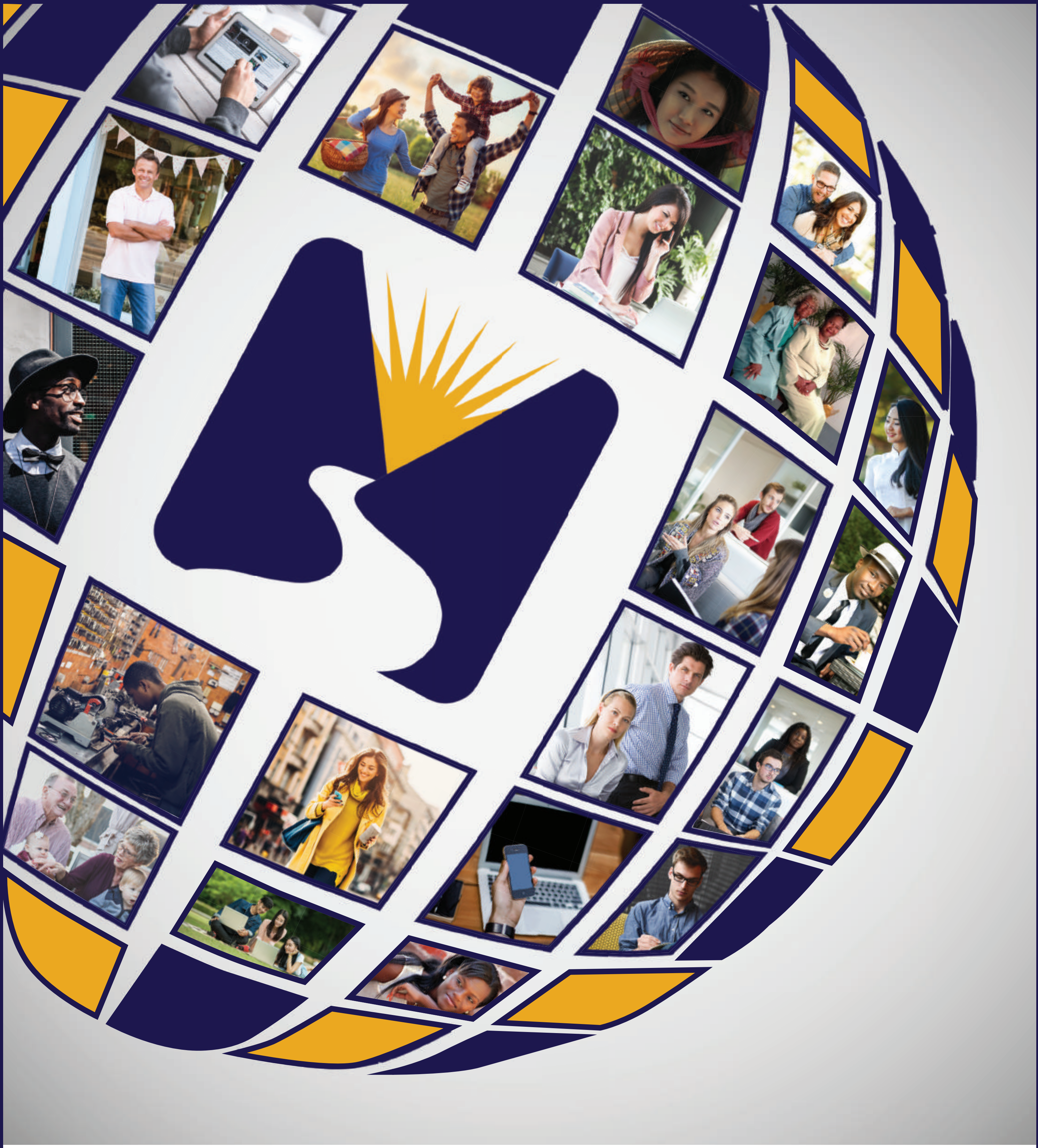
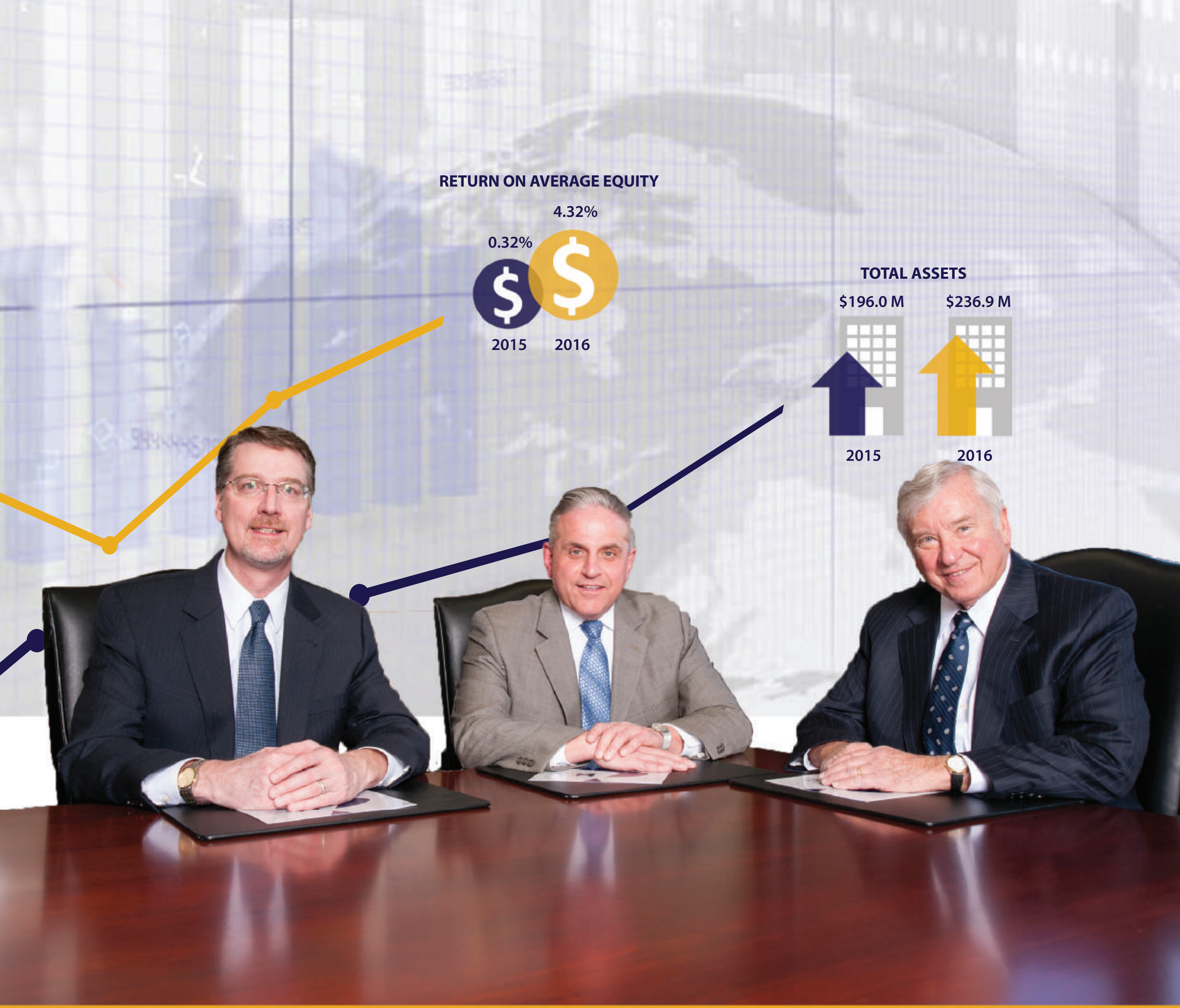


ESB BANCSHARES, INC.

2016
Annual Report



Thomas Sperzel
President & COO

Philip Guarnieri
Chief Executive Officer

David Freer
Chairman

Established in 2004, Empire State Bank is recognized in New York and has a niche market position in commercial and retail banking in the communities we serve. We provide a full range of commercial and retail banking products and services; including deposit and lending products. Empire State Bank is committed to providing personalized service to its clients and building relationships. We continue to build and expand with a focus on long-term growth and providing personalized products and service. Our vision is to assist our customers in achieving their financial goals. We strive to be their most valuable and trusted source for banking product and service solutions. It is our mission at Empire State Bank to be responsive to the financial needs of our customers and the communities we serve.

March 30, 2017

Dear Shareholder:

We are pleased to submit our 2016 Annual Report to Shareholders of ES Bancshares, Inc. and its subsidiary, Empire State Bank. This was a year where we focused on growth in both the loan portfolio and deposits as well as core earnings performance. It also was a year where execution of our strategic plan resulted in some noteworthy and positive developments.

Through growth across the Bank, including the recently opened Bay Ridge Brooklyn office, we were able to grow the deposit portfolio in 2016 by $47.7 million, or 30.2%. Non-interest deposit accounts grew by $11.8 million or 24.6% as well. This was accomplished by continuing to focus resources toward product offerings most suitable to our small business customers and retail customers in the markets in and around our branches.

Also during 2016 the loan portfolio, net, including loans held for sale, grew by $40.3 million or 24.3%. This also was accomplished by understanding the unique needs of each market we serve and targeting our product offering to those needs for both our small business and commercial customers. We continue to be focused on core growth and this has served our operating results well.

Net interest income grew by $836 thousand, or 13%, and net income after taxes increased by $623 thousand to $672 thousand. This was accomplished while adding an additional $479 thousand to the loan loss reserve and reducing non-performing assets.

By now you have received notice that we have elected to sell our New Paltz branch to a local bank that is well-suited to care for the needs of our customers in that market. This decision, while not made lightly, is part of a strategic plan to allocate the Company's resources to markets and products that will most effectively and efficiently contribute to growth in shareholder value.

Also as part of the strategic plan management has enacted, we are delighted to announce that we have been approved and will be opening a loan production office in Brooklyn in 2017 in an effort to continue to expand on our success in that market. The Board of Directors and management are focused on continued growth initiatives and will be looking for similar opportunities to grow in a controlled and profitable manner as we move through 2017 and into 2018.

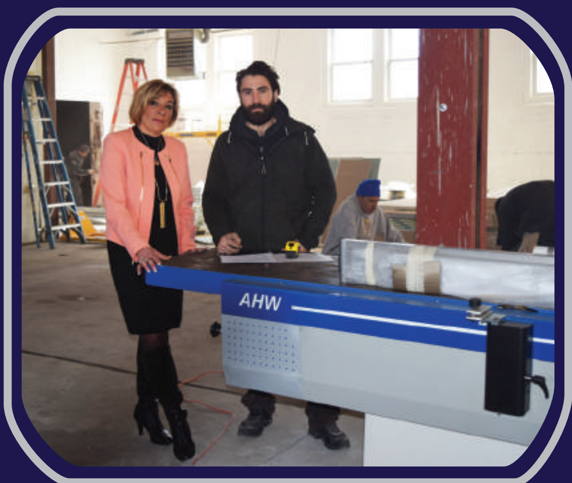
In closing, we want to once again thank you, our shareholders, for the continued support of the Company. We feel this is an exciting time for our shareholders and hope that you share in the enthusiasm for our strategic plan and future prospects.

Sincerely,

David Freer Jr.	Philip Guarnieri	Thomas Sperzel
Chairman	Chief Executive Officer	President & Chief Operating Officer

SUPPORTING OUR COMMUNITY

Empire State Bank prides itself on creating community leaders in the areas it serves. Our employees are actively participating in neighborhood activities working towards building a better community. Our employees accomplish this by supporting small businesses and helping customers. Here are examples of how we supported local economies in 2016 and continued to serve our customers, clients and communities.

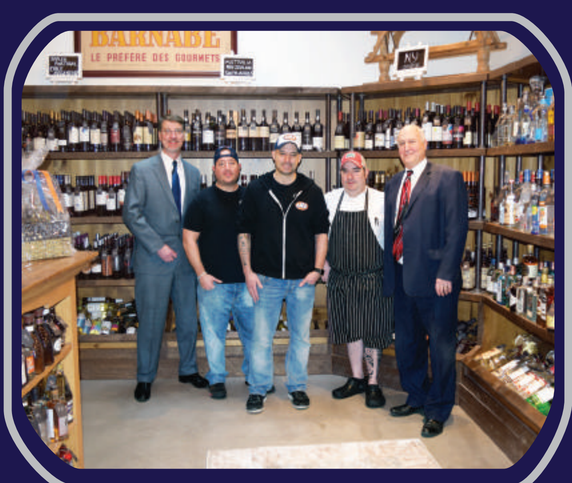


ELLE WOODWORKING

Pictured from left to right: Jeanne Sarno, 1st VP Business Relationship Manager with Marc Vecchiarelli, President of Elle Woodworking. The relationship is supported in company with Business Initiative Corporation of New York and the Small Business Administration.

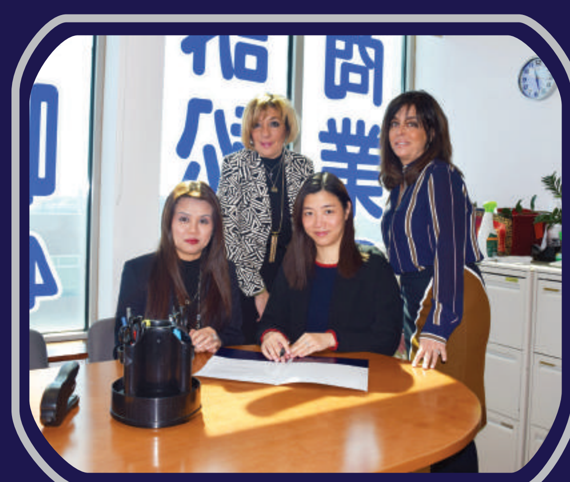
ANGELINA'S RISTORANTE

Pictured from left to Right: Vincent Malerba, VP of Angelina's Ristorante; Philip Guarnieri, CEO of Empire State Bank; Angelina Malerba, President of Angelina's Ristorante; JoAnn Puma Libretti, VP Business Relationship Manger



SIEGEL WINE & SPIRITS

Pictured left to right: Thomas Sperzel, President and COO of Empire State Bank; Douglas Nevins, Owner of Siegel Bros Wine & Spirits; Jeremy Nevins, Owner of Siegel Bros Marketplace; David Nevins, Executive Chef of Siegel Bros Marketplace; Steven Drobysh, SVP Senior Loan Officer of Empire State Bank.



HUANG & ASSOCIATES, PC

Pictured from left to right: Laifun Wong, Business Relationship Manager of Empire State Bank; Jeanne Sarno, 1st VP Business Relationship Manager; Jackie Huang, Attorney and Counselor at Huang & Associates, PC; JoAnn Puma Libretti, VP Business Relationship Manager at Empire State Bank.

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, 2016 and 2015 , and the related consolidated statements of operations and comprehensive income (loss), 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, 2016 and 2015, 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

Crowe Horwath LLP

New York, New York
March 16, 2017

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

	December 31, 2016	December 31, 2015
ASSETS		
Cash and cash equivalents	$ 10,768	$ 4,740
Securities available for sale, at fair value	5,024	4,549
Securities held to maturity, at amortized cost (fair value of $6,489 and $12,209 at December 31, 2016 and December 31, 2015, respectively)	6,402	12,021
Total securities	11,426	16,570
Loans Held for Sale	6,592	-
Loans receivable	201,032	167,228
Deferred cost	1,023	684
Allowance for loan losses	(2,685)	(2,206)
Total loans receivable, net	199,370	165,706
Accrued interest receivable	806	672
Federal Reserve Bank stock	637	536
Federal Home Loan Bank stock	470	971
Goodwill	581	581
Premises and equipment, net	3,151	3,238
Real estate owned	273	-
Net deferred tax asset	1,860	2,224
Other assets	925	780
Total assets	$ 236,859	$ 196,018
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	$ 59,668	$ 47,878
Interest bearing	146,000	110,056
Total deposits	205,668	157,934
Borrowed funds	12,250	20,427
Accrued interest payable	85	53
Other liabilities	2,873	2,269
Total liabilities	220,876	180,683
Commitments and contingencies (Note 9)		
Stockholders' equity:		
Capital stock (par value $0.01; 5,000,000 shares authorized; 3,312,867 shares issued at December 31, 2016 and December 31, 2015)	33	33
Additional paid-in-capital	22,056	22,015
Accumulated deficit	(6,131)	(6,803)
Accumulated other comprehensive income	25	90
Total stockholders' equity	15,983	15,335
Total liabilities and stockholders' equity	$ 236,859	$ 196,018

See accompanying notes to financial statements

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

	For the Twelve Months Ended December 31, 2016	2015
Interest and dividend income:		
Loans	$ 8,278	$ 7,057
Securities	417	516
Fed Funds and other earning assets	128	81
Total interest and dividend income	8,823	7,654
Interest expense:		
Deposits	1,189	977
Borrowed funds	362	241
Total interest expense	1,551	1,218
Net interest income	7,272	6,436
Provision for loan losses	573	70
Net interest income after provision for loan losses	6,699	6,366
Non-interest income:		
Service charges and fees	830	808
Net gain on sales of participating interests in loans	397	417
Recovery of certificate of deposit placement	11	18
Gain or <Loss> on Available for Sale Securities	154	-
Other	24	24
Total non-interest income	1,416	1,267
Non-interest expense:		
Compensation and benefits	3,897	3,664
Occupancy and equipment	1,025	1,000
Data processing service fees	376	466
Professional fees	447	569
FDIC assessment	179	155
Advertising	123	154
Insurance	128	120
Restructuring charges	-	556
Other	800	755
Total non-interest expense	6,975	7,439
Income before income taxes	1,140	194
Income tax expense	468	145
Net income	$ 672	$ 49

See accompanying notes to financial statements.

ES BANCSHARES, INC.
CONSOLIDATED STATEMENTS COMPREHENSIVE INCOME (LOSS)
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2005 AND
THE PERIOD FROM JUNE 28, 2004 THROUGH SEPTEMBER 30, 2004
(In thousands)

	For the Twelve Months Ended December 31,	
	2016	2015
Net income	$ 672	$ 49
Other comprehensive income (loss):		
Unrealized gains/losses on securities available for sale:		
Unrealized holding gain/(loss) arising during the period	41	(117)
Reclassification adjustment for (gains) losses included in net income	(153)	-
Amortization of gain on securities reclassified to held to maturity	-	(15)
	(112)	(132)
Tax effect	47	53
Total other comprehensive income (loss)	(65)	(79)
Comprehensive income (loss)	$ 607	$ (30)

See accompanying notes to financial statements.

ES BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(Dollars in thousands)

	Capital Stock Shares	Amount	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total
Balance at January 1, 2015...........	3,312,867	$ 33	$ 21,957	$ (6,852)	$ 169	$ 15,307
Stock based compensation, net.	-	-	58	-	-	58
Comprehensive income:						
Net income for the period	-	-	-	49	-	49
Other comprehensive loss.....	-	-	-	-	(79)	(79)
Balance at December 31, 2015.....	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)
Balance at December 31, 2016.....	3,312,867	33	22,056	(6,131)	$ 25	$ 15,983

See accompanying notes to financial statements

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

	2016	2015
Cash flows from operating activities:		
Net income for period	$ 672	$ 49
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision for loan losses	573	70
Depreciation expense	275	281
Amortization (accretion) of deferred fees, discounts and premiums, net	433	(171)
Net gain on sales of participating interests in loans	(397)	(417)
Stock based compensation expense	41	58
Net gain on sales of investment securities	(154)	-
Loss on impairment of real estate owned	10	31
Loss on disposal of fixed assets	-	52
Deferred tax expense	412	81
Changes in assets and liabilities:		
(Increase) decrease in other assets	(188)	(290)
(Decrease) increase in accrued expenses and other liabilities	636	(2,424)
Net cash provided by (used in) operating activities	2,313	(2,680)
Cash flows from investing activities:		
Proceeds from sales of available-for-sale securities	2,022	-
Proceeds from sale of held to maturity securities	800	-
Proceeds from principal payments and maturities of AFS securities	507	1,067
Proceeds from principal payments and maturities of HTM securities	1,664	1,800
Purchase of available for sale securities	-	(1,000)
Purchase of held-to-maturity securities	-	(1,570)
Net repayments (originations) of loans	(36,178)	(31,138)
Proceeds from sales of participating interests in loans	7,405	5,836
Purchases of loans	(12,274)	(748)
Redemption/ (purchase) of Federal Home Loan Bank stock	501	40
Redemption/(purchase) of Federal Reserve Bank stock	(101)	(95)
Leasehold improvements and acquisitions of capital assets, net of disposals	(188)	(238)
Proceeds from sale of real estate owned	-	118
Net cash provided by (used in) investing activities	(35,842)	(25,928)
Cash flows from financing activities:		
Net increase (decrease) in deposits	47,734	11,685
Proceeds of advances from line of credit & FHLB	125,250	188,500
Repayment of advances	(133,427)	(189,560)
Net cash provided by (used in) financing activities	39,557	10,625
Net increase (decrease) in cash and cash equivalents	6,028	(17,983)
Cash and cash equivalents at beginning of period	4,740	22,723
Cash and cash equivalents at end of period	$ 10,768	$ 4,740
Supplemental cash flow information		
Interest paid	$ 1,519	$ 1,223
Income taxes paid	103	36
Transfer of loans to real estate owned	-	-
Transfer of securities from available for sale to held to maturity	-	-
Transfer of loans to other assets	-	-
Transfer of loans to real estate owned	283	-
Transfer of securities from held to maturity to avaialble for sale	3,092	-
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 communities of the Hudson Valley in Orange County, New York, and the boroughs of Staten Island and Brooklyn. The Bank's primary market area for its lending activities consists of the communities within Orange County, Ulster County, the five boroughs of New York City, and portions of Dutchess, Rockland, Putnam and Westchester Counties, 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 2012.

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 $637 thousand and $536 thousand invested in FRB stock at December 31, 2016 and December 31, 2015, 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 $470 thousand and $971 thousand at December 31, 2016 and 2015, 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 16, 2017, which is the date the financial statements were available to be issued.

Adoption of New Accounting Standards

There were no 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, 2016 and December 31, 2015.

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

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

	December 31, 2015 (in thousands)			
	Amortized	Gross Unrecognized		Fair
	Cost	Gains	Losses	Value
Held to Maturity:				
Mortgage-backed securities – residential	$ 8,089	$ 172	$ -	$ 8,261
Trust Preferred Securities	3,932	75	(59)	3,948
Total	$ 12,021	$ 247	$ (59)	$ 12,209

	December 31, 2015 (in thousands)			
	Amortized	Gross Unrealized		Fair
	Cost	Gains	Losses	Value
Available-for-Sale:				
Mortgage-backed securities – residential	$ 3,399	$ 176	$ -	$ 3,575
Trust Preferred Securities	1,000	-	(26)	974
Total	$ 4,399	$ 176	$ (26)	$ 4,549

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, 2016, 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, 2016 (in thousands)		December 31, 2016 (in thousands)	
	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Mortgaged-backed securities	$ 1,429	$ 1,501	$ 6,402	$ 6,489
Trust 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	957	-	-
More than ten years	2,557	2,566	-	-
Total	$ 4,986	$ 5,024	$ 6,402	$ 6,489

The following tables summarizes, for all securities in an unrecognized loss position at December 31, 2016 and December 31, 2015 the aggregate fair values and gross unrecognized losses by the length of time those securities had been in a continuous loss position.

December 31, 2016

	Less Than 12 Months		**12 Months or More**		**Total**	
	Fair Value	**Unrecognized Loss**	**Fair Value**	**Unrecognized Loss**	**Fair Value**	**Unrecognized Loss**
			(In thousands)			
Held to Maturity:						
Mortgage-backed securities	$ -	$ -	$ -	$ -	$ -	$ -
Trust Preferred Securities	-	-	-	-	-	-
Total temporarily impaired	$ -	$ -	$ -	$ -	$ -	$ -

December 31, 2015

	Less Than 12 Months		**12 Months or More**		**Total**	
	Fair Value	**Unrecognized Loss**	**Fair Value**	**Unrecognized Loss**	**Fair Value**	**Unrecognized Loss**
			(In thousands)			
Held to Maturity:						
Mortgage-backed securities	$ -	$ -	$ -	$ -	$ -	$ -
Trust Preferred Securities	1,520	(37)	520	(22)	2,040	(59)
Total temporarily impaired	$ 1,520	$ (37)	$ 520	$ (22)	$ 2,040	$ (59)

The following tables summarizes, for all securities in an unrealized loss position at 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, 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...........	$ -	$ -	$ -	$ -	$ -	$ -
Trust Preferred Securities.............	1,045	(1)	957	(43)	2,002	(44)
Total temporarily impaired ..	$ 1,045	$ (1)	$ 957	$ (43)	$ 2,002	$ (44)

	December 31, 2015					
	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...........	$ -	$ -	$ -	$ -	$ -	$ -
Trust Preferred Securities.............	974	(26)	-	-	974	(26)
Total temporarily impaired ..	$ 974	$ (26)	$ -	$ -	$ 974	$ (26)

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, 2016.

The Company sold $2.8 million of investment securities during 2016. Gross gains on sales were $166 thousand while gross losses were $12 thousand. A net gain on sale of $154 thousand was recognized. There were no sales of securities during 2015.

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.

Securities pledged at year-end 2016 and 2015 had an approximate carrying amount of $7.3 and $10.2 million 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, 2016 and December 31, 2015.

	December 31, 2016	December 31, 2015
	(Dollars in thousands)	
Real estate loans:		
One-to four-family	$ 38,757	$ 28,789
Commercial		
Owner Occupied	33,984	35,145
Non Owner Occupied	62,260	34,601
Multi-family	21,847	16,155
Construction or development	1,424	965
Home equity		
Open Ended / Revolving	4,545	5,065
Closed Ended	651	960
Total real estate loans	163,468	121,680
Other loans:		
Commercial business		
Taxi Medallion	6,923	7,040
US Govt. Agency Guaranteed	4,093	7,776
Commercial Business Lines of Credit and Term Loans	26,118	29,952
Consumer	430	780
Total other loans	37,564	45,548
Total loans receivable	201,032	167,228
Deferred loan costs (fees) net	1,023	684
Allowance for loan losses	(2,685)	(2,206)
Total loans receivable, net	$ 199,370	$ 165,706

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.

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, 2016 and December 31, 2015.

	December 31, 2016			December 31, 2015		
	Unpaid Principal Balance	Recorded Investment	Allowance For Loan Losses Allocated	Unpaid Principal Balance	Recorded Investment	Allowance For Loan Losses Allocated
		(In thousands)			(In thousands)	
With no related allowance recorded:						
Real estate loans:						
One-to four family	$ 1,188	$ 1,188	$ -	$ 1,710	$ 1,710	$ -
Commercial						
Owner Occupied	870	870	-	881	881	-
Non Owner Occupied	380	380	-	434	434	-
Multi-family	-	-	-	-	-	-
Construction or development	965	965	-	965	965	-
Home equity						
Open Ended/Revolving	-	-	-	-	-	-
Closed Ended	200	200	-	200	200	-
Total real estate loans	3,603	3,603	-	4,190	4,190	-
Other loans:						
Commercial business						
Taxi Medallion	750	750	-	-	-	-
US Govt. Agency Guaranteed	-	-	-	-	-	-
All Other	1,120	1,120	-	1,138	1,138	-
Consumer	-	-	-	-	-	-
Total other loans	1,870	1,870	-	1,138	1,138	-
Total loans	$ 5,473	$ 5,473	$ -	$ 5,328	$ 5,328	$ -
With an allowance recorded:						
Real estate loans:						
One-to four family	$ -	$ -	$ -	$ -	$ -	$ -
Commercial						
Owner Occupied	-	-	-	-	-	-
Non Owner Occupied	-	-	-	334	334	52
Multi-family	-	-	-	-	-	-
Construction or development	-	-	-	-	-	-
Home equity						
Open Ended/Revolving	-	-	-	-	-	-
Closed Ended	-	-	-	-	-	-
Total real estate loans	-	-	-	334	334	52
Other loans:						
Commercial business						
Taxi Medallion	3,596	3,596	467	-	-	-
US Govt. Agency Guaranteed	-	-	-	-	-	-
All Other	-	-	-	123	63	46
Consumer	-	-	-	-	-	-
Total other loans	3,596	3,596	467	123	63	46
Total loans	$ 3,596	$ 3,596	$ 467	$ 457	$ 397	$ 98

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

	2016	2015
Average of individually impaired loans during year	$ 6,625	$ 5,025
Interest income recognized during impairment	147	121
Cash-basis interest income recognized	-	-

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

The following table presents the aging of the recorded investment in past due loans as of December 31, 2015 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	$ 539	$ -	$ -	$ 502	$ 1,041	$ 27,748	$ 28,789
Commercial							
Owner Occupied	-	-	-	498	498	34,647	35,145
Non Owner Occupied	-	-	-	334	334	34,267	34,601
Multi-family	-	-	-	-	-	16,155	16,155
Construction or development	-	-	-	965	965	-	965
Home equity							
Open Ended/Revolving	146	-	-	-	146	4,919	5,065
Closed Ended	-	78	-	200	278	682	960
Total real estate loans	685	78	-	2,499	3,262	118,418	121,680
Other loans:							
Commercial business							
Taxi Medallion	-	-	-	-	-	7,040	7,040
US Govt. Agency Guaranteed	-	-	-	-	-	7,776	7,776
All Other	-	-	-	503	503	29,449	29,952
Consumer	-	-	-	-	-	780	780
Total other loans	-	-	-	503	503	45,045	45,548
Total loans	$ 685	$ 78	$ -	$ 3,002	$ 3,765	$ 163,463	$ 167,228

At year-end 2016, the Company had $3.9 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 2016 were as follows:

(In thousands)	
Beginning balance at December 31, 2015	$ 4,532
New loans	2,278
Repayment	(1,740)
Ending balance at December 31, 2016	$ 5,070

The balance at December 31, 2016 does not include unused commitments totaling $3.1 million.

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, 2016, 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	$ 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	29,598	1,776	6,190	-	37,564
Total loans	$ 189,342	$ 2,443	$ 9,247	$ -	$ 201,032

As of December 31, 2015, 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	$ 26,929	$ 508	$ 1,352	$ -	$ 28,789
Commercial					
Owner Occupied	33,927	72	1,146	-	35,145
Non Owner Occupied	33,528	739	334	-	34,601
Multi-family	16,155	-	-	-	16,155
Construction or development	-	-	965	-	965
Home equity					
Open Ended/Revolving	4,919	-	146	-	5,065
Closed Ended	760	-	200	-	960
Total real estate loans	116,218	1,319	4,143	-	121,680
Other loans:					
Commercial business					
Taxi Medallion	2,882	4,158	-	-	$ 7,040
US Govt. Agency Guaranteed	7,776	-	-	-	7,776
All Other	28,618	790	544	-	29,952
Consumer	780	-	-	-	780
Total other loans	40,056	4,948	544	-	45,548
Total loans	$ 156,274	$ 6,267	$ 4,687	$ -	$ 167,228

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 $7.5 million and $3.2 million as of December 31, 2016 and 2015, respectively. Of these amounts approximately $498 thousand and $498 were non-accrual at December 31, 2016 and 2015, respectively. There was $467 of specific reserves allocated to such restructured loans as of December 31, 2016. There were no specific reserves allocated to such restructured loans as of December 31, 2015.

Of the $7.5 million of troubled debt restructurings as of December 31, 2016, seven loans totaling $4.3 million are loans collateralized by New York City Taxi Medallions. The modifications of these loans all occurred in 2016. 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.

Four of the troubled debt restructurings are commercial real estate loans with an aggregate balance of $1.9 million and the remaining two are residential real estate loans with an aggregate balance of $1.2 million. Of these amounts, one commercial real estate loan for $498 thousand is non-accrual as of December 31, 2016. This loan defaulted in 2015. A loan is considered to be in payment default once it is 30 days contractually past due under the modified terms. There was no impact to the allowance for loan losses as a result of these troubled debt restructurings.

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, 2016 and 2015.

	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

	For the Twelve Months Ended December 31, 2015 (in thousands)								
	One-to-Four Family	Commercial Real Estate	Multifamily Real Estate	Construction or Development	Home Equity	Commercial Business	Consumer	Unallocated	Total
Beginning Balance	$ 148	$ 423	$ 385	$ -	$ 123	$ 755	$ 2	$ 269	$ 2,105
Charge-offs	-	-	-	-	-	(16)	(12)	-	(28)
Recoveries	-	-	17	-	20	22	-	-	59
Provision for loan losses	33	2	1	-	(50)	233	13	(162)	70
Ending Balance	$ 181	$ 425	$ 403	$ -	$ 93	$ 994	$ 3	$ 107	$ 2,206

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, 2016 and December 31, 2015.

December 31, 2016	1-4 Family Residential Real Estate	Commercial Real Estate	Multifamily Real Estate	Construction or Development	Home Equity	Commercial Business	Consumer	Unallocated	Total
	(In thousands)								
Allowance for loan losses:									
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ 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

December 31, 2015	1-4 Family Residential Real Estate	Commercial Real Estate	Multifamily Real Estate	Construction or Development	Home Equity	Commercial Business	Consumer	Unallocated	Total
	(In thousands)								
Allowance for loan losses:									
Individually evaluated for impairment	$ -	$ 52	$ -	$ -	$ -	$ 46	$ -	$ -	$ 98
Collectively evaluated for impairment	181	373	403	-	93	948	3	107	2,108
Total allowance balance	$ 181	$ 425	$ 403	$ -	$ 93	$ 994	$ 3	$ 107	$ 2,206
Loans:									
Loans individually evaluated for impairment	$ 1,710	$ 1,649	$ -	$ 965	$ 200	$ 1,201	$ -	$ -	$ 5,725
Loans collectively evaluated for impairment	27,079	68,097	16,155	-	5,825	43,567	780	-	161,503
Total ending loans balance	$ 28,789	$ 69,746	$ 16,155	$ 965	$ 6,025	$ 44,768	$ 780	$ -	$ 167,228

NOTE 5 – PREMISES AND EQUIPMENT

The following is a summary of premises and equipment at December 31, 2016 and December 31, 2015.

	December 31, 2016	December 31, 2015
	(In thousands)	
Land	$ 193	$ 193
Furniture, fixtures, and equipment	894	1,789
Bank Premises	1,957	1,955
Leasehold Improvements	928	1,324
	3,972	5,261
Less: accumulated depreciation and amortization	(821)	(2,023)
Total premises and equipment, net	$ 3,151	$ 3,238

Depreciation expense was $275 thousand and $281 thousand for 2016 and 2015, respectively.

NOTE 6 – DEPOSITS

The following is a summary of deposit balances at December 31, 2016 and December 31, 2015.

	December 31,	
	2016	2015
	(in thousands)	
Demand deposit accounts	$ 59,668	$ 47,878
NOW accounts	15,247	12,369
Money market accounts	29,121	24,746
Regular savings accounts	45,865	22,314
Certificates of Deposit	55,767	50,627
Total	$ 205,668	$ 157,934

The following summarizes certificates of deposit by remaining term to contractual maturity at December 31, 2016 (in thousands).

Under one year	$ 25,833
One year to under two years	20,877
Two years to under three years	6,340
Three years to under four years	1,060
Four years to under five years	1,657
Five years to under six years	-
Total Certificates of Deposit	55,767

Certificates of deposit of $250 thousand or more totaled $8.9 million and $7.9 million at December 31, 2016 and December 31, 2015, respectively. Deposits from directors, senior officers and their affiliates were approximately $6.9 million and $4.9 million at December 31, 2016 and December 31, 2015, respectively.

NOTE 7 – BORROWINGS

The Company had $12.3 million and $20.4 million in outstanding borrowings as of December 31, 2016 and 2015. Of these amounts, the Company had $6.3 million and $2.4 million in an outstanding line of credit as of December 31, 2016 and 2015, respectively. The remaining outstanding borrowings were Federal Home Loan Bank advances.

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

	2016	2015
Fixed rates with an average rate of 1.51% and 0.89%	$ 6,000	$ 18,000

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, as well as pledged mortgage backed securities. 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 $44.9 million at year-end 2016 including the $6.0 million in term advances outstanding at December 31, 2016.

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

2017	$ -
2018	-
2019	6,000
2020	-
2021	-

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 for a period of two years. As of December 31, 2016, the outstanding balance is $6.3 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 $5.0 million. This credit facility is on a secured basis for $2.5 million for a period of one hundred eighty (180) calendar days and an unsecured basis of $2.5 million for a period of fourteen (14) calendar days. The Bank did not utilize this credit facility at any time during 2016 or 2015.

NOTE 8 – INCOME TAXES

The following summarizes components of income tax expense for the years ended December 31, 2016 and December 31, 2015.

	December 31, 2016	December 31, 2015
	(in thousands)	
Current:		
Federal expense (benefit)	$ 16	$ 25
State and local expense (benefit)	40	39
Total	56	64
Deferred:		
Federal expense (benefit)	$ 412	$ 81
State and local expense (benefit)	(139)	(236)
Tax Expense (Benefit) Before Valuation Allowance	273	(155)
Change in Valuation Allowance	139	236
Total Tax Expense (Benefit)	$ 468	$ 145

The following is a reconciliation of the Company's statutory federal income tax rate, 34%, to its effective tax rate at December 31, 2016 and December 31, 2015.

	December 31, 2016	December 31, 2015
	(in thousands)	
	34%	34%
Federal expense (benefit) at statutory rate	$ 388	$ 66
State and local income taxes, net of federal income tax benefit	(130)	(166)
Other	70	9
Tax benefit before valuation allowance	328	(91)
Change in Valuation Allowance	140	236
Income tax benefit	$ 468	$ 145

The following summarizes the balance of the Company's deferred tax assets and deferred tax liabilities at December 31, 2016 and December 31, 2015.

	December 31, 2016	December 31, 2015
	(in thousands)	
Deferred Tax Assets	$ 3,512	$ 3,432
Less: Valuation allowance	(737)	(599)
Net deferred tax assets	2,775	2,833
Deferred tax liabilities	915	609
Net deferred tax asset (liability)	$ 1,860	$ 2,224

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 carry forwards available to reduce future taxable income.

YEAR(S) of Expiration	FEDERAL	NEW YORK STATE	NEW YORK CITY
2026	$ 1,093	$ 2,797	$ -
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
	$ 3,425	$ 10,152	$ 2,485

Effective January 1, 2015, New York State and New York City enacted comprehensive tax reform provisions with significant impact on financial institutions. As a result of this legislation, beginning in 2015, the Bank calculates its tax obligation to New York State and New York City based upon the largest of a calculated income tax liability, a tax liability based upon average equity capital or a minimum filing fee. Also, effective January 1, 2015, banks under $8 billion in total assets are permitted to claim a subtraction from New York State and New York City taxable income equal to 50% of the net interest income on loans secured by residential real estate located within these respective jurisdictions. Based upon the forecasted impact of this subtraction on the Bank's state and city taxable income, it is more likely than not that the Bank will generate income tax losses in future years and therefore calculate its New York State and New York City tax liability on the basis of average equity capital or a fixed minimum fee. Consequently, the Bank recorded a valuation allowance against its New York State and New York City deferred tax assets as of January 1, 2015 as it is unlikely these deferred tax assets will impact the Bank's tax liability in future years.

There were no significant unrecognized tax benefits at December 31, 2016, 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 branch office locations in New Paltz, New York, Staten Island, New York, and Brooklyn, New York. The leases are for initial terms of 15 years, 10 years, and 15 years, respectively and have various renewal options. Rent expense under operating leases was $345 thousand and $340 thousand for the years ended December 31, 2016 and 2015, 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:

2017	302
2018	279
2019	210
2020	121
2021	125
Thereafter	1,011
Total	2,048

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, 2016 consisted of primarily adjustable, with interest rates ranging from 3.75% to 7.0% and terms generally not exceeding 90 days.

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

	2016		2015	
	(In thousands)			
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
Commitments to make loans	$ 756	$ 12,288	$ --	$ 4,894
Unused lines of credit	--	10,543	--	11,141
Standby letters of credit	--	216	--	158

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.

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.

A summary of options outstanding under the Bank's 2014 Stock Option Plan as of December 31, 2016, and changes during the year then ended is presented below.

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Intrinsic Value
Outstanding at January 1, 2016	267,000	$ 3.00		
Granted	-	-		
Exercised	-	-		
Forfeited or expired	(30,000)	3.00		
Surrendered	-	-		
Outstanding at December 31, 2016	237,000	$ 3.00	7.9	$ 76
Options exercisable at December 31, 2016	158,200	$ 3.00	7.9	$ 51
Vested and expected to vest	237,000	$ 3.00	7.9	$ 76

As of December 31, 2016, there was $68 thousand of total unrecognized compensation cost related to nonvested stock options granted under the 2014 Stock Option Plan. The cost is expected to be recognized over a weighted average remaining period of approximately 23 months.

At December 31, 2016, there were 94,000 shares available for future grant under the 2014 Stock Option Plan. 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. 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.

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 2016 or 2015.

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.

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

		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:				
Trust preferred securities	$ 3,523		$ 3,523	
Mortgage-backed securities-residential	1,501	-	1,501	-
Total available-for-sale	$ 5,024	$ -	$ 5,024	$ -

		Fair Value Measurements (in thousands) at December 31, 2015 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:				
Trust preferred securities	$ 974		$ 974	
Mortgage-backed securities-residential	3,575	-	3,575	-
Total available-for-sale	$ 4,549	$ -	$ 4,549	$ -

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

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

	Carrying Value	Fair Value Measurements (in thousands) at December 31, 2015 Using Identical Assets (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Assets:				
Impaired Loans				
Commercial Term Loan	$ 17	-	-	$ 17
Commercial Mortgage Loan	282	-	-	282

Impaired loans: 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. Impaired loans measured at fair value at December 31, 2015 had a book value of $397 thousand, with a valuation allowance of $98 thousand.

Real Estate Owned: Real estate owned at December 31, 2016 had a net carrying amount of $273 thousand, net of a $60 thousand write-down. At December 31, 2015 there was no real estate owned.

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

	December 31, 2016		December 31, 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In thousands)			
Financial assets				
Cash and due from banks	$ 10,768	$ 10,768	$ 4,740	$ 4,740
Securities available for sale	5,024	5,024	4,549	4,549
Securities held to maturity	6,402	6,489	12,021	12,209
Loans held for sale	6,592	6,592	-	-
Loans, net	199,370	201,595	165,706	167,148
Federal Home Loan Bank stock	470	N/A	971	N/A
Federal Reserve Bank stock	637	N/A	536	N/A
Accrued interest receivable	806	806	672	672
Financial Liabilities				
Deposits	205,668	205,982	157,934	158,281
Federal Home Loan Bank advances	6,000	5,974	18,000	18,011
Other borrowings	6,250	6,223	2,427	2,428
Accrued interest payable	85	85	53	53

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 new capital rules 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 2016 is 0.625%

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, 2016, 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, 2016 and December 31, 2015:

	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

	Bank Actual		Minimum Capital Adequacy		Classification as Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2015			(Dollars in thousands)			
Tier I (core) capital to Average Assets	$ 15,704	8.2%	$ 7,627	4.0%	$ 9,534	5.0%
Common Equity Tier 1 to Risk Weighted Assets	15,704	10.4	6,783	4.5	9,797	6.5
Tier 1 Capital to Risk Weighted Assets	15,704	10.4	9,044	6.0	12,058	8.0
Total Capital to Risk Weighted Assets	17,592	11.7	12,058	8.0	15,073	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 – SUBSEQUENT EVENT

On January 12, 2017, the Company announced that it had executed a definitive agreement to sell its New Paltz, New York branch office to Salisbury Bank and Trust Company, the wholly owned bank subsidiary of Salisbury Bancorp, Inc. The sale will transfer approximately $31 million in deposits and approximately $6.6 million in loans to Salisbury Bank and Trust. The transaction is expected to close during the second quarter of 2017.

MEETING MORE CLIENT NEEDS

8th Avenue Brooklyn Loan Production Office

Pictured in photo : Laifun Y. Wong, Business Relationship Manager

The marketplace for commercial lending continues to evolve rapidly as a growing number of customers are engaged in small business lending. To capitalize on these trends, we have introduced our 8th Avenue Brooklyn Loan Production Office, which is located in Brooklyn and focused on direct lending to clients with an emphasis on client relationships. The new office makes it convenient for clients to apply for a loan and allows Empire State Bank to provide streamlined financing for the growing needs of small to mid-sized businesses. This is accomplished through the support of our bilingual Business Representative dedicated to driving the success of small businesses in the community.

BUILDING STRONGER COMMUNITITES

New Dorp Merchants

Pictured from left to right: Philip Guarnieri, CEO of Empire State Bank; Theresa Pommerenk AVP, Branch Manager of Empire State Bank; Councilman Steven Matteo; Maria Esposito of Norman Heil Insurance & President of New Dorp Merchants Steering Committee.

In 2014, The New Dorp Merchants Group was founded with the support of Councilman Steven Matteo and spearheaded by Maria Esposito, to help the business community in New Dorp Lane and Plaza by providing services that enhance its economic vitality. Empire State Bank supports businesses by providing banking deposit and lending products and services to the communities we serve that stimulate economic growth throughout New York. We provide financing to small and mid-sized companies to provide capital funding, create jobs and boost the quality of life in our communities. Empire State Bank has and continues to support small business development through participation in events, donations, fundraisers and charities.

ES Bancshares, Inc. Stockholder Information

Shareholder General Inquiries

Philip Guarnieri
Chief Executive Officer
ES Bancshares, Inc.
68 North Plank Road
Newburgh, NY 12550
(845) 561-0003

Transfer Agent

American Stock Transfer & Trust Company
6201 15th Avenue
2nd Floor
Brooklyn, NY 11219
(718) 921-8247

ES Bancshares, Inc. Corporate Information

Corporate Office

ES Bancshares, Inc.
68 North Plank Road
Newburgh, NY 12550

Telephone: (845) 561-0003
Facsimile: (845) 451-7878

Board of Directors

David Freer, Jr.
Chairman

Walter Daszkowski
Vice Chairman

Andrew G. Finkelstein

Gale L. Foster

Michael Menicucci

David N. Mesches, M.D.

Philip Guarnieri
Director, Chief Executive Officer

Thomas Sperzel
President and Chief Operating Officer

Albert J. Pagano

Michael P Ostrow

Peter J. Savage

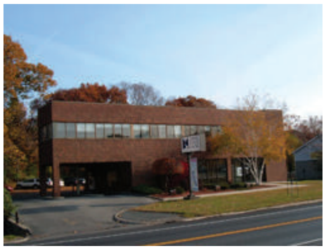
Thomas D. Weddell

Independent Auditors
Crowe Horwath LLP
354 Eisenhower Parkway, Suite 2050
Livingston, New Jersey 07039

Special Counsel/Washington, D.C.
Luse Gorman Pomerenk & Schick, P.C.
5335 Wisconsin Avenue, Suite 780
Washington, D.C. 20015

BANCSHARES, INC.

68 North Plank Road, Newburgh, NY 12550
T: (866) 646-0003
www.esbna.com



NEWBURGH OFFICE
68 North Plank Road
Newburgh, NY 12550
(845) 561-0003

STATEN ISLAND OFFICE
1361 North Railroad Avenue
Staten Island, NY 10306
(718) 351-0590

BROOKLYN OFFICE
8701 Third Avenue
Brooklyn, NY 11209
(347) 695-9040

NEW PALTZ OFFICE
275 Main Street
New Paltz, NY 12561
(845) 256-0003

Scan the QR code to download the Empire State Bank annual report onto your device and "Like" us on Facebook!

www.facebook.com/empirestatebank