

PUBLIC DISCLOSURE

August 1, 2011

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Empire State Bank
RSSD No. 3277241**

**68 North Plank Road
Newburgh, New York 12550**

FEDERAL RESERVE BANK OF NEW YORK

**33 LIBERTY STREET
NEW YORK, N.Y. 10045**

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

TABLE OF CONTENTS

Institution's CRA Rating	BB 1
Description of Institution	BB1
Description of the Bank's Assessment Area.....	BB2
Scope of Examination.....	BB2
Conclusions With Respect to Performance Criteria.....	BB2
Fair Lending or Other Illegal Credit Practices Review.....	BB4
MSA 39100 (Full Review)	
Description of Operations in MSA 39100	BB5
Conclusions With Respect to Performance Tests.....	BB6
MSA 35620 (Full Review)	
Description of Operations in MSA 35620	BB11
Conclusions With Respect to Performance Tests	BB12
MSA 28740 (Full Review)	
Description of Operations in MSA 28740	BB17
Conclusions With Respect to Performance Tests	BB19
Exhibits	
Exhibit 1: Summary of Key Assessment Area Data.....	BB3
Appendices	
CRA Appendix A: Glossary.....	BB23
CRA Appendix B: Map of Assessment Area.....	BB25

INSTITUTION'S CRA RATING: Empire State Bank (“ESB” or “Empire”) is rated “Satisfactory.”

The major factors supporting the rating are:

- A majority of loans were made in the assessment areas.
- ESB’s loan-to-deposit ratio was reasonable.
- The overall distribution of loans to borrowers of different incomes and businesses of different sizes reflects reasonable penetration.
- The overall geographic distribution of loans reflects reasonable dispersion throughout the assessment areas.

DESCRIPTION OF INSTITUTION

ESB is a relatively new bank, having been established in June 2004 as a national bank chartered by the Office of the Comptroller of the Currency. ESB converted to a New York State member bank on March 9, 2009. As of December 31, 2010, ESB’s total assets were \$163 million, with total deposits of \$139 million and gross total loans of \$124 million.

ESB operates out of its main office in Newburgh, NY and has two branches, one in New Paltz, NY and one in Staten Island, NY. ESB offers deposit and loan products for consumer and business clients. Loan products include overdraft lines of credit, small business loans, commercial real estate loans, purchase and refinance residential mortgages, consumer loans, home equity lines of credit and home equity loans.

The following table shows the composition of Empire’s loan portfolio according to its Consolidated Report of Condition and Income:

Loan Portfolio Summary		
LOAN TYPE	DOLLAR AMOUNT* (‘000s)	PERCENT OF TOTAL
Commercial / Industrial & Non Farm Non Residential Real Estate	71,118	58
Construction & Land Development	2,560	2
Secured by 1-4 Family Residential Real Estate	37,825	31
Multifamily	11,710	9
Consumer	411	0
Other	1	0
Total Gross Loans and Leases	123,625	100

*Data as of December 31, 2010

There are no financial or legal impediments preventing ESB from serving the credit needs of its assessment areas. ESB received a satisfactory rating at the prior CRA examination, dated June 15, 2007, conducted by the Office of the Comptroller of the Currency.

DESCRIPTION OF THE BANK'S ASSESSMENT AREA

ESB's assessment areas consist of the following:

- MSA 39100 (Poughkeepsie-Newburgh-Middletown, NY), which includes only portions of Orange County, NY
- MSA 35620 (New York-Northern New Jersey-Long Island, NY-NJ-PA), which includes only Richmond County, NY
- MSA 28740 (Kingston, NY), which includes only portions of Ulster County, NY

The assessment areas are in compliance with the requirements of Section 228.41 of Regulation BB and do not arbitrarily exclude low- to moderate-income ("LMI") geographies.

Maps illustrating ESB's assessment areas are located in Appendix B.

SCOPE OF EXAMINATION

Empire was examined using the Federal Financial Institutions Examination Council's ("FFIEC") Interagency CRA Examination Procedures for Small Institutions. Retail loan products evaluated include home purchase, refinance, and home improvement loans reported under the Home Mortgage Disclosure Act ("HMDA") and a sample of 115 small business loans and 120 consumer loans. The loan samples were selected using the Board of Governors' sampling procedures and the integrity of the loan data was verified as part of the onsite exam. The examination period covered the time period from January 1, 2007 through December 31, 2010. Full scope reviews were conducted for all of Empire's assessment areas.

Examiners conducted interviews with two community development organizations in order to gain an understanding of local credit needs. One organization focused on affordable housing for LMI individuals while the other promoted economic development through lending programs for small businesses.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Empire's overall satisfactory CRA rating is based on an assessment of the core performance criteria under the FFIEC's small bank CRA performance test as discussed below.

Loan-to-Deposit Ratio

Empire's loan-to-deposit ratio was reasonable given the bank's size, financial condition, and the credit needs of its assessment areas. ESB's average loan-to-deposit ratio for the 16 quarters ending December 31, 2010 was 79%, based on information contained in its Consolidated Report of Condition and Income. This ratio was below the national peer average of 88% for similarly-sized banks, but above the average ratio of 70% for six similarly-situated peer banks located in the assessment areas and adjacent counties during the examination period.

Exhibit 1: Summary of Key Assessment Area Data				
ASSESSMENT AREA DATA	MSA 39100	MSA 35620	MSA 28740	Totals
Total Population⁴	55,826	443,728	46,164	545,718
Population % of AA population	10%	81%	8%	100%
Families	13,651	114,667	11,018	139,336
Families % of AA families	10%	82%	8%	100%
Total Census Tracts⁴	11	110	10	131
Tracts % AA tracts	8%	84%	8%	100%
LMI tracts	6	14	0	20
LMI tracts % all AA LMI tracts	30%	70%	0%	100%
Total Owner-Occupied Units⁴	10,844	99,732	10,942	121,518
Units % of AA units	9%	82%	9%	100%
Business Establishments⁵	2,649	13,023	2,117	17,789
Bus. est. % AA bus. est.	15%	73%	12%	100%
Number of Branches¹	1	1	1	3
Branches % all branches	33%	33%	33%	100%
Branches in LMI tracts	0	0	0	0
LMI branches % AA LMI branches	0%	0%	0%	0%
Branch Deposits (\$'000s)²	55,000	55,000	32,000	142,000
Deposits % AA deposits	39%	39%	23%	100%
Deposit Market Share (%)/ Rank in Mkt.	4/6	.44/12	4/6	
Home Purchase Originations³	0	16	5	21
HP originations % AA orig.	0%	76%	24%	100%
Refinance Originations³	5	27	2	34
Refi orig. % AA orig.	15%	79%	6%	100%
Home Improvement Originations³	0	2	1	3
Home Improvement orig. % AA orig.	0%	67%	33%	100%
Small Business Originations³	9	44	20	73
SB orig. % AA orig.	12%	60%	27%	100%
Consumer Loan Originations	8	45	13	66
SB orig. % AA orig.	12%	68%	20%	100%
Combined Loan Totals	22	134	41	197
% of AA Orig.	11%	68%	21%	100%

(1) Branch numbers are as of 12/31/2010. (2) Branch deposits and deposit market share are from the FDIC as of 6/30/10. (3) Originations are loans reported under HMDA and samples of small business and consumer loans for 2007 through 2010. (4) Demographic information was obtained from the 2000 Census. (5) Business establishments information was reported by D&B for 2010.

Lending in the Assessment Area

Empire originated a majority of its loans, 55% by number, and 43% by dollar amount, overall, in its assessment areas. For each loan category, Empire originated 49% of its HMDA-related loans, 55% of its consumer loans, and 64% of its small business loans by number, within its assessment areas, as shown in the following table:

LENDING INSIDE AND OUTSIDE THE ASSESSMENT AREAS								
January 1, 2007 – December 31, 2010								
Loan Type	Inside				Outside			
	#	%	\$ (‘000s)	%	#	%	\$ (‘000s)	%
Home Purchase	21	42	6,963	35	29	58	13,204	65
Refinancings	34	56	7,483	49	27	44	7,885	51
Home Improvement	3	75	840	87	1	25	124	13
Multifamily	9	39	2,921	27	14	61	8,067	73
Total HMDA	67	49	18,207	38	71	51	29,280	62
Consumer	66	55	12,982	52	54	45	11,888	48
Small Business	73	64	10,922	44	42	36	13,704	56
All Loans	206	55	42,111	43	167	45	54,872	57

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

The overall distribution among borrowers of different income levels and businesses of different sizes was reasonable based on reasonable performance in MSA 39100 (Poughkeepsie-Newburgh-Middletown, NY), MSA 35620 (New York-Northern New Jersey-Long Island, NY, NJ, LI) and MSA 28740 (Kingston, NY).

Geographic Distribution of Loans

The overall geographic distribution of loans was reasonable based on reasonable penetration in LMI geographies in MSA 39100 (Poughkeepsie-Newburgh-Middletown, NY), MSA 35620 (New York-Northern New Jersey-Long Island, NY, NJ, LI) and MSA 28740 (Kingston, NY).

Response to Complaints

Empire did not receive any complaints relating to the bank’s CRA performance during the examination period.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

ESB is in compliance with the substantive provisions of the anti-discrimination laws and regulations. No evidence of discriminatory or other illegal credit practices was identified as being inconsistent with helping to meet the credit needs of the assessment area.

METROPOLITAN AREA
MSA 39100 (POUGHKEEPSIE-NEWBURGH-MIDDLETOWN, NY)

DESCRIPTION OF OPERATIONS

As of December 31, 2010, ESB is headquartered in this MSA. The Newburgh headquarters generated \$55 million in deposits, or 39% of ESB's total branch deposits as of June 30, 2010. A total of 11% of Empire's retail loans were originated in this MSA during the examination period. For additional assessment area data, see Exhibit 1.

Empire is a small bank operating in a highly competitive market, with branches of numerous local, regional and multinational banks, mortgage companies, and other financial institutions operating within ESB's assessment area. ESB's primary bank competitors include Key Bank, JP Morgan Chase Bank, Provident Bank, TD Bank National Association, Orange County Trust Company and Bank of America. According to the FDIC's Deposit Market Share Report as of June 30, 2010, ESB has only a 1% deposit market share in Orange County, ranking 15th out of 21 banks.

PERFORMANCE CONTEXT

The following demographic and economic information was obtained from publicly available sources that include the U.S. Department of Commerce's Bureau of Census, the U.S. Department of Labor, the National Association of Realtors, and New York University's ("NYU") Furman Center for Real Estate and Urban Policy.

Demographic Characteristics

According to the 2000 Census, the population of the assessment area was 55,826, approximately 15% of the population of Orange County as a whole. The assessment area consists of 11 census tracts, including two low-income tracts and four moderate-income tracts ("LMI"). The LMI tracts are concentrated in the city of Newburgh, NY. U.S. Census data indicates that the City of Newburgh's per capita income in 2010 was \$15,897, compared to \$30,948 for New York State. The median household income in Newburgh from 2006-2010 was \$36,153, compared to \$55,603 for New York State, according to the U.S. Census. Fifty-one percent of the assessment area's population resides in the LMI tracts and 44% of all business establishments are located in the LMI tracts.

Income Characteristics

The HUD-adjusted median family income for the MSA was \$83,400 in 2010 and \$81,800 in 2009. Twelve percent of all families have incomes below the poverty level and 28% of residents in the City of Newburgh had incomes below the poverty level in 2009. The high poverty rate in this assessment area contributes to limited lending opportunities to LMI individuals and in LMI geographies.

Housing Characteristics

The assessment area contains 20,597 housing units, of which 53% are owner occupied. Twenty-six percent of owner-occupied housing units are located in LMI census tracts, representing 27% of total housing units in the LMI tracts. Demographic data from the 2000 census estimated the median age of the housing stock to be 61 years old in low-income census tracts and 50 years old in moderate-income census tracts. Given the age of the housing stock community groups have stated that there is a need for home improvement and home rehabilitation loans.

MEDIAN HOME SALES PRICES			
Area	2008	2009	2010
Orange County	\$290,000	\$260,000	\$255,000
Source: New York Association of Realtors			

As shown in the table to the left, the median sales price of existing single-family homes in Orange County was \$290,000 as of December 2008 and decreased to \$255,000 as of December 2010. Price depreciation was reflective of overall economic stress, particularly in the housing market, during this time period. In 2010, the median sales price of homes in Orange County was 6.1 times the median

family income of a low-income individual and 3.8 times the median family income of a moderate-income individual. Housing is, therefore, not affordable for low-income individuals without some form of subsidy, and may be difficult for moderate-income individuals. The aggregate's level of HMDA lending performance also evidenced limited lending opportunities.

Labor, Employment and Economic Characteristics

The rate of unemployment in Orange County is similar to that of the State of New York in general, while the unemployment rate in the City of Newburgh is significantly higher. Unemployment rates increased overall in all areas in 2009 and 2010 due to the deepening recession. The weaker economic conditions have contributed to a lower demand for loans in the assessment area.

U.S. DEPARTMENT OF LABOR ANNUAL UNEMPLOYMENT RATES			
Area	2008	2009	2010
Orange County	5.4%	8.0%	8.3%
City of Newburgh	8.0%	9.0%	10.0%
State of New York	5.4%	8.4%	8.5%

See the table on the next page for additional assessment area details.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Empire's overall record of lending in MSA 39100 (Poughkeepsie-Newburgh-Middletown, NY) was reasonable based on reasonable distribution to borrowers of different incomes and businesses of different sizes and reasonable geographic dispersion of lending throughout the assessment area. An analysis of lending to borrowers of different income levels and to businesses of different sizes and the geographic distribution of loans follows:

Distribution by Borrower Income and Revenue Size of Business

The overall distribution among borrowers of different income levels and businesses of different sizes was reasonable. Empire's small business performance reflected a reasonable level of loans to businesses of different sizes. Although there was poor home purchase penetration among LMI individuals, lending performance in the assessment area relating to borrower distribution was considered reasonable in relation to some performance context issues. Opportunities to make HMDA loans were limited by large bank competition in the market and by the cost of housing, as the median sales price for homes in Orange County in 2010 exceeded median family income ("MFI") for a low-income borrower by 6 times, and the MFI for moderate-income borrowers by four times.

Assessment Area Demographics								
Assessment Area : Orange County								
Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low-income	2	18.2	2,779	20.4	946	34.0	3,972	29.1
Moderate-income	4	36.4	3,360	24.6	459	13.7	2,651	19.4
Middle-income	5	45.5	7,512	55.0	180	2.4	3,102	22.7
Upper-income	0	0.0	0	0.0	0	0.0	3,926	28.8
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0
Total Assessment Area	11	100.0	13,651	100.0	1,585	11.6	13,651	100.0
	Housing Units by Tract	Housing Types by Tract						
		Owner-occupied			Rental		Vacant	
		#	%	%	#	%	#	%
Low-income	5,014	739	6.8	14.7	3,358	67.0	917	18.3
Moderate-income	5,515	2,108	19.4	38.2	2,992	54.3	415	7.5
Middle-income	10,068	7,997	73.7	79.4	1,714	17.0	357	3.5
Upper-income	0	0	0.0	0.0	0	0.0	0	0.0
Unknown-income	0	0	0.0	0.0	0	0.0	0	0.0
Total Assessment Area	20,597	10,844	100.0	52.6	8,064	39.2	1,689	8.2
	Total Businesses by Tract	Businesses by Tract & Revenue Size						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
	#	%	#	%	#	%	#	%
Low-income	420	15.9	368	15.6	21	11.3	31	31.3
Moderate-income	745	28.1	668	28.3	47	25.3	30	30.3
Middle-income	1,484	56.0	1,328	56.2	118	63.4	38	38.4
Upper-income	0	0.0	0	0.0	0	0.0	0	0.0
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0
Total Assessment Area	2,649	100.0	2,364	100.0	186	100.0	99	100.0
	Percentage of Total Businesses:			89.2		7.0		3.7

Home Purchase Loans

ESB’s distribution of home purchase loans to LMI borrowers was poor. As shown in Exhibit 2, ESB did not make any home purchase loans to LMI borrowers. Twenty-nine percent of families are of low-income while 19% are of moderate-income. Opportunities for home purchase lending to LMI borrowers, however, were impacted by the affordability of housing and by adverse economic issues occurring during the examination period.

Refinance Loans

ESB’s distribution of refinance loans to LMI borrowers was reasonable. ESB originated two, or 40%, of its refinance loans to low-income borrowers, compared to 29% of low-income families residing in the assessment area. ESB originated one, or 20%, of its refinance loans to moderate-income borrowers, compared to 19% of moderate-income families residing in the assessment area.

Distribution of Loans in Assessment Area <i>By Borrower Income Level</i> January 1, 2007 - December 31, 2010 HMDA and Consumer Loans				
Loan Products	Low-Income Borrowers		Moderate-Income Borrowers	
	Number of Loans	Percentage	Number of Loans	Percentage
Home Purchase	0	0%	0	0%
Refinance	2	40%	1	20%
Home Improvement	0	0%	0	0%
Consumer	0	0%	3	31%

Home Improvement Loans

ESB did not make any home improvement loans to LMI borrowers. ESB’s performance, however, is considered reasonable, as opportunities for home improvement lending were limited. The limited lending opportunities were reflected in the market aggregate’s lending performance. The market aggregate made only 20 home improvement loans overall in 2010, of which only two were to low-income borrowers and five were to moderate-income borrowers.

Consumer Loans

ESB’s performance in consumer lending is considered reasonable as ESB made 3, or 31%, of its consumer loans to moderate-income borrowers. ESB did not make any consumer loans to low-income borrowers. Thirty percent of all households in the assessment are low-income while 18% of households are moderate-income.

Small Business Loans

The level of lending to small businesses was reasonable. Empire made 78% of its small business loans to businesses with GAR of \$ 1 million or less, compared to 89% of business establishments in the MSA with GAR of \$1 million or less. During the review period, 67% of Empire’s total small business loans were in amounts of \$100,000 or less. Loans in smaller amounts are particularly responsive to the needs of small businesses.

Distribution of Loans in Assessment Area <i>By Size of Business</i> January 1, 2007 – December 31, 2010 Small Business Loans				
	Number of Loans	Percentage	Loans in Amounts less than \$100m	Average Small Business Loan Size (000s)
GAR \$1 million or less	7	78%	67%	\$142

Geographic Distribution of Loans

ESB’s geographic distribution of loans reflects overall reasonable dispersion throughout the assessment area. HMDA-related and consumer lending performance was poor, while small business performance was excellent. Although there was poor penetration in low-income tracts, opportunities for HMDA and consumer lending were limited, due to large bank competition and a weak economy, as 34% of families residing in these tracts have incomes below the poverty level.

Distribution of Loans in Assessment Area <i>By Tract Income Level</i> January 1, 2007 - December 31, 2010 HMDA, Consumer Loans and Small Business				
Loan Products	Low-Income Tracts		Moderate-Income Tracts	
	Number of Loans	Percentage	Number of Loans	Percentage
Home Purchase	0	0%	0	0%
Refinance	1	20%	1	20%
Home Improvement	0	0%	0	0%
Consumer	0	0%	2	25%
Small Business	0	0%	6	67%

Home Purchase Loans

ESB's home purchase performance was poor, as ESB did not make any loans in LMI census tracts while 7% of all owner-occupied housing units were in low-income tracts, and 19% were in moderate-income tracts. As indicated in the performance context, community contacts indicated that affordability of housing is an issue in this assessment area.

Refinance Loans

Refinance performance was reasonable. ESB made one or 20% of its refinance loans in a low-income tract and one or 20% of its refinance loans compared to 7% and 19% of all owner-occupied housing units located in low-and moderate-income tracts respectively.

Home Improvement Loans

ESB did not make any home-improvement loans in LMI census tracts while 7% of all owner-occupied housing units were low-income tracts and 19% of owner-occupied units were in moderate-income tracts. Opportunities for home improvement lending were, however, limited, as indicated by the performance of the aggregate. In 2010 the aggregate made only 20 home improvement loans overall. None of the aggregate's loans were originated in low-income census tracts and only 4 were originated in moderate-income census tracts.

Consumer Loans

Consumer performance was reasonable. ESB made two or 25% of its consumer loans in a moderate-income tract but did not make any consumer loans in low-income tracts. Twenty-two percent of all households reside in low-income tracts while 27% of households reside in moderate-income tracts. Opportunities for consumer lending were, however, limited as 34% of families residing in these tracts have incomes below the poverty level.

Small Business Loans

Small business performance was reasonable. ESB made 6 or 67% of its small business loans in moderate-income tracts compared to 28% of business establishments located in moderate-income tracts. ESB did not make any loans in low-income tracts while 16% of business establishments were located in low-income tracts.

METROPOLITAN AREA

MSA 35620 (NEW YORK-NORTHERN NEW JERSEY-LONG ISLAND, NY, NJ, LI)

DESCRIPTION OF OPERATIONS

As of December 31, 2010, Empire operated one branch in Richmond County. This branch generated \$55 million in deposits, or 39% of ESB's total branch deposits as of June 30, 2010. A total of 68% of Empire's retail loans were originated in this MSA during the examination period.

ESB is a small bank operating in a very competitive market, with branches of numerous local, regional and multinational banks, mortgage companies, and other financial institutions operating in its assessment area. ESB's primary bank competitors include Sovereign Bank, JP Morgan Chase Bank, New York Community Bank, Citibank NA, Northfield Bank and Hudson City Savings Bank. According to the FDIC's Deposit Market Share Report as of June 30, 2010, ESB has a .6% deposit market share in Richmond County, ranking 14th out of 17 banks. For additional assessment area data, see Exhibit 1.

PERFORMANCE CONTEXT

The following demographic and economic information was obtained from publicly available sources that include the U.S. Department of Commerce's Bureau of Census, the U.S. Department of Labor, the National Association of Realtors, and New York University's ("NYU") Furman Center for Real Estate and Urban Policy.

Demographic Characteristics

According to the 2000 Census, the population of the assessment area was 443,728. Richmond County is the smallest of New York City's five boroughs in terms of population. The assessment area for Richmond County is comprised of 110 census tracts, including three low-income tracts and eleven moderate-income tracts. Ten percent of the assessment area's population resides in the LMI tracts and 5% of all business establishments are located in the LMI tracts.

Income Characteristics

The HUD-adjusted median family income for the MSA was \$62,300 in 2010 and \$61,600 in 2009. Eight percent of all families reside below the poverty level. In 2009, 11% of residents in Richmond County had incomes below the poverty level compared to 14% for New York City.

Housing Characteristics

The assessment area contains 163,993 housing units, of which 61% are owner occupied. Four percent of owner-occupied housing units are located in LMI census tracts, representing 27% of total housing units in the LMI tracts. Demographic data from the 2000 census estimated the median age of the housing stock to be 37 years old in low-income census tracts and 39 years old in moderate-income census tracts.

MEDIAN HOME SALES PRICES			
Area	2008	2009	2010
Richmond County	\$402,000	\$378,500	\$390,000
Source: New York Association of Realtors			

As shown in the table to the left, the median sales price of existing single-family homes in Richmond County was \$402,000 as of December 2008 and decreased to \$390,000 as of December 2010. Price depreciation was reflective of overall stress in the economic environment during this time period, particularly in the housing market. In 2010, the median sales price of homes in Richmond County was 12.5 times the

median family income of a low-income individual and 7.8 times the median family income of a moderate-income individual. Housing is, therefore, not affordable for low- or moderate-income individuals without some form of subsidy.

Labor, Employment and Economic Characteristics

The unemployment rate in Richmond County increased during the examination period as the recession deepened but compared favorably to the rate in New York City and was similar to New York State’s overall unemployment rate. The high levels of unemployment and weaker economic conditions have contributed to a lower demand for loans in the assessment area.

U.S. DEPARTMENT OF LABOR ANNUAL UNEMPLOYMENT RATES			
Area	2008	2009	2010
Richmond County	4.9%	8.1%	8.7%
New York City	5.4%	9.3%	9.5%
State of New York	5.4%	8.4%	8.5%

The table on the next page has additional assessment area details.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Empire’s overall record of lending in MSA 35620 (New York-New Jersey-Long Island, NY, NJ, LI) was reasonable based on reasonable distribution to borrowers of different incomes and businesses of different sizes and reasonable geographic dispersion of lending throughout the assessment area. An analysis of lending to borrowers of different income levels and to businesses of different sizes and the geographic distribution of loans follows:

Distribution by Borrower Income and Revenue Size of Business

The overall distribution among borrowers of different income levels and businesses of different sizes was reasonable. Empire's small business performance reflected a reasonable level of loans to businesses of different sizes. HMDA-related and consumer performance reflected reasonable penetration among individuals of different income levels in relation to some performance context issues. Opportunities to lend in the assessment area were limited by large bank competition and by the cost of housing, as the median sales price for homes in Richmond County in 12.5 times the median family income of a low-income individual and 7.8 times the median family income of a moderate-income individual.

Assessment Area Demographics								
Assessment Area: Richmond County								
Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low-income	3	2.7	1,598	1.4	774	48.4	17,166	15.0
Moderate-income	11	10.0	8,494	7.4	1,915	22.5	13,854	12.1
Middle-income	29	26.4	23,541	20.5	2,708	11.5	20,659	18.0
Upper-income	65	59.1	81,034	70.7	3,635	4.5	62,988	54.9
Unknown-income	2	1.8	0	0.0	0	0.0	0	0.0
Total Assessment Area	110	100.0	114,667	100.0	9,032	7.9	114,667	100.0
	Housing Units by Tract	Housing Types by Tract						
		Owner-occupied			Rental		Vacant	
		#	%	%	#	%	#	%
Low-income	2,406	491	0.5	20.4	1,736	72.2	179	7.4
Moderate-income	13,472	3,791	3.8	28.1	8,793	65.3	888	6.6
Middle-income	36,035	18,392	18.4	51.0	15,452	42.9	2,191	6.1
Upper-income	112,080	77,058	77.3	68.8	30,628	27.3	4,394	3.9
Unknown-income	0	0	0.0	0.0	0	0.0	0	0.0
Total Assessment Area	163,993	99,732	100.0	60.8	56,609	34.5	7,652	4.7
	Total Businesses by Tract	Businesses by Tract & Revenue Size						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
	#	%	#	%	#	%	#	%
Low-income	113	0.8	103	0.8	7	0.8	3	0.7
Moderate-income	587	4.3	532	4.3	30	3.6	25	6.1
Middle-income	3,315	24.1	2,913	23.3	270	32.0	132	32.4
Upper-income	9,726	70.8	8,940	71.6	538	63.7	248	60.8
Unknown-income	2	0.0	2	0.0	0	0.0	0	0.0
Total Assessment Area	13,743	100.0	12,490	100.0	845	100.0	408	100.0
	Percentage of Total Businesses:			90.9		6.1		3.0

Home Purchase Loans

ESB's distribution of home purchase loans to LMI borrowers was poor. As shown in Exhibit 5, ESB did not make any home purchase loans to LMI borrowers. Fifteen percent of families are of low-income while 12% are of moderate-income. Opportunities for home purchase lending to LMI borrowers were impacted by the affordability of owner occupied housing in the assessment area and by adverse economic issues occurring during the examination period. In 2010, the market aggregate made only 1% of its home purchase loans to low-income borrowers.

Refinance Loans

ESB's distribution of refinance loans to LMI borrowers was excellent. ESB originated one or 4% of its refinance loans to low-income borrowers, compared to 15% of low-income families residing in the assessment area and six or 22% of its refinance loans to moderate-income borrowers compared to 12% of moderate-income families residing in the assessment area.

Distribution of Loans in Assessment Area <i>By Borrower Income Level</i> January 1, 2007 - December 31, 2010 HMDA and Consumer Loans				
Loan Products	Low-Income Borrowers		Moderate-Income Borrowers	
	Number of Loans	Percentage	Number of Loans	Percentage
Home Purchase	0	0%	0	0%
Refinance	1	4%	6	22%
Home Improvement	1	50%	1	50%
Consumer	1	2%	5	11%

Home Improvement Loans

ESB's distribution of home improvement loans to LMI borrowers was reasonable. ESB made two home improvement loans, one to a low-income borrower and one to a moderate-income borrower. Fifteen percent of families in the assessment area were of low-income and 12% of families were of moderate-income. Opportunities for home improvement lending are limited, as the aggregate in 2010 made only 5 (2%) of its home improvement loans to low-income borrowers and 9% of its home improvement loans to moderate-income borrowers.

Consumer Loans

ESB’s distribution of consumer loans to LMI borrowers was reasonable. ESB made 1, or 2% of its consumer loans to low-income borrowers compared to 19% of all households in the assessment area which were low-income. ESB made 5, or 11% of its consumer loans to moderate-income borrowers, compared to 11% of all households in the assessment area which were of moderate-income.

Small Business Loans

The level of lending to small businesses was reasonable. ESB made 64% of its small business loans to businesses with GAR of \$ 1 million or less, compared to 92% of business establishments in the MSA with GAR of \$1 million or less. During the review period, 66% of ESB’s total small business loans were in amounts of \$100,000 or less. Loans in smaller amounts are particularly responsive to the needs of small businesses.

Distribution of Loans in Assessment Area <i>By Size of Business</i> January 1, 2007 – December 31, 2010 Small Business Loans				
	Number of Loans	Percentage	Loans in Amounts less than \$100m	Average Small Business Loan Size (000s)
GAR \$1 million or less	28	64%	66%	\$169

Geographic Distribution of Loans

ESB’s overall geographic distribution of loans reflects reasonable dispersion throughout the assessment area. HMDA-related and consumer lending performance was poor while small business performance was reasonable. ESB’s overall performance was considered reasonable in relation to large bank competition and the weak economy. ESB’s performance in low-income tracts was considered reasonable in relation to limited opportunities to lend in low-income tracts as less than 1% of owner occupied housing units, 1.4% of households, and less than 1% of business establishments are located in low-income tracts.

Distribution of Loans in Assessment Area <i>By Tract Income Level</i> January 1, 2007 - December 31, 2010 HMDA, Consumer Loans and Small Business				
Loan Products	Low-Income Tracts		Moderate-Income Tracts	
	Number of Loans	Percentage	Number of Loans	Percentage
Home Purchase	0	0%	0	0%
Refinance	0	0%	1	4%
Home Improvement	0	0%	1	50%
Consumer	0	0%	1	2%
Small Business	0	0%	1	2%

Home Purchase Loans

ESB's home purchase performance was poor as ESB did not make any loans in LMI census tracts while .5% of all owner-occupied housing units were low-income tracts and 4% were in moderate-income tracts.

Refinance Loans

Refinance performance was reasonable. ESB did not make any of its refinance loans in a low-income tract, and it made one, or 4%, of its refinance loans, in a moderate-income tract. Less than 1% of all owner-occupied housing units are in low-income tracts while 4% of owner-occupied housing units are in moderate-income tracts.

Home Improvement Loans

Home improvement performance was reasonable. ESB did not make any home-improvement loans in low-income tracts and made one or 50% of its home improvement loans in a moderate-income tract. Less than 1% of all owner-occupied housing units are in low-income tracts while 4% of owner-occupied housing units are in moderate-income tracts. Limited lending opportunities are supported by the performance of the market aggregate which made only one, or less than 1%, of its home improvement loans in a low-income tract and 5, or 2%, of its home improvement loans in a moderate-income tract, in 2010.

Consumer Loans

Consumer performance was reasonable. ESB did not make any consumer loans in low-income tracts and made one or 2% of its consumer loans in a moderate-income tract. One percent of all households reside in low-income tracts while 8% of households reside in moderate-income tracts.

Small Business Loans

Small business performance was reasonable. ESB made 1 or 2% of its small business loans in moderate-income tracts compared to 4% of business establishments located in moderate-income tracts. ESB did not make any loans in low-income tracts. However, opportunities to lend in low-income tracts are limited, as less than 1% of business establishments were located in low-income census tracts.

METROPOLITAN AREA MSA 28740 (KINGSTON, NY)

DESCRIPTION OF OPERATIONS

As of December 31, 2010, ESB operates one branch in Ulster County in New Paltz, NY. The New Paltz branch generated \$32 million in deposits, or 23% of ESB's total branch deposits as of June 30, 2010. A total of 21% of Empire's retail loans were originated in this MSA during the examination period.

ESB is a small bank operating in a highly competitive market with branches of numerous local, regional and multinational banks, mortgage companies, and other financial institutions operating in its assessment area. ESB's primary bank competitors include Wells Fargo Bank NA, Ulster Savings Bank, Manufacturers and Traders Trust Co., Key Bank, Bank of America, and RBS Citizens Bank. According to the FDIC's Deposit Market Share Report as of June 30, 2010, ESB has a 1.03% deposit market share in Ulster County, ranking 15th out of 19 banks. For additional assessment area data, see Exhibit 1.

PERFORMANCE CONTEXT

The following demographic and economic information was obtained from publicly available sources that include the U.S. Department of Commerce's Bureau of Census, the U.S. Department of Labor, the National Association of Realtors, and New York University's ("NYU") Furman Center for Real Estate and Urban Policy.

Demographic Characteristics

According to the 2000 Census, the population of the assessment area was 46,164, approximately 26% of the population of Ulster County as a whole. The assessment area consists of 10 census tracts, including seven middle-income tracts and three upper-income tracts.

Income Characteristics

The HUD-adjusted median family income for the MSA was \$70,100 in 2010 and \$69,700 in 2009. Six percent of all families have incomes below the poverty level.

Housing Characteristics

The assessment area contains 17,831 housing units, of which 61% are owner occupied and 33% are rental units and 6% are vacant. Demographic data from the 2000 census estimated the median age of the housing stock to be 34 years old. As Empire's assessment area includes the town of New Paltz, home to the State University, there is a need for affordable rental housing in the assessment area.

MEDIAN HOME SALES PRICES			
Area	2008	2009	2010
Ulster County	\$240,000	\$209,000	\$214,000
Source: New York Association of Realtors			

As shown in the table to the left, the median sales price of existing single-family homes in Ulster County was \$240,000 as of December 2008 and decreased to \$214,000 as of December 2010. Price depreciation was reflective of overall economic stress, particularly in the housing market, during this time period. In 2010, the median sales price of homes in Ulster County was 6.1 times the median family income of a low-

income individual and 3.8 times the median family income of a moderate-income individual. Housing is, therefore, not affordable for low-income individuals without some form of subsidy and may be difficult for moderate-income individuals.

Labor, Employment and Economic Characteristics

The rate of unemployment in Ulster County is similar to that of the State of New York in general. Unemployment rates increased overall in all areas in 2009 and 2010 due to the deepening recession. The high levels of unemployment and weaker economic conditions have contributed to a lower demand for loans in the assessment area.

U.S. DEPARTMENT OF LABOR ANNUAL UNEMPLOYMENT RATES			
Area	2008	2009	2010
Ulster County	5.4%	7.9%	8.2%
State of New York	5.4%	8.4%	8.5%

See the table below for additional assessment area details.

Assessment Area Demographics

Assessment Area : Ulster County

Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low-income	0	0.0	0	0.0	0	0.0	1,731	15.7
Moderate-income	0	0.0	0	0.0	0	0.0	1,888	17.1
Middle-income	7	70.0	7,275	66.0	488	6.7	2,551	23.2
Upper-income	3	30.0	3,743	34.0	155	4.1	4,848	44.0
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0
Total Assessment Area	10	100.0	11,018	100.0	643	5.8	11,018	100.0
	Housing Units by Tract	Housing Types by Tract						
		Owner-occupied			Rental		Vacant	
		#	%	%	#	%	#	%
Low-income	0	0	0.0	0.0	0	0.0	0	0.0
Moderate-income	0	0	0.0	0.0	0	0.0	0	0.0
Middle-income	12,112	6,919	63.2	57.1	4,610	38.1	583	4.8
Upper-income	5,719	4,023	36.8	70.3	1,213	21.2	483	8.4
Unknown-income	0	0	0.0	0.0	0	0.0	0	0.0
Total Assessment Area	17,831	10,942	100.0	61.4	5,823	32.7	1,066	6.0
	Total Businesses by Tract	Businesses by Tract & Revenue Size						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
	#	%	#	%	#	%	#	%
Low-income	0	0.0	0	0.0	0	0.0	0	0.0
Moderate-income	0	0.0	0	0.0	0	0.0	0	0.0
Middle-income	1,390	65.7	1,275	65.3	66	62.3	49	86.0
Upper-income	727	34.3	679	34.7	40	37.7	8	14.0
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0
Total Assessment Area	2,117	100.0	1,954	100.0	106	100.0	57	100.0
	Percentage of Total Businesses:			92.3	5.0	2.7		

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Empire's overall record of lending in MSA 28740 (Kingston, NY) was reasonable based on reasonable distribution to borrowers of different incomes and businesses of different sizes and reasonable geographic dispersion of lending throughout the assessment area. An analysis of lending to borrowers of different income levels and to businesses of different sizes and the geographic distribution of loans follows:

Distribution by Borrower Income and Revenue Size of Business

The overall distribution among borrowers of different income levels and businesses of different sizes was reasonable. Empire's small business performance reflected a reasonable level of loans to businesses of different sizes. Although there was poor home improvement loan and consumer loan penetration among LMI individuals, lending performance in the assessment area relating to borrower distribution was considered reasonable in relation to some performance context issues.

Opportunities to make HMDA loans were limited by large bank competition and the cost of housing, as the median sales price for homes in Ulster County in 2010 exceeded median family income ("MFI") for a low-income borrower by 6 times, and the MFI for moderate-income borrowers by 4 times. Aggregate lending performance to low income borrowers indicated somewhat limited lending opportunities.

Home Purchase Loans

ESB's distribution of home purchase loans to LMI borrowers was reasonable. As shown in Exhibit 8 the bank did not make any home purchase loans to low-income borrowers but made two or 40% of its home purchase loans to moderate-income borrowers. Sixteen percent of families are of low-income while 17% are of moderate-income. Opportunities for home purchase lending to LMI borrowers were impacted by the affordability of owner-occupied housing in the assessment area, as well as adverse economic conditions during the examination period. In 2010, the aggregate made only 4, or 1.1% of its home purchase loans to low-income borrowers, indicating limited lending opportunities.

Refinance Loans

ESB's distribution of refinance loans to LMI borrowers was reasonable. ESB originated one or 50% of its refinance loans to moderate-income borrowers, compared to 16% of moderate-income families residing in the assessment area. ESB did not make any loans to low-income borrowers, while the aggregate made 17, or 3%, of its refinance loans to low-income borrowers, indicative of limited lending opportunities. Seventeen percent of families in the assessment area are low-income.

Home Improvement Loans

ESB's performance in home improvement lending is considered reasonable. ESB did not make any home improvement loans to LMI borrowers. Sixteen percent of all families in the assessment area are of low-income while 17% are of moderate-income. Opportunities for home improvement lending to low-income borrowers were limited, as the aggregate in 2010 made only 3, or 5%, of its home improvement loans to low-income borrowers. The aggregate did, however, make 17, or 27%, of its home improvement loans to moderate-income borrowers.

Consumer Loans

ESB's performance in consumer lending is considered poor, as ESB made 1 or 8% of its consumer loans to low-income borrowers and 1 or 8% of its consumer loans to moderate-income borrowers. Twenty-one percent of all households in the assessment are low-income, while 15% of households are moderate-income.

Distribution of Loans in Assessment Area <i>By Borrower Income Level</i> January 1, 2007 - December 31, 2010 HMDA and Consumer Loans				
Loan Products	Low-Income Borrowers		Moderate-Income Borrowers	
	Number of Loans	Percentage	Number of Loans	Percentage
Home Purchase	0	0%	2	40%
Refinance	0	0%	1	50%
Home Improvement	0	0%	0	0%
Consumer	1	8%	1	8%

Small Business Loans

The level of lending to small businesses was reasonable. During the review period, 80% of Empire’s total small business loans were in amounts of \$100,000 or less. Loans in smaller amounts are particularly responsive to the needs of small businesses. Empire made 35% of its small business loans to businesses with GAR of \$ 1 million or less, compared to 92% of business establishments in the MSA with GAR of \$1 million or less.

Distribution of Loans in Assessment Area <i>By Size of Business</i> January 1, 2007 – December 31, 2010 Small Business Loans				
	Number of Loans	Percentage	Loans in Amounts less than \$100m	Average Small Business Loan Size (000s)
GAR \$1 million or less	7	35%	80%	\$110

Geographic Distribution of Loans

Overall, ESB’s geographic distribution of loans was reasonably dispersed across middle- and upper-income census tracts. ESB made one of five home purchase loans in middle-income census tracts and one of two refinance loans in middle-income census tracts. The one home improvement loan that Empire originated was in an upper-income census tract.

Performance in consumer and small business lending was also reasonably dispersed, as 8 of 13 consumer loans and 9 of 20 small business loans were originated in middle-income census tracts.

CRA APPENDIX A

GLOSSARY

Aggregate lending: The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

Census tract: A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. Census tracts usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Consumer loan(s): A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into 'male householder' (a family with a male householder and no wife present) or 'female householder' (a family with a female householder and no husband present).

Full-scope review: Performance is analyzed considering performance context, quantitative factors and qualitative factors.

Geography: A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (HMDA): The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applications, the amount of loan requested, and the disposition of the application (for example, approved, denied, and withdrawn).

Home mortgage loans: Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multifamily (five or more families) dwelling loans, loans for the purchase of manufactured homes and refinancing of home improvement and home purchase loans.

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Low-income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

Metropolitan area (MA): A metropolitan statistical area (MSA) or a metropolitan division (MD) as defined by the Office of Management and Budget. A MSA is a core area containing at least one urbanized area of 50,000 or more inhabitants, together with adjacent communities having a high degree of economic and social integration with that core. A MD is a division of a MSA based on specific criteria including commuting patterns. Only a MSA that has a population of at least 2.5 million may be divided into MDs.

Middle-income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography.

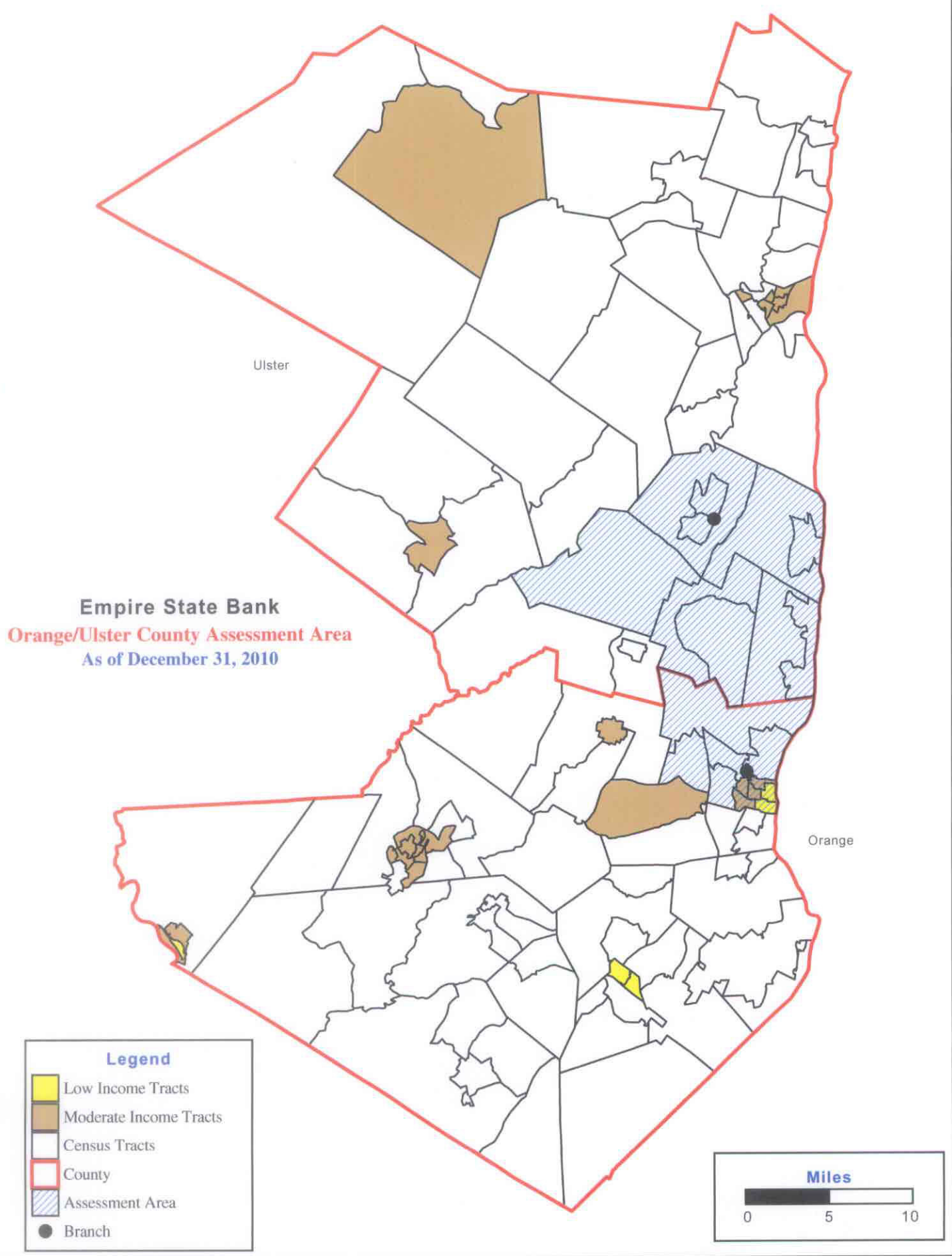
Moderate-income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

Owner-occupied units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Rated area: A rated area is a state or multistate metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multistate metropolitan area, the institution will receive a rating for the multistate metropolitan area.

Small loan(s) to business(es): A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) and the Thrift Financial Reporting (TFR) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans. However, thrift institutions may also exercise the option to report loans secured by nonfarm residential real estate as "small business loans" if the loans are reported on the TFR as nonmortgage, commercial loans.

Upper-income: Individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent, in the case of geography.



Empire State Bank
Staten Island Assessment Area
As of December 31, 2010

