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Interviews & News!

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In An Area Decimated By Mergers, ES Bancshares Is Capitalizing On The Need For A Community Bank



Financial
Regional – Northeast Banks
(ESBS-OTC: BB)

ES Bancshares, Inc.

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Anthony P. Costa
Chairman and CEO

Company Profile:

Empire State Bank, N.A. is a nationally chartered stock commercial bank that was founded in 2004. The Bank operates as a community-oriented institution offering a broad array of financial services to meet the needs of the communities it serves. The Bank is headquartered in the town of Newburgh in Orange County, New York and operates an additional branch in the city of New Paltz, Ulster County, New

York, and two loan production offices, one in the New York City borough of Staten Island, New York, and one in the village of Lynbrook in Nassau County, New York. The Bank's deposits are insured up to the maximum allowable amount by the Bank Insurance Fund of the FDIC.

Interview conducted by:
Lynn Fosse, Senior Editor
CEOCFOinterviews.com

CEOCFO: Mr. Costa, what was your vision when the bank was founded?

Mr. Costa: “The vision was to bring back some community banking to an area that has been pretty much decimated by mergers. There are not a lot of community banks in the region and a lot of people said to me you really ought to start a bank and that is basically how we got started. We have grown to about \$100 million at this point in assets and we are little over three years old. Our basic approach is to try to bring personal banking to businesses and people. I can't tell you the number of people that still say to me they went to another bank and it was very impersonal. Somebody three hundred miles away decides if you should get a loan or not and the manager's hands are tied. People are frustrated and we started to capitalize on that.”

CEOCFO: What area do you cover and who is your typical customer?

Mr. Costa: “The area we cover is the mid-Hudson Valley, which includes Orange, Dutchess, Ulster Counties. We also cover portions of Westchester and Rockland counties. Presently we have two branches and we are in the process of opening a third in Staten Island, which will anchor the southern end of our mar-

ket potential. We do a lot of business in Staten Island so we decided to open a branch there. We expect to open in mid October.”

CEOCFO: Do you do a lot of business in Staten Island?

Mr. Costa: “Actually yes, the reason is that Philip Guarnieri our President and Chief Operating Officer is from Staten Island. Phil and I have known each other for years and I convinced him to join me in starting Empire State Bank. Since he knows so many people on Staten Island, it was natural that we began to do lending there. We opened a loan office in mid 2004 and it just took off. Because of the large volume of business, it seemed natural to move from a loan office to a branch, which is located in a very busy commercial area of Staten Island on New Dorp Lane.

Another exciting development is our introduction of Remote Deposit Capture called “Deposit Now”, which allows our business customers to deposit their checks into their account from their office. This is cutting edge technology that we are able to offer our customers right now. We are able to do this because we are small and can react quickly to new technologies. Our competitors find it difficult to do this because of their larger size. In addition to “Deposit Now”, we have a full web site with online banking, bill pay service, account opening and loan application services.

With the advent of online services and remote deposit capture businesses will be able to do most of their daily banking from their office. This new image based technology is the wave of the future. Eventually these changes will spill over

to individuals and the very nature of banking and branching will change dramatically.”

CEOFCO: How do you split between consumer and commercial and would you like to see the mix change?

Mr. Costa: ““We are about 70% commercial and about 30% consumer and I like that balance. We are basically a small business bank but obviously all those people that run those businesses have personal business also, so we seek both. We have kind of skewed more towards the smaller businesses in the region. When I say small, they are still sizeable businesses; it’s just in comparison to very large businesses. We continue to offer residential loans and mortgages, consumer loans, deposits accounts, checking and savings accounts and money market accounts. If an individual walks in, we do not say sorry we are a business bank we can’t help you, it is just that we have skewed more toward the business side.”

CEOFCO: How do you reach new customers?

Mr. Costa: “Our biggest way is word-of-mouth. We have customers that have good experiences tell friends and people about us; or some times, we go see them. In addition, we do television advertising. Occasionally you can buy blocks of Time with the cable companies and get your ads on at very reasonable prices. We put most of our advertising dollars toward local advertising, golf outings, fundraiser, and charities. The media itself is so expensive to advertise in, that little guys like us can’t even be heard. You have to be realistic; when somebody has a \$5 million budget and you have a \$200,000 budget, it is hard to compete. We have found other ways to do that whether on the web or supporting organizations that are out doing community work. We devote dollars more in that direction. When we organized our bank, we actually set up a charitable fund and we give about \$50 thousand a year to local community charities out of that since we opened. There are a lot of banks

around here much bigger than we are that do not do that much. That has an impact also, and it’s another way of marketing.”

CEOFCO: How do you differ from the other local banks?

Mr. Costa: “There are some smaller local banks; some of them are thrifts, which are a bit different. One of them in the area is actually a commercial bank as we are, but they are strictly a business bank and make no effort whatsoever to push the individual or retail side of the business. We are able to differentiate ourselves that way. It is a little harder to differentiate from another bank in the community than it is for the big banks. The big banks make it easy, they have a knack

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for getting people angry. Somebody said to me when we were selling stock, ‘How are you possibly going to compete with those big banks?’ We said, ‘We love those big banks, every day they figure out a way to get people mad.’ Our feeling is the real key is the ability to deliver personal service, you call here, and people answer the phone. We insist that our people answer the phone. If I am in my office you will get me, if I am not you will get voice mail and that is because I am on the phone.”

CEOFCO: Do you feel your customers are taking advantage of a large variety of your services or is there work to be done in that area?

Mr. Costa: “There is a lot of work to be done in the area of cross-selling all of our products. We have barely scratched the surface in this area, but we are all trying.”

CEOFCO: How do you encourage that?

Mr. Costa: “The best way for us is to have customer service reps whose job pays a small salary, but they make most of their money by commission on the development of new business. Obviously as we bring new products to market, we need people out there that are out selling that product for us and I think that is true of all banks. I have been in the banking business forty years and basically when I started in the business you sat back and business walked in the door. However, it doesn’t work that way anymore; every one from investment bankers to insurance companies are in the banking business. The Wall Street guys are in the banking business; even the credit unions are in the banking business. If you don’t go out and sell just the way they do, you are dead in the water. You can no longer just sit back and say we have been here a hundred years and people have come to us, you have to get out there and sell your products, show people the advantage of doing business with you.”

CEOFCO: Since you are a newer bank; have you been immune from the Sub-Prime mess?

Mr. Costa: “It is interesting. Everybody says it’s the banks, but it is not the banks; there are few banks that I know that are in Sub-Prime. We never did a Sub-Prime loan; any ethical loan maker would not do a Sub-Prime loan because those loans are doomed to failure. They are loans that are created to qualify somebody who is not qualified so sooner or later the chickens are going to come home to roost and that person is not going to be able to pay. The only banks that are really involved are the big banks who funded the mortgage companies; they gave them warehouse lines in order to make loans and then companies will package them up and sell them in the market place and pay off

the warehouse loans. The big banks got caught up in the deal. The average bank that you see does not even make Sub-Prime loans because you look at the underwriting and it is horrific. We have no exposure at all to them. The trouble is when you read about the trouble with Sub-Prime loans on the web or in a newspaper, your first thought is banks, real banks and it isn't real banks. It is investment bankers, mortgage companies and these are the guys who really rode this whole wave and now they are going to get swamped by it."

CEOCFO: Why should investors be interested in Empire State Bank?

Mr. Costa: "What has happened if you look at the banking industry in the last ten or fifteen years, it is what is called a roll-up industry. The big banks have rolled up the smaller banks into much larger banks and you have seen banks disappear off Main Street in the communities where we actually knew the people who were making decisions. What is exciting about the proliferation of new re-chartered banks across the country is it is

evidence that people want to see the smaller banks. Big banks have a place and regional size banks have a place, but there is also a place for community banks. When I say community banks I mean banks of \$1 billion; you don't have to be \$100 million or \$200 million bank. Over time you will see that the real value for an investor is getting in when the bank starts out and starts to grow and if it is well managed and has a good plan the stock is just going to get more valuable over time. Banks for the most part are well run and highly regulated, very safe. Historically bank stocks have done extremely well."

CEOCFO: In closing, why is Empire State out of the group?

Mr. Costa: "Because we are smart and aggressive. We are going to do well and we have a lot of our own money invested. The president and I are the two largest shareholders in the bank. We paid for every penny of it; we didn't get any shares handed to us. All the shares that we own, we paid for, the same for everybody else. We have a lot invested and we

are working hard to make it successful. Would you rather be invested in a company where the people managing it and running it do not have any real investment? Or would you rather be involved in a company where the people who are involved and running it have a lot of their own money invested; that is why I think we will do well, we have a good plan. We are concerned about our shareholders because they are us. We are going to make sure that our shareholders do well. I cannot predict the price, I am not allowed to say anything, this is a public company, I am simply saying I think we are going to do well. We are already successful and we will continue to be moving forward and grow the bank and grow the value of our shares. That is our primary goal. Sometimes I here "don't go to the local bank where their concern is for the stockholders and not the customers," well the stockholders are not going very far if you do not take care of your customers so that doesn't make much sense to me."



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