passed in 2014, and New York City in 2015, the Company generated New York State and City tax losses in 2019 and 2087 and it is more likely than not the Company will continue to generate New York tax losses in future years. Therefore, the Company calculates its New York State and City tax liability on the basis of average equity capital or a minimum filing fee. Consequently, the Company has recorded a valuation allowance against its net New York State and City deferred tax assets as of December 31, 2019 and 2018, as it is unlikely these deferred tax assets will impact the Company's New York State or City tax liability in future years.

There were no significant unrecognized tax benefits at December 31, 2019, and the Company does not expect any significant increase in unrecognized tax benefits in the next twelve months.

NOTE 9 – COMMITMENTS AND CONTINGENCIES

Legal Proceedings

The Company has not been a party to any legal proceedings, which may have a material effect on the Company’s results of operations and financial condition. However, in the normal course of its business, the Company may become involved as plaintiff or defendant in proceedings such as judicial mortgage foreclosures and proceedings to collect on loan obligations and to enforce contractual obligations.

Lessee Arrangements

The Company enters into leases in the normal course of business primarily for banking centers, back office operations locations, and loan production offices. The Company’s leases have remaining terms ranging from 5 to 10 years, some of which include renewal or termination options to extend the lease for up to 20 years and some of which include options to terminate the lease within 5 years. The Company’s leases do not include residual value guarantees or covenants.

The Company includes lease extension and termination options in the lease term if, after considering relevant economic factors, it is reasonably certain the Company will exercise the option. The Company has elected not to recognize leases with original lease terms of 12 months or less (short-term leases) on the Company’s balance sheet.

		December 31, 2019 (In thousands)
Right-of-Use assets:		
Operating leases	Other assets	$ 2,747
Total right-of-use assets		$ 2,747
Lease liabilities:		
Operating leases	Other liabilities	$ 2,812
Total lease liabilities		$ 2,812

Lease Expense

The components of total lease cost were as follows for the period ending:

		December 31, 2019
		(In thousands)
Operating Lease cost	$	406
Total lease cost, net	$	406

Lease obligations

Future undiscounted lease payments for operating leases with initial terms of one year or more as of December 31, 2019 are as follows:

		(In thousands)
2020	$	408
2021		415
2022		424
2023		405
2024		339
Thereafter		1,168
Total undiscounted lease payments	$	3,159
Less: Imputed Interest		347
Net Lease Liabilities	$	2,812

Supplemental Lease Information		(Dollars in thousands)
Operating lease weighted average remaining lease term (years)		7.8
Operating lease weighted average discount rate		2.94%
Operating cash flows from operating leases	$	373
Right-of-use assets obtained in exchange for new operating lease liabilities	$	304

Off-Balance Sheet Financial Instruments

Loan origination commitments and lines of credit are contractual agreements to lend to customers within specified time periods at interest rates and on other terms specified in the agreements. These financial instruments involve elements of credit risk and interest rate risk in addition to the amounts for funded loans recognized in the balance sheet. The contractual amounts of commitments and lines of credit represent the Bank's maximum potential exposure to credit loss (assuming that the agreements are fully funded and any collateral proves to be worthless), but do not represent future cash requirements since certain agreements may expire without being fully funded. Loan commitments generally have fixed expiration dates (ranging up to three months) or other termination clauses and may require the payment of a fee by the customer. Commitments and lines of credit are subject to the same credit approval process applied in the Bank's general lending activities, including a case-by-case evaluation of the customer's creditworthiness and related collateral requirements. Substantially all of these commitments and lines of credit have been provided to customers within the Bank's primary lending area. Loan origination commitments at December 31, 2019 consisted of primarily adjustable, with interest rates ranging from 4.25 to 5.00% and terms generally not exceeding 90 days.

The contractual amounts of financial instruments with off-balance sheet risk at year-end were as follows:

	2019		2018	
	(In thousands)			
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
Commitments to make loans	$ 850	$ 5,798	$ 4,846	$ 16,411
Unused lines of credit	--	9,095	--	8,854
Standby letters of credit	--	--	--	100

NOTE 10 – EMPLOYEE BENEFIT AND STOCK-BASED COMPENSATION PLANS

Stock Options

On March 18, 2014 the Board of Directors approved the adoption of the Company's 2014 Stock Option Plan which allows for 331,000 options. These options have a 10-year term and may be either non-qualified stock options or incentive stock options. The options vest immediately for those options granted to Directors and at either a rate of 20% on each of five annual vesting dates or 33.33% on each of three annual vesting dates for those options granted to employees. The Board of Directors determines the vesting period in accordance with its decisions to make grants. Each option entitles the holder to purchase one share of common stock at an exercise price equal to the fair market value of the stock on the grant date. At December 31, 2019, there were 39,000 shares available for future grant under the 2014 Stock Option Plan.

The 2014 Stock Option Plan replaces the Stock Option Plan which was adopted in 2004. This plan allowed for 180,000 options. All options outstanding under the retired Stock Option Plan were surrendered upon grant of new options under the 2014 Stock Option Plan.

For accounting purposes, the Company recognizes expense for options awarded under the Company's 2014 Stock Option Plan over the vesting period at the fair market value of the options on the day they are awarded. The fair value of each option award is estimated on the date of grant using the Black-Scholes model that uses the assumptions noted in the table below.

	2019
Risk -Free interest rate	1.83%
Expected Term (in years)	7
Expected stock price volatility	0.30

	2018
Risk -Free interest rate	2.84%
Expected Term (in years)	7
Expected stock price volatility	0.30

Expected volatilities are based on historical volatilities of the Company's common stock. The expected term of options granted is based on historical data and represents the period of time that options granted are expected to be outstanding, which takes into account that the options are not transferable. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

A summary of options outstanding under the Bank's 2014 Stock Option Plan as of December 31, 2019, and changes during the year then ended is presented below.

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Intrinsic Value (000's)
Outstanding at January 1, 2019	304,000	$ 3.37		
Granted	5,000	4.00		
Exercised	-	-		
Forfeited or expired	(17,000)	3.74		
Surrendered	-	-		
Outstanding at December 31, 2019	292,000	$ 3.36	5.7	$ 477
Options exercisable at December 31, 2019	259,200	$ 3.23	5.4	$ 456
Vested and expected to vest	292,000	3.36	5.7	477

There were no options exercised during the year ended December 31, 2019. During the year ended December 31, 2018, 8,000 options were exercised by former employees of the Bank. The options were exercised in a net settlement manner with shares issued in settlement of the exercise. Below is a summary of those options exercised.

(Dollars in thousands, shares in whole amount)	2019	2018
	(Dollars in thousands)	
Intrinsic value of options exercised	$ -	$ 16
Shares issued from option exercises	-	3,196
Cash received from option exercises	-	-
Tax benefit from option exercises	-	5
Weighted average fair value of options granted	-	3.04

As of December 31, 2019, there was $42 thousand of total unrecognized compensation cost related to non-vested stock options granted under the 2014 Stock Option Plan. The cost is expected to be recognized over a weighted average remaining period of approximately 9 months.

401(k) Plan

A 401(k) benefit plan allows employee contributions up to 15% of their compensation. The Bank made a matching contribution of $85 thousand and $83 thousand in in the years ended December 31, 2019 and 2018, respectively.

NOTE 11 – FAIR VALUE

Fair value is defined as 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. Fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standards describe 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 company’s own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Company used the following methods and significant assumptions to estimate the fair value of each type of financial instrument:

Investment Securities: 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).

Impaired Loans: 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. However, such adjustments did not have a material impact on the overall financial statements.

Repossessed Assets: The Bank’s repossessed assets consist of two New York City Taxi Medallions. The fair value of these assets acquired through repossession are determined by a review of recent sales of Medallions and adjusted accordingly as a Level 3 classification of the inputs for determining fair value.

Assets measured at fair value on a recurring basis are summarized below.

		Fair Value Measurements (in thousands) at December 31, 2019 Using		
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Financial Assets				
Investment securities available-for-sale:				
Bank Preferred securities	$ 952	-	$ 952	-
Mortgage-backed securities-residential	2,352	-	2,352	-
Equity Securities	-	-	-	-
Total available-for-sale and equity securities	$ 3,304	$ -	$ 3,304	$ -

	Carrying Value	Fair Value Measurements (in thousands) at December 31, 2018 Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Financial Assets				
Investment securities available-for-sale:				
Bank Preferred securities	$ 944	-	$ 944	-
Mortgage-backed securities-residential	2,911	-	2,911	-
Equity Securities	1,978	-	1,978	-
Total available-for-sale and equity securities	$ 5,833	$ -	$ 5,833	$ -

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

	Carrying Value	Fair Value Measurements (in thousands) at December 31, 2019 Using Identical Assets (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Assets:				
Impaired Loans				
Commercial Term Loan	$ 1,801	-	-	$ 1,801
Commercial Real Estate	$ 809	-	-	$ 809
Residential Real Estate	$ 593	-	-	$ 593
Respossessed Assets	219	-	-	219

	Carrying Value	Fair Value Measurements (in thousands) at December 31, 2018 Using Identical Assets (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Assets:				
Impaired Loans				
Commercial Term Loan	$ 3,020	-	-	$ 3,020
Respossessed Assets	435	-	-	435

Impaired loans: Impaired loans measured at fair value at December 31, 2019 had a book value of $3.6 million, with a valuation allowance of $414 thousand. Impaired loans measured at fair value at December 31, 2018 had a book value of $3.5 million, with a valuation allowance of $440 thousand.

Repossessed Assets: At December 31, 2019 the Bank had Repossessed Assets with a carrying value of $219 thousand. Upon transfer to repossessed assets from loans, a charge-off of $81 thousand was recognized. At December 31, 2018 the Bank had Repossessed Assets with a carrying value of $435 thousand.

The carrying amounts and estimated fair values of financial instruments not carried at fair value at December 31, 2019 are as follows:

		Fair Value Measurements (in thousands) at December 31, 2019 Using			
	Carrying Amount	Level 1	Level 2	Level 3	Total
Financial assets					
Cash, due from banks, federal funds sold	25,275	25,275	-	-	25,275
Securties held to maturity	12,265	-	12,584	-	12,584
Loans, net	369,194	-	-	369,050	369,050
Financial liabilities					
Time Deposits	119,449	-	-	120,187	120,187
Borrowings	51,500	-	-	51,574	51,574

		Fair Value Measurements (in thousands) at December 31, 2018 Using			
	Carrying Amount	Level 1	Level 2	Level 3	Total
Financial assets					
Cash, due from banks, federal funds sold	19,924	19,924	-	-	19,924
Securties held to maturity	14,337	-	14,363	-	14,363
Loans, net	353,362	-	-	341,117	341,117
Financial liabilities					
Time Deposits	121,524	-	-	121,913	121,913
Borrowings	77,500	-	-	77,345	77,345

NOTE 12- REGULATORY CAPITAL REQUIREMENTS

Federal Reserve Board regulations requires that state-chartered, FRB-member banks, such as Empire State Bank, maintain minimum regulatory capital levels. Under prompt corrective action regulations, the regulatory agency is required to take certain supervisory actions (and may take additional discretionary actions) with respect to an undercapitalized institution. Such actions could have a direct material effect on the Company’s consolidated financial statements. The regulations establish a framework for the classification of institutions into five categories: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized.

The U.S. Basel III rules became effective for the Bank on January 1, 2015, and set forth the composition of regulatory capital including the application of regulatory capital adjustments and deductions. Prior to January 1, 2015, regulatory capital was calculated under the Basel I framework. Regulatory capital guidelines require that capital be measured in relation to the credit and market risks of both on- and off-balance sheet items using various risk weights. These risk weights were amended as part of the Basel III framework.

The capital rules under Basel III implement a revised definition of regulatory capital including a new common equity Tier 1 capital ratio with a minimum requirement of 4.5% and a higher minimum Tier 1 capital ratio of 6.0%. Under the new rules, the total capital ratio remains at 8.0% and the minimum leverage ratio (Tier 1 capital to total assets) for all banking organizations is 4.0%.

Under the new capital rules, in order to avoid limitations on capital distributions, including dividend payments and certain discretionary bonus payments to executive officers, a banking organization must hold a capital conservation buffer composed of common equity Tier 1 capital above its minimum risk based capital requirements. The capital conservation buffer and the deductions from common equity Tier 1 capital phase in over time, beginning on January 1, 2016. The capital conservation buffer for 2019 is 2.50%

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of Total and Tier 1 capital (as defined by the regulations) to risk weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Management believes that as of December 31, 2018, the Bank meets all capital adequacy requirements to which it is subject. Further, the most recent regulatory notification categorized the Bank as a well-capitalized institution under the prompt corrective action regulations. There have been no conditions or events since that notification that management believes have changed the Bank's capital classification.

The following table presents the regulatory capital, assets and risk based capital ratios for the Bank under the Basel III framework, excluding conservations buffers, at December 31, 2019 and December 31, 2018:

	Bank Actual		Minimum Capital Adequacy		Classification as Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2019			(Dollars in thousands)			
Tier I (core) capital to Average Assets	$ 38,878	9.3%	$ 16,799	4.0%	$ 20,999	5.0%
Common Equity Tier 1 to Risk Weighted Assets	38,878	13.6	12,827	4.5	18,528	6.5
Tier 1 Capital to Risk Weighted Assets	38,878	13.6	17,103	6.0	22,804	8.0
Total Capital to Risk Weighted Assets	42,417	14.9	22,804	8.0	28,505	10.0

	Bank Actual		Minimum Capital Adequacy		Classification as Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2018			(Dollars in thousands)			
Tier I (core) capital to Average Assets	$ 28,726	7.6%	$ 15,137	4.0%	$ 18,921	5.0%
Common Equity Tier 1 to Risk Weighted Assets	28,726	10.0	12,939	4.5	18,689	6.5
Tier 1 Capital to Risk Weighted Assets	28,726	10.0	17,251	6.0	23,002	8.0
Total Capital to Risk Weighted Assets	32,084	11.2	23,002	8.0	28,752	10.0

The Federal Reserve Bank of New York and the New York State Department of Financial Services regulate the amount of dividends and other capital distributions that the Bank may pay to the Company. All dividends must be paid out of undivided profits and cannot be paid out from capital. In general, if the Bank has undivided profits and satisfies all regulatory capital requirements both before and after a dividend payment, the Bank may pay a dividend to the Company, in any year, equal to the current year's net income plus retained net income for the preceding two years that is still available for dividend.

Given the Bank was in an accumulated deficit position as of December 31, 2019, the Bank does not currently have the ability to pay dividends to the Company without obtaining regulatory approval.

NOTE 13 – REVENUE FROM CONTRACTS WITH CUSTOMERS

All of the Company's revenue from contracts with customers in the scope of ASC 606 is recognized within Non-Interest Income. The following table presents the Company's sources of Non-Interest Income for the twelve months ended December 31, 2019 and 2018. Items outside the scope of ASC 606 are noted as such.

	Year Ended 12/31/2019	Year Ended 12/31/2018
Non-interest income:		
Service charges on deposits:		
Overdraft fees	458	592
Wire transfer fees	53	52
Other	27	33
ATM fee income	33	20
Interchange fee income	37	37
Insured Cash Sweep fees	-	47
Net gains (loss) on sale of loans [a]	(80)	67
Loan servicing fees [a]	422	317
Other	45	23
Total non-interest income	995	1,190

a. Not within the scope of ASC 606.

b. The Other category includes safe deposit rental fees of $4 thousand that is within the scope of ASC 606; the remaining balance of $41 thousand represents CD penalties, and miscellaneous income which is outside the scope of ASC 606.

Service Charges on Deposit Accounts: The Company earns fees from its deposit customers for transaction-based account maintenance and overdraft services. Transaction-based fees, which include services such as ATM use fees, stop payment charges, statement rendering, and ACH fees, are recognized at the transaction is executed as that is the point in time the Company fulfills the customer's request. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Company satisfies the performance obligation. Overdraft fees are recognized at the point in time the overdraft occurs. Service charges on deposits are withdrawn from the customer's account balance.

Interchange income: The Company earns interchange fees debit cardholder transactions conducted through the Visa payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily , concurrently with the transaction processing services provided to the cardholder.

Insured Cash Sweep Fees: The Company earns fees from the Promontory Network's Insured Cash Sweep (ICS) product. These fees are based on the daily amount of ICS One-Way-Sell transactions within the Network and are determined utilizing an interest rate comparable to the federal funds rate. The fees are recognized daily based upon outstanding ICS One-Way-Sell balances.

NOTE 14 – SUBSEQUENT EVENTS

In December 2019, a novel strain of coronavirus surfaced in Wuhan, China, and has spread around the world, with resulting business and social disruption. The coronavirus was declared a Public Health Emergency of International Concern by the World Health Organization on January 30, 2020 and on March 11, 2020 was declared a pandemic. The operations and business results of the Company could be materially adversely affected. Significant estimates, including the allowance for loan losses, may be materially adversely impacted by local, state and national restrictions and events designed to contain the coronavirus. The magnitude of the impact is likely dependent upon the length and severity of the disruption.

On March 3 2020, the Company sold $5.6 million of mortgage backed investment securities formally classified as Held to Maturity (“HTM”) at a gain of approximately $200 thousand. This transaction was largely prompted by the unprecedented decline in interest rates resulting from the coronavirus concerns. In accordance with ASC 320, investment securities sold from the HTM portfolio generally result in the reclassification of all such classified securities to the AFS classification. Accordingly, in March 2020 the Company reclassified the remaining investment securities classified as HTM to AFS.

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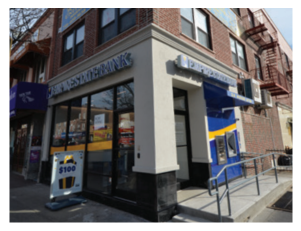

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