ESB BANCSHARES, INC.

2017 ANNUAL REPORT

BUILDING THE FUTURE

Pictured from left to right: Thomas Sperzel, President & Chief Operating Officer; Walter Daszkowski, Vice Chairman; David Freer, Chairman; Philip Guarnieri, Chief Executive Officer

Empire State Bank was founded by industry pioneers who have a vision - to bring innovation to community banking and a mission to create a community bank that delivered products and services to where the world was heading. We made great strides in transforming our company based on our strategic plan, marking 2017 a pivotal year for Empire State Bank. Our priority is to invest in high-growth areas that will allow us to generate strong, sustained organic growth and shareholder value. We are focused on a long-term strategic initiative to modernize the company to reflect how customers bank and deliver enhanced financial performance. We have built a strong foundation for the future – one that will benefit our shareholders, customers and communities.

March 30, 2018

Dear Shareholder:

We are pleased to submit our 2017 Annual Report to Shareholders of ES Bancshares, Inc. and its subsidiary, Empire State Bank. This was a year in which we continued to focus on growth in both the loan and deposit portfolios as well as core earnings. It was also a year in which we continued to execute our strategic plan of reallocation of resources to more profitable markets to support further growth.

First, we would like to update you on the status of the strategic initiatives undertaken in the last couple of years. During 2017 the Company opened its loan production office on 8th Avenue in Brooklyn and announced the opening of two additional retail banking centers in Brooklyn and Staten Island. These are scheduled to come on line in 2018 and are an important part of the corporate strategy of continued growth through market penetration. The new locations will provide customers a blend of traditional banking and the leveraging of cutting edge technology to maximize their banking experience through the use of mobile devices. At the same time the Company grew deposits and loans across its existing locations. This resulted in overall balance sheet growth in excess of $51 million, or 21%.

Also during 2017, the Company closed on the sale of its New Paltz location. As a result $31 million in deposits were delivered to the purchaser. This transaction had a beneficial impact on financial performance and was a critical component in positioning the Company to redeploy resources in its most profitable markets.

We continued to focus on loan and deposit growth during 2017. The loan portfolio grew in excess of $54 million, or 27%. Additionally, despite losing the deposits in conjunction with the New Paltz sale, Company-wide deposits actually grew by $11.5 million over the course of 2017. In fact, non-interest deposits grew by $7.5 million, or 12%, year over year. This led to an increase in net interest income of $1.2 million, or 17%. The sale of the New Paltz location as well as overall balance sheet growth contributed to a $300 thousand, or 46%, increase in net income.

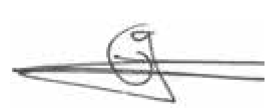
In growing the loan portfolio we focus on our core products of traditional real estate lending as well as small business lending, including SBA loans. We continue to pursue meaningful relationships whereby we look to serve our lending customers in a manner that ensures we also enjoy a meaningful deposit relationship with them. This allows us to grow our deposit base along with our loan portfolio.

We are excited about continued prospects for growth in 2018 and beyond. To further this growth the Company closed on the private placement of $2.7 million in additional common equity during the 4th quarter of 2017. This capital as well as that raised by the premium on the New Paltz sale will fuel growth in the new branches coming online in 2018 and throughout the Company's existing locations. It will also enable us to further invest in infrastructure which is critical to pursuing growth in a prudent manner.

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
Chief Executive Officer

Thomas Sperzel
President & Chief Operating Officer

WE ARE HELPING SMALL BUSINESSES AND COMMUNITIES THRIVE

Pictured from Left to Right: Philip Guarnieri, CEO of Empire State Bank; Benny Umbra, Peter Mauro, Bill Spiezia and Jeffrey J. Potter of GIG Partners LLC. and Jeanne Sarno, 1st VP/Business Relationship Manager of Empire State Bank.

GIG PARTNERS LLC.

GIG Partners, LLC is a full-service, residential real estate development firm driven by a management team with a breadth of experience that encompasses all areas of real estate development and an established reputation of quality and commitment in various projects in New York and New Jersey.

GIG Partner LLC.

THOR PERFORMANCE PRODUCTS, INC.

Thor Performance Products is a New York based Sports Flooring and Acoustic Specialties firm, which works with Architects, Designers, End-Users, and their network of more than a thousand dealers, to best distribute across the country.

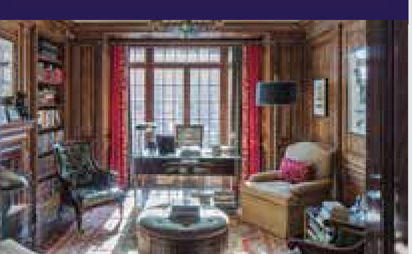
Pictured from left to right: Thomas Sperzel, President and COO of Empire State Bank; Annmarie Dwyer, AVP, Newburgh Branch Manager of Empire State Bank; Albert Mandell, President of Thor Performance Products, Inc. and Rosemary Mandell CEO of Thor Performance Products, Inc.

Pictured from left to right: Jeanne Sarno, 1st VP/Business Relationship Manager of Empire State Bank and Michael Esposito, Owner of La Rosa Chicken & Grill.

LA ROSA CHICKEN & GRILL

La Rosa Chicken & Grill restaurants chain, located in NJ and NY, offers healthy grilled and roasted chicken platters, a variety of sandwiches & wraps, fresh seasoned vegetables, and fresh soups and salads. Currently serving Staten Island with two locations and new locations to open soon.

V. DISALVO CONTRACTING CO. INC.



DiSalvo Contracting is a third generation, family owned and family operated, high end residential General Contracting and Construction Management firm. Founded in 1977, we have a rich tradition of delivering extraordinary service to our clients and bringing the highest standards of work performance and craftsmanship to our projects.

Pictured from left to right: JoAnn Puma Libretti, VP/Business Relationship Manager of Empire State Bank; Vincent and Joe DiSalvo, Principals of V. DiSalvo Contracting Co. Inc.

Crowe Horwath.

Crowe Horwath LLP

Independent Member Crowe Horwath International

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, 2017 and 2016 , 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, 2017 and 2016, 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 Horwath LLP

New York, New York
March 21, 2018

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

	December 31, 2017	December 31, 2016
ASSETS		
Cash and cash equivalents	$ 15,745	$ 10,768
Securities available for sale, at fair value	4,397	5,024
Securities held to maturity, at amortized cost (fair value of $5,202 and $6,489 at December 31, 2017 and December 31, 2016, respectively)	5,146	6,402
Total securities	9,543	11,426
Loans Held for Sale	-	6,592
Loans receivable	255,411	201,032
Deferred cost	1,408	1,023
Allowance for loan losses	(2,982)	(2,685)
Total loans receivable, net	253,837	199,370
Accrued interest receivable	993	806
Federal Reserve Bank stock	727	637
Federal Home Loan Bank stock	2,065	470
Goodwill	581	581
Premises and equipment, net	2,963	3,151
Real estate owned	-	273
Repossessed assets	600	-
Net deferred tax asset	678	1,860
Other assets	888	925
Total assets	$ 288,620	$ 236,859
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	$ 67,245	$ 59,668
Interest bearing	149,973	146,000
Total deposits	217,218	205,668
Borrowed funds	48,500	12,250
Accrued interest payable	130	85
Other liabilities	3,080	2,873
Total liabilities	268,928	220,876
Commitments and contingencies (Note 9)		
Stockholders' equity:		
Capital stock (par value $0.01; 5,000,000 shares authorized; 3,864,888 shares issued at December 31, 2017 and 3,312,867 shares December 31, 2016)	39	33
Additional paid-in-capital	24,808	22,056
Accumulated deficit	(5,143)	(6,131)
Accumulated other comprehensive income (loss)	(12)	25
Total stockholders' equity	19,692	15,983
Total liabilities and stockholders' equity	$ 288,620	$ 236,859

See accompanying notes to financial statements

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

	For the Twelve Months Ended December 31, 2017	2016
Interest and dividend income:		
Loans	$ 10,219	$ 8,278
Securities	321	417
Fed Funds and other earning assets	212	128
Total interest and dividend income	10,752	8,823
Interest expense:		
Deposits	1,464	1,189
Borrowed funds	749	362
Total interest expense	2,213	1,551
Net interest income	8,539	7,272
Provision for loan losses	1,983	573
Net interest income after provision for loan losses	6,556	6,699
Non-interest income:		
Service charges and fees	792	830
Net gain on sales of participating interests in loans	275	397
Recovery of certificate of deposit placement	9	11
Gain or <Loss> on Securities	52	154
Gain or <Loss> on Sale of Real Estate Owned	(8)	-
Gain on Branch Sale	1,764	-
Other	54	24
Total non-interest income	2,938	1,416
Non-interest expense:		
Compensation and benefits	3,937	3,897
Occupancy and equipment	987	1,025
Data processing service fees	427	376
Professional fees	519	447
FDIC assessment	171	179
Advertising	167	123
Insurance	128	128
Other	886	800
Total non-interest expense	7,222	6,975
Income before income taxes	2,272	1,140
Income tax expense	1,286	468
Net income	$ 986	$ 672

See accompanying notes to financial statements.

ES BANCSHARES, INC.
CONSOLIDATED STATEMENTS COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(Dollars in thousands)

	For the Twelve Months Ended December 31,	
	2017	**2016**
Net income	$ 986	$ 672
Other comprehensive income (loss):		
Unrealized gains/losses on securities available for sale:		
Unrealized holding gain/(loss) arising during the period	(2)	41
Reclassification adjustment for (gains) losses included in net income	(52)	(153)
	(54)	(112)
Tax effect	19	47
Total other comprehensive income (loss)	(35)	(65)
Comprehensive income	$ 951	$ 607

See accompanying notes to financial statements.

ES BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(Dollars in thousands)

	Capital Stock Shares	Amount	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
Balance at January 1, 2016	3,312,867	$ 33	$ 22,015	$ (6,803)	$ 90	$ 15,335
Stock based compensation, net	-	-	41	-	-	41
Comprehensive income:						
Net income for the period	-	-	-	672	-	672
Other comprehensive loss	-	-	-	-	(65)	(65)
Net proceeds from issuance of common stock	-	-	-	-	-	-
Balance at December 31, 2016	3,312,867	33	22,056	(6,131)	25	15,983
Stock based compensation, net	-	-	90	-	-	90
Comprehensive income:						
Net income for the period	-	-	-	986	-	986
Other comprehensive income/(loss)	-	-	-	-	(35)	(35)
Impact of Tax Cuts & Jobs Act related to accumulated other comprehensive income reclassification				2	(2)	
Net proceeds from issuance of common stock	552,021	6	2,662	-	-	2,668
Balance at December 31, 2017	3,864,888	39	24,808	(5,143)	$ (12)	$ 19,692

See accompanying notes to financial statements

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

	2017	2016
Cash flows from operating activities:		
Net income for period	$ 986	$ 672
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision for loan losses	1,983	573
Depreciation expense	288	275
Amortization (accretion) of deferred fees, discounts and premiums, net	480	433
Net gain on sales of participating interests in loans	(275)	(397)
Stock based compensation expense	90	41
Net gain on sales of investment securities	(52)	(154)
Net gain on sale of branch	(1,764)	
Loss on impairment of real estate owned	-	10
Loss on disposal of fixed assets	8	-
Deferred tax expense	1,190	412
Changes in assets and liabilities:		
(Increase) decrease in other assets	(158)	(188)
(Decrease) increase in accrued expenses and other liabilities	252	636
Net cash provided by (used in) operating activities	3,028	2,313
Cash flows from investing activities:		
Proceeds from sales of available-for-sale securities	1,381	2,022
Proceeds from sale of held to maturity securities	-	800
Proceeds from principal payments and maturities of AFS securities	693	507
Proceeds from principal payments and maturities of HTM securities	1,242	1,664
Purchase of available for sale securities	(1,502)	-
Net repayments (originations) of loans	(59,254)	(36,178)
Proceeds from sales of participating interests in loans	6,595	7,405
Purchases of loans	(5,254)	(12,274)
Redemption/ (purchase) of Federal Home Loan Bank stock	(1,595)	501
Redemption/(purchase) of Federal Reserve Bank stock	(90)	(101)
Leasehold improvements and acquisitions of capital assets, net of disposals	(75)	(188)
Net cash paid for sale of branch	(22,286)	-
Proceeds from sale of real estate owned	265	-
Net cash provided by (used in) investing activities	(79,879)	(35,842)
Cash flows from financing activities:		
Net increase (decrease) in deposits	42,910	47,734
Proceeds of advances from line of credit & FHLB	113,250	125,250
Repayment of advances	(77,000)	(133,427)
Proceeds from issuance of common stock	2,668	-
Net cash provided by (used in) financing activities	81,828	39,557
Net increase (decrease) in cash and cash equivalents	4,977	6,028
Cash and cash equivalents at beginning of period	10,768	4,740
Cash and cash equivalents at end of period	$ 15,745	$ 10,768
Supplemental cash flow information		
Interest paid	$ 2,168	$ 1,519
Income taxes paid	27	103
Transfer of loans to other assets	600	-
Transfer of loans to real estate owned	-	283
Transfer of securities from held to maturity to avaialble for sale	-	3,092
Net assets transferred for sale of branch, excluding cash and cash equivalents	24,050	
Transfer of loans to held for sale	-	6,592

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 equity and 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 and marketable equity 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.

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 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 securities prior to their anticipated recovery.

Loans Held for Sale

Loans held for sale are carried at the lower of aggregate cost or fair value, as determined by outstanding commitments from investors. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings.

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.

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 2014.

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 $727 thousand and $637 thousand invested in FRB stock at December 31, 2017 and December 31, 2016, 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 $2.1 million and $470 thousand at December 31, 2017 and 2016, 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.

Real Estate Owned

Real estate acquired through or instead of loan foreclosure is 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.

Subsequent Events

The Company has evaluated subsequent events for recognition and disclosure through March 21, 2018, which is the date the financial statements were available to be issued.

Adoption of New Accounting Standards

In February 2018, the FASB issued ASU 2018-02, *Income Statement –Reporting Comprehensive Income (Topic 220).* The standard provides entities an option to reclassify tax effects stranded in accumulated other comprehensive income as a result of the Tax Cuts and Jobs Act enacted in December 2017 to retained earnings as compared to income tax expense. This ASU is effective for fiscal years beginning after December 15, 2018 with early adoption allowed for reporting periods for which financial statements have not yet been issued or made available for issuance. The new standard can be applied either (1) in the period of adoption or (2) retrospectively to each period in which the effect of the change in the federal income tax rate is recognized. The Company early adopted ASU 2018-02 as of December 31, 2017, which resulted in an immaterial reclassification within stockholders' equity.

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

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, 2017 and December 31, 2016.

	December 31, 2017 (in thousands)			
	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
Held to Maturity:				
Mortgage-backed securities – residential	$ 5,146	$ 56	$ --	$ 5,202
Bank Preferred Securities	--	--	--	--
Total	$ 5,146	$ 56	$ --	$ 5,202

	December 31, 2017 (in thousands)			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-Sale:				
Mortgage-backed securities – residential	$ 1,396	$ --	$ (4)	$ 1,392
Bank Preferred Securities	3,017	39	(51)	3,005
Total	$ 4,413	$ 39	$ (55)	$ 4,397

	December 31, 2016 (in thousands)			
	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
Held to Maturity:				
Mortgage-backed securities – residential	$ 6,402	$ 87	$ --	$ 6,489
Bank Preferred Securities	--	--	--	--
Total	$ 6,402	$ 87	$ --	$ 6,489

	December 31, 2016 (in thousands)			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-Sale:				
Mortgage-backed securities – residential	$ 1,429	$ 72	$ --	$ 1,501
Bank Preferred Securities	3,557	10	(44)	3,523
Total	$ 4,986	$ 82	$ (44)	$ 5,024

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, 2017, with amounts shown by remaining term to contractual maturity. Securities not due at a single maturity date, primarily mortgaged-backed and asset-backed securities are shown separately.

	December 31, 2017 (in thousands)		December 31, 2017 (in thousands)	
	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Mortgage-backed securities	$ 1,396	$ 1,392	$ 5,146	$ 5,202
Bank Preferred 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	949	--	--
More than ten years	2,017	2,056	--	--
Total	$ 4,413	$ 4,397	$ 5,146	$ 5,202

There were no Held to Maturity securities that were in an unrecognized loss position at December 31, 2017 and December 31, 2016.

The following tables summarize, for Available for Sale securities in an unrealized loss position at December 31, 2017 and December 31, 2016, the aggregate fair values and gross unrealized losses by the length of time those securities had been in a continuous loss position.

	December 31, 2017					
	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	$ 1,392	$ (4)	$ -	$ -	$ 1,392	$ (4)
Bank Preferred Securities	-	-	949	(51)	949	(51)
Total temporarily impaired	$ 1,392	$ (4)	$ 949	$ (51)	$ 2,341	$ (55)

	December 31, 2016					
	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 Securities	1,045	(1)	957	(43)	2,002	(44)
Total temporarily impaired	$ 1,045	$ (1)	$ 957	$ (43)	$ 2,002	$ (44)

The Company evaluates 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 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, 2017.

The Company sold $1.4 million of investment securities during 2017. Gross gains on sales were $52 thousand and there were no gross losses. The Company sold $2.8 million of investment securities during 2016. Gross gains on sales were $166 thousand while gross losses were $12 thousand.

During 2016, the Bank sold corporate bonds that were classified as held-to-maturity securities. These sales were in response to a significant deterioration in the creditworthiness of the issuers. The securities sold had a carrying value of $800,000 at the time of sale and the Bank realized a gain upon sale of $442. In addition, during 2016, the Bank transferred trust preferred securities that were classified as held-to maturity securities to the available-for-sale category with an amortized cost of $3.1 million. At time of transfer, the unrealized gain of $75 thousand was transferred to accumulated other comprehensive income. The securities were transferred on the basis of changes in the regulatory environment and resulting increases in the risk weights of securities for risk-based capital purposes. The sale and transfer these securities from the held to maturity portfolio represents one of the permissible circumstances under ASC 320 for sale from the held-to-maturity portfolio.

The Company did not have any securities pledged at year-end 2017. Securities pledged at year-end 2016 had an approximate carrying amount of $7.3 and were pledged to secure borrowing facilities as well as certain municipal deposits.

NOTE 3 – LOANS

The following is a summary of loans receivable at December 31, 2017 and December 31, 2016.

	December 31, 2017	December 31, 2016
	(Dollars in thousands)	
Real estate loans:		
One-to four-family	$ 62,222	$ 38,757
Commercial		
Owner Occupied	44,823	33,984
Non Owner Occupied	88,060	62,260
Multi-family	26,831	21,847
Construction or development	965	1,424
Home equity		
Open Ended / Revolving	3,485	4,545
Closed Ended	282	651
Total real estate loans	226,668	163,468
Other loans:		
Commercial business		
Taxi Medallion	4,565	6,923
US Govt. Agency Guaranteed	3,117	4,093
Commercial Business Lines of Credit and Term Loans	20,640	26,118
Consumer	421	430
Total other loans	28,743	37,564
Total loans receivable	255,411	201,032
Deferred loan costs (fees) net	1,408	1,023
Allowance for loan losses	(2,982)	(2,685)
Total loans receivable, net	$ 253,837	$ 199,370

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, 2017 and December 31, 2016.

	December 31, 2017			December 31, 2016		
	Unpaid Principal Balance	Recorded Investment (In thousands)	Allowance For Loan Losses Allocated	Unpaid Principal Balance	Recorded Investment (In thousands)	Allowance For Loan Losses Allocated
With no related allowance recorded:						
Real estate loans:						
One-to four family	$ 473	$ 473	$ -	$ 1,188	$ 1,188	$ -
Commercial						
Owner Occupied	674	674	-	870	870	-
Non Owner Occupied	319	319	-	380	380	-
Multi-family	-	-	-	-	-	-
Construction or development	965	965	-	965	965	-
Home equity						
Open Ended/Revolving	-	-	-	-	-	-
Closed Ended	-	-	-	200	200	-
Total real estate loans	2,431	2,431	-	3,603	3,603	-
Other loans:						
Commercial business						
Taxi Medallion	747	747	-	750	750	-
US Govt. Agency Guaranteed	-	-	-	-	-	-
All Other	1,121	1,121	-	1,120	1,120	-
Consumer	-	-	-	-	-	-
Total other loans	1,868	1,868	-	1,870	1,870	-
Total loans	$ 4,299	$ 4,299	$ -	$ 5,473	$ 5,473	$ -
With an allowance recorded:						
Real estate loans:						
One-to four family	$ -	$ -	$ -	$ -	$ -	$ -
Commercial						
Owner Occupied	-	-	-	-	-	-
Non Owner Occupied	-	-	-	-	-	-
Multi-family	-	-	-	-	-	-
Construction or development	-	-	-	-	-	-
Home equity						
Open Ended/Revolving	-	-	-	-	-	-
Closed Ended	-	-	-	-	-	-
Total real estate loans	-	-	-	-	-	-
Other loans:						
Commercial business						
Taxi Medallion	3,213	3,213	1,154	3,596	3,596	467
US Govt. Agency Guaranteed	-	-	-	-	-	-
All Other	29	29	15	-	-	-
Consumer	-	-	-	-	-	-
Total other loans	3,242	3,242	1,169	3,596	3,596	467
Total loans	$ 3,242	$ 3,242	$ 1,169	$ 3,596	$ 3,596	$ 467
Grand totals	$ 7,541	$ 7,541	$ 1,169	$ 9,069	$ 9,069	$ 467

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

	2017	2016
Average of individually impaired loans during year	$ 11,224	$ 6,625
Interest income recognized during impairment	167	147
Cash-basis interest income recognized	-	-

The following table presents the aging of the recorded investment in past due loans as of December 31, 2017 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	$ 72	$ -	$ -	$ -	$ 72	$ 62,150	$ 62,222
Commercial							
Owner Occupied	913	-	-	674	1,587	43,236	44,823
Non Owner Occupied	-	-	-	-	-	88,060	88,060
Multi-family	-	-	-	-	-	26,831	26,831
Construction or development	-		-	965	965	-	965
Home equity							
Open Ended/Revolving	-	-	-	-	-	3,485	3,485
Closed Ended	-	-	-	-	-	282	282
Total real estate loans	985	-	-	1,639	2,624	224,044	226,668
Other loans:							
Commercial business							
Taxi Medallion	-	-	-	-	-	4,565	4,565
US Govt. Agency Guaranteed	-	-	-	-	-	3,117	3,117
All Other	49	-	-	1,121	1,170	19,470	20,640
Consumer	-	-	-	-	-	421	421
Total other loans	49	-	-	1,121	1,170	27,573	28,743
Total loans	$ 1,034	$ -	$ -	$ 2,760	$ 3,794	$ 27,573	$ 255,411

The following table presents the aging of the recorded investment in past due loans as of December 31, 2016 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	$ 72	$ -	$ -	$ -	$ 72	$ 38,685	$ 38,757
Commercial							
Owner Occupied	-	-	-	-	-	33,984	33,984
Non Owner Occupied	-	-	-	498	498	61,762	62,260
Multi-family	-	-	-	-	-	21,847	21,847
Construction or development	-		-	965	965	459	1,424
Home equity							
Open Ended/Revolving	-	-	-	-	-	4,545	4,545
Closed Ended	-	-	-	200	200	451	651
Total real estate loans	72	-	-	1,663	1,735	161,733	163,468
Other loans:							
Commercial business							
Taxi Medallion	-	-	-	-	-	6,923	6,923
US Govt. Agency Guaranteed	-	-	-	-	-	4,093	4,093
All Other	-	-	-	440	440	25,678	26,118
Consumer	-	-	-	-	-	430	430
Total other loans	-	-	-	440	440	37,124	37,564
Total loans	$ 72	$ -	$ -	$ 2,103	$ 2,175	198,857	201,032

At year-end 2017, the Company had $3.1 million 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 2017 were as follows:

(In thousands)	
Beginning balance at December 31, 2016	$ 5,070
New loans	1,038
Repayment	(439)
Ending balance at December 31, 2017	$ 5,669

The balance at December 31, 2017 does not include unused commitments totaling $686 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, 2017, 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
Real estate loans:					
One-to four family	$ 62,101	$ -	$ 121	$ -	$ 62,222
Commercial					
Owner Occupied	42,929	972	922	-	44,823
Non Owner Occupied	87,473	587	-	-	88,060
Multi-family	26,831	-	-	-	26,831
Construction or development	-	-	965	-	965
Home equity					
Open Ended/Revolving	3,359	-	126	-	3,485
Closed Ended	282	-	-	-	282
Total real estate loans	222,975	1,559	2,134	-	226,668
Other loans:					
Commercial business					
Taxi Medallion	605	2,661	1,299	-	$ 4,565
US Govt. Agency Guaranteed	3,117	-	-	-	3,117
All Other	19,490	-	1,121	29	20,640
Consumer	421	-	-	-	421
Total other loans	23,633	2,661	2,420	29	28,743
Total loans	$ 246,608	$ 4,220	$ 4,554	$ 29	$ 255,411

As of December 31, 2016, the risk category of loans by class of loans is as follows:

	Not Classified	Special Mention	Sub-standard	Doubtful	Total Loans
Real estate loans:					
One-to four family	$ 38,131	$ -	$ 626	$ -	$ 38,757
Commercial					
Owner Occupied	32,858	-	1,126	-	33,984
Non Owner Occupied	61,593	667	-	-	62,260
Multi-family	21,847	-	-	-	21,847
Construction or development	459	-	965	-	1,424
Home equity					
Open Ended/Revolving	4,205	-	340	-	4,545
Closed Ended	651	-	-	-	651
Total real estate loans	159,744	667	3,057	-	163,468
Other loans:					
Commercial business					
Taxi Medallion	250	1,654	5,019	-	$ 6,923
US Govt. Agency Guaranteed	4,093	-	-	-	4,093
All Other	24,825	122	1,171	-	26,118
Consumer	430	-	-	-	430
Total other loans	29,599	1,776	6,190	-	37,564
Total loans	$ 189,343	$ 2,443	$ 9,246	$ -	$ 201,032

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 $5.6 million and $7.5 million as of December 31, 2017 and 2016, respectively. Of these amounts approximately $882 thousand and $498 were non-accrual at December 31, 2017 and 2016, respectively. There was $1.2 million of specific reserves allocated to such restructured loans as of December 31, 2017. There was $467 of specific reserves allocated to such restructured loans as of December 31, 2016.

Of the $5.6 million of troubled debt restructurings as of December 31, 2017, eight loans totaling $4.0 million are loans collateralized by New York City Taxi Medallions. The modifications of these loans all occurred in 2017 and 2016. During the year ended December 31, 2017, the Company charged off $1.6 million of taxi medallion loans relative to these modifications. All of these loans are current on payments and are accruing interest. The Company has no commitments to lend additional amounts to customers with outstanding loans that are classified as troubled debt restructurings.

Two of the troubled debt restructurings are commercial real estate loans with an aggregate balance of $520 thousand, one loan is a residential property with a balance of $473 thousand and the remaining loan a commercial loan with a balance of $680 thousand. Of these amounts, one commercial loan for $680 thousand and one commercial real estate loan for $201 thousand are non-accrual as of December 31, 2017.

The following table presents loans by class modified as troubled debt restructurings that occurred during the years ended December 31, 2017 and December 31, 2016.

December 31, 2017	# Loans	Pre-Modification O/S Recorded Investment	Post-Modification O/S Recorded Investment
Troubled Debt Restructurings:			
Commercial Real Estate	2	699	201
Taxi Medallions	7	4,423	3,150
Total	9	5,122	3,351

December 31, 2016	# Loans	Pre-Modification O/S Recorded Investment	Post-Modification O/S Recorded Investment
Troubled Debt Restructurings:			
Residential	1	502	502
Taxi Medallions	7	4,393	4,393
Total	8	4,895	4,895

The troubled debt restructurings described above increased the allowance for loan losses by $897 thousand and $467 thousand for the years ended December 31, 2017 and 2016, respectively.

The troubled debt restructurings described above resulted in charge offs of $1.4 million during the year ended December 31, 2017. There were no charge offs related to troubled debt restructurings in 2016.

There was one default of a 2017 troubled debt restructuring in the amount of $449 thousand that occurred in 2017. There was one default of a 2016 troubled debt restructuring that occurred in 2017 in the amount of $527 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, 2017 and 2016.

	For the Twelve Months Ended December 31, 2017 (in thousands)								
	One-to-Four Family	Commercial Real Estate	Multifamily Real Estate	Construction or Development	Home Equity	Commercial Business	Consumer	Unallocated	Total
Beginning Balance	$ 204	$ 390	$ 504	$ -	$ 38	$ 1,488	$ 1	$ 60	$ 2,685
Charge-offs	-	(62)	-	-	-	(1,641)	(1)	-	(1,704)
Recoveries	-	-	-	-	-	18	-	-	18
Provision for loan losses	41	212	(396)	-	(14)	2,081	1	58	1,983
Ending Balance	$ 245	$ 540	$ 108	$ -	$ 24	$ 1,946	$ 1	$ 118	$ 2,982

	For the Twelve Months Ended December 31, 2016 (in thousands)								
	One-to-Four Family	Commercial Real Estate	Multifamily Real Estate	Construction or Development	Home Equity	Commercial Business	Consumer	Unallocated	Total
Beginning Balance	$ 181	$ 425	$ 403	$ -	$ 93	$ 994	$ 3	$ 107	$ 2,206
Charge-offs	-	(50)	-	-	-	(62)	-	-	(112)
Recoveries	-	-	-	-	-	18	-	-	18
Provision for loan losses	23	15	101	-	(55)	538	(2)	(47)	573
Ending Balance	$ 204	$ 390	$ 504	$ -	$ 38	$ 1,488	$ 1	$ 60	$ 2,685

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, 2017 and December 31, 2016.

December 31, 2017 (In thousands)	1-4 Family Residential Real Estate	Commercial Real Estate	Multifamily Real Estate	Construction or Development	Home Equity	Commercial Business	Consumer	Unallocated	Total
Allowance for loan losses:									
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ 1,169	$ -	$ -	$ 1,169
Collectively evaluated for impairment	245	540	108	-	24	777	1	118	1,813
Total allowance balance	$ 245	$ 540	$ 108	$ -	$ 24	$ 1,946	$ 1	$ 118	$ 2,982
Loans:									
Loans individually evaluated for impairment	$ 473	$ 993	$ -	$ 965	$ -	$ 5,110	$ -	$ -	$ 7,541
Loans collectively evaluated for impairment	61,749	131,890	26,831	-	3,767	23,212	421	-	247,870
Total ending loans balance	$ 62,222	$ 132,883	$ 26,831	$ 965	$ 3,767	$ 28,322	$ 421	$ -	$ 255,411

December 31, 2016 (In thousands)	1-4 Family Residential Real Estate	Commercial Real Estate	Multifamily Real Estate	Construction or Development	Home Equity	Commercial Business	Consumer	Unallocated	Total
Allowance for loan losses:									
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ 467	$ -	$ -	$ 467
Collectively evaluated for impairment	204	390	504	-	38	1,021	1	60	2,218
Total allowance balance	$ 204	$ 390	$ 504	$ -	$ 38	$ 1,488	$ 1	$ 60	$ 2,685
Loans:									
Loans individually evaluated for impairment	$ 1,188	$ 1,250	$ -	$ 965	$ 200	$ 5,466	$ -	$ -	$ 9,069
Loans collectively evaluated for impairment	37,569	94,994	21,847	459	4,996	31,668	430	-	191,963
Total ending loans balance	$ 38,757	$ 96,244	$ 21,847	$ 1,424	$ 5,196	$ 37,134	$ 430	$ -	$ 201,032

NOTE 5 – PREMISES AND EQUIPMENT

The following is a summary of premises and equipment at December 31, 2017 and December 31, 2016.

	December 31, 2017	December 31, 2016
	(In thousands)	
Land	$ 193	$ 193
Furniture, fixtures, and equipment	987	894
Bank Premises	1,970	1,957
Leasehold Improvements	918	928
	4,068	3,972
Less: accumulated depreciation and amortization	(1,105)	(821)
Total premises and equipment, net	$ 2,963	$ 3,151

Depreciation expense was $288 thousand and $275 thousand for 2017 and 2016, respectively.

NOTE 6 – DEPOSITS

The following is a summary of deposit balances at December 31, 2017 and December 31, 2016.

	December 31, 2017	December 31, 2016
	(in thousands)	
Demand deposit accounts	$ 67,245	$ 59,668
NOW accounts	13,480	15,247
Money market accounts	16,446	29,121
Regular savings accounts	65,625	45,865
Certificates of Deposit	54,422	55,767
Total	$ 217,218	$ 205,668

The following summarizes certificates of deposit by remaining term to contractual maturity at December 31, 2017 (in thousands).

Under one year	$ 25,913
One year to under two years	17,239
Two years to under three years	7,094
Three years to under four years	2,968
Four years to under five years	1,208
Five years to under six years	-
Total Certificates of Deposit	54,422

Certificates of deposit of $250 thousand or more totaled $10.2 million and $8.9 million at December 31, 2017 and December 31, 2016, respectively. The Company utilizes brokered deposits. As of December 31, 2017 and 2016, $5 million of brokered deposits were included in certificates of deposit. Deposits from directors, senior officers and their affiliates were approximately $7.8 million and $6.9 million at December 31, 2017 and December 31, 2016, respectively.

NOTE 7 – BORROWINGS

The Company had $48.5 million and $12.3 million in outstanding borrowings as of December 31, 2017 and 2016. Of these amounts, the Company had $7.5 million and $6.3 million in an outstanding line of credit as of December 31, 2017 and 2016, respectively. The remaining outstanding borrowings were Federal Home Loan Bank advances.

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

	2017	2016
Fixed rates with an average rate of 1.61% and 1.51%	$ 41,000	$ 6,000

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 $77.0 million at year-end 2017 including the $41.0 million in term advances outstanding at December 31, 2017.

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

2018	$ 24,000
2019	8,000
2020	9,000
2021	-
2022	-
	$ 41,000

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, 2017, the outstanding balance is $7.5 million. The Company utilized this credit facility primarily to provide funds to the Company to downstream 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.

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 2017 or 2016.

NOTE 8 – INCOME TAXES

The following summarizes components of income tax expense for the years ended December 31, 2017 and December 31, 2016.

	December 31,	
	2017	2016
	(in thousands)	
Current:		
Federal expense (benefit)	$ 33	$ 16
State and local expense (benefit)	63	40
Total	96	56
Deferred:		
Federal expense (benefit)	$ 1,190	$ 412
State and local expense (benefit)	(240)	(139)
Tax Expense (Benefit) Before Valuation Allowance	950	273
Change in Valuation Allowance	240	139
Total Tax Expense	$ 1,286	$ 468

The Tax Cuts and Jobs Act ("Tax Act") was signed into law on December 22, 2017. Included as part of the law, was a permanent reduction in the federal corporate income tax rate from 34% to 21% effective January 1, 2018. As of December 31, 2017, we had net deferred tax assets of $678,000. Our net deferred tax asset position at year end 2017 reflects the revaluation of our deferred taxes to account for the future impact of lower corporate income tax rates. As a result of the enactment of the Tax Act, the Company recognized additional tax expense of $383,000 for the year ended December 31, 2017.

The following is a reconciliation of the Company's statutory federal income tax rate, 34%, to its effective tax rate at December 31, 2017 and December 31, 2016.

	December 31,	
	2017	2016
	(in thousands)	
	34%	34%
Federal expense (benefit) at statutory rate	$ 773	$ 388
State and local income taxes, net of federal income tax benefit	(115)	(130)
Tax Reform – DTA	383	
Other	5	70
Tax benefit before valuation allowance	1,046	328
Change in Valuation Allowance	240	140
Income tax expense	$ 1,286	$ 468

The following summarizes the balance of the Company's deferred tax assets and deferred tax liabilities at December 31, 2017 and December 31, 2016.

	December 31,	
	2017	2016
	(in thousands)	
Deferred Tax Assets	$ 2,791	$ 3,512
Less: Valuation allowance	(1,170)	(737)
Net deferred tax assets	1,621	2,775
Deferred tax liabilities	943	915
Net deferred tax asset (liability)	$ 678	$ 1,860

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

The Company has the following net operating loss carryforwards available to reduce future taxable income.

YEAR(S) of Expiration ($ in thousands)

	FEDERAL	NEW YORK STATE	NEW YORK CITY
2027	$ 704	$ 704	-
2028	894	894	-
2029	258	217	-
2031	310	320	-
2033	166	147	-
2035	-	2,445	1,250
2036	-	2,628	1,235
2037	-	2,603	1,942
	$ 2,332	$ 9,958	$ 4,427

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 recoverable. 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, management feels that it is appropriate to have a valuation allowance against the state and city portions of the deferred tax asset.

There were no significant unrecognized tax benefits at December 31, 2017, 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.

Operating Lease Commitments

The Bank is obligated under non-cancelable operating leases for its office locations in Staten Island, New York, Brooklyn, New York (3rd Avenue), Brooklyn, New York (8th Avenue) and Brooklyn, New York (18th Avenue). These offices are branch locations except for 8th Avenue that is a loan production office. The 18th Avenue location is for a new branch expected to open in mid-2018. The leases are for initial terms of 10 years, 15 years, 1 year and 10 years, respectively and have various renewal options. Rent expense under operating leases was $279 thousand and $345 thousand for the years ended December 31, 2017 and 2016, respectively. The combined future minimum rent commitments under the non-cancelable operating leases, excluding taxes and insurance, before considering renewal options that generally are present, are as follows:

2018	259
2019	261
2020	268
2021	275
2022	283
Thereafter	1,434
Total	2,780

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, 2017 consisted of primarily adjustable, with interest rates ranging from 4.00% to 6.75% and terms generally not exceeding 90 days.

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

	2017		2016	
	(In thousands)			
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
Commitments to make loans	$ 3,218	$ 18,613	$ 756	$ 12,288
Unused lines of credit	--	8,119	--	10,543
Standby letters of credit	--	175	--	216

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, 2017, there were 12,000 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.

	2017
Risk-Free interest rate	2.19%
Expected Term (in years)	7
Expected stock price volatility	0.30

There were no options granted in 2016

Expected volatilities are based on historical volatilities of the Company's common stock. The Company uses historical data to estimate option exercise and post-vesting termination behavior. 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, 2017, 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, 2017	237,000	$ 3.00		
Granted	89,000	4.06		
Exercised	-	-		
Forfeited or expired	(7,000)	4.00		
Surrendered	-	-		
Outstanding at December 31, 2017	319,000	$ 3.29	7.6	$ 496
Options exercisable at December 31, 2017	222,000	$ 3.11	7.2	$ 385
Vested and expected to vest	319,000	$ 3.29	7.6	$ 496

As of December 31, 2017, there was $105 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 41 months.

401(k) Plan

A 401(k) benefit plan allows employee contributions up to 15% of their compensation. The Bank did not make any matching contributions in 2017 or 2016.

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 and Real Estate Owned: The fair value of impaired loans with specific allocations of the allowance for loan losses and real estate owned (REO) with a valuation allowance 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.

Taxi Medallion Loans: The fair value of impaired Taxi Medallion loans with specific allocations of the allowance for loan and lease losses is based on a review of sales of Medallions and a discounted cash flow method. Over the six month period ended December 31, 2017, sales of Medallions were noted ranging from approximately $150,000 to $660,000. Recent transfer prices and a discounted cash flow model valuation output further supported by recent industry valuation trends were weighted to derive an estimated fair value of $300,000 which represented a significant decline from December 31, 2016.

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

		Fair Value Measurements (in thousands) at December 31, 2017 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	$ 3,005		$ 3,005	
Mortgage-backed securities-residential	1,392	-	1,392	-
Total available-for-sale	$ 4,397	$ -	$ 4,397	$ -

		Fair Value Measurements (in thousands) at December 31, 2016 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	$ 3,523		$ 3,523	
Mortgage-backed securities-residential	1,501	-	1,501	-
Total available-for-sale	$ 5,024	$ -	$ 5,024	$ -

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

		Fair Value Measurements (in thousands) at December 31, 2017 Using		
	Carrying Value	Identical Assets (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Assets:				
Impaired Loans				
Commercial Term Loan	$ 2,072	-	-	$ 2,072
Respossessed Property	600			600

		Fair Value Measurements (in thousands) at December 31, 2016 Using		
	Carrying Value	Identical Assets (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Assets:				
Impaired Loans				
Commercial Term Loan	$ 3,129	-	-	$ 3,129
REO Property	273			273

Impaired loans: Impaired loans measured at fair value at December 31, 2017 had a book value of $3.3 million, with a valuation allowance of $1.2 million. Impaired loans measured at fair value at December 31, 2016 had a book value of $3.6 million, with a valuation allowance of $467 thousand.

Real Estate Owned: At December 31, 2017 there was not any Real Estate Owned. At December 31, 2016 Real Estate Owned had a net carrying amount of $273 thousand, net of a $60 thousand write-down.

Repossessed Assets: At December 31, 2017 the Bank had Repossessed Assets with a carrying value of $600 thousand. Upon transfer to repossessed assets from loans, a charge-off of $376 thousand was recognized. At December 31, 2016 there were not any Repossessed Assets.

Carrying amount and estimated fair values of financial instruments at year end were as follows:

	December 31, 2017		December 31, 2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In thousands)			
Financial assets				
Cash and due from banks	$ 15,745	$ 15,745	$ 10,768	$ 10,768
Securities available for sale	4,397	4,397	5,024	5,024
Securities held to maturity	5,146	5,202	6,402	6,489
Loans held for sale	-	-	6,592	6,592
Loans, net	253,837	252,290	199,370	201,595
Federal Home Loan Bank stock	2,065	N/A	470	N/A
Federal Reserve Bank stock	727	N/A	637	N/A
Accrued interest receivable	993	993	806	806
Financial Liabilities				
Deposits	217,218	218,189	205,668	205,982
Federal Home Loan Bank advances	41,000	40,872	6,000	5,974
Other borrowings	7,500	7,477	6,250	6,223
Accrued interest payable	130	130	85	85

The methods and assumptions, not previously presented, used to estimate fair value are described as follows:

Carrying amount is the estimated fair value for cash and cash equivalents, interest bearing deposits, accrued interest receivable and payable, demand deposits, short-term debt, and variable rate loans or deposits that reprice frequently and fully. For loans held for sale, fair value is based on outstanding commitments from third party investors. For fixed rate loans or deposits and for variable rate loans or deposits with infrequent repricing or repricing limits, fair value is based on discounted cash flows using current market rates applied to the estimated life adjusted for the allowance for loan loss. Fair value of debt is based on current rates for similar financing. It was not practicable to determine the fair value of FHLB or FRB stock due to restrictions placed on its transferability. The fair value of off-balance-sheet items is not considered material.

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 2017 is 1.25%

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, 2017, 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, 2017 and December 31, 2016:

	Bank Actual		Minimum Capital Adequacy		Classification as Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2017			(Dollars in thousands)			
Tier I (core) capital to Average Assets	$ 26,179	9.4%	$ 11,081	4.0%	$ 13,852	5.0%
Common Equity Tier 1 to Risk Weighted Assets	26,179	11.9	9,903	4.5	14,304	6.5
Tier 1 Capital to Risk Weighted Assets	26,179	11.9	13,204	6.0	17,605	8.0
Total Capital to Risk Weighted Assets	28,934	13.1	17,605	8.0	22,006	10.0

	Bank Actual		Minimum Capital Adequacy		Classification as Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2016			(Dollars in thousands)			
Tier I (core) capital to Average Assets	$ 20,414	8.4%	$ 9,710	4.0%	$ 12,137	5.0%
Common Equity Tier 1 to Risk Weighted Assets	20,414	11.0	8,320	4.5	12,018	6.5
Tier 1 Capital to Risk Weighted Assets	20,414	11.0	11,094	6.0	14,791	8.0
Total Capital to Risk Weighted Assets	22,730	12.3	14,791	8.0	18,489	10.0

The New York State Department of Financial Services regulates 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 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.

NOTE 13 - BRANCH SALE

On June 2, 2017, the Company completed its previously announced sale of the New Paltz, New York branch to Salisbury Bank and Trust. The Company transferred loans totaling $7.1 million, fixed assets totaling $25 thousand, and deposits totaling $31.3 million in conjunction with the sale of the branch and realized a net gain after expenses of $1.8 million.

ASIAN REAL ESTATE ASSOCIATION OF AMERICA (AREAA) BROOKLYN

Pictured from left to right: Katie Wu, President of AREAA Brooklyn, Philip Guarnieri, CEO and Carmen Wong, AVP/Business Relationship Manager of Empire State Bank

Our understanding of diverse cultures allows us to establish strong foundations and grow in new markets, making the opportunities far-reaching for everyone. We have joined the first Brooklyn Chapter of the Asian Real Estate Association of American (AREAA) to help multicultural businesses and indivduals achieve success. We have assisted a variety of businesses start or expand through our business services and tools that include SBA financing, 2-3-4 family investor loans, free checking, merchant services, and the convenience of internet and mobile banking. Our customers feel at home discussing their financial goals and challenges with experts in their primary language.

INVESTING IN GROWTH

Photo rendering is a simulation of the newly designed Banking Centers.

We strongly believe that expanding our footprint and investing in new banking centers will benefit all of our shareholders. Every new location is an opportunity to innovate, and with our opening of two new banking centers – we are building on that innovation. We are excited about the banking centers opening in 2018, which will be approximately 1,500 square feet. We will be expanding further in two markets, Staten Island and Brooklyn. Our new Banking Centers are designed to enhance our customers' experience. The new banking center model encompasses layout, design, color schematic and refreshing the customer-centric business model with technology.

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NEW LOCATION OPENING SOON

VICTORY BLVD BANKING CENTER
1698 Victory Blvd.
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NEW LOCATION OPENING SOON

18TH AVE BANKING CENTER
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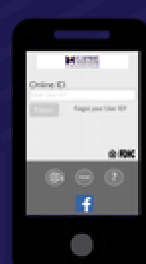

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