

VSB BANCORP, INC.
4142 Hylan Boulevard
Great Kills
Staten Island, New York 10308
(718) 979-1100

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To the Stockholders of VSB BANCORP, INC.:

PLEASE TAKE NOTICE that our Annual Meeting of Stockholders will be held at the principal office of Victory State Bank, 4142 Hylan Boulevard, Staten Island, New York on April 25, 2017 at 5:00 p.m. (New York time), for the following purposes:

1. To elect one director for a three-year term;
2. To approve, on an advisory non-binding basis, VSB Bancorp, Inc.'s Named Executive Officer compensation;
3. To ratify the appointment of Crowe Horwath LLP as our independent registered public accountants for 2017; and
4. To transact any other business that may properly come before the meeting or any adjournments.

The close of business on March 13, 2017 is the record date to determine which stockholders are entitled to notice of and to vote at the meeting.

By order of the Board of Directors



Joan Nerlino Caddell,
Corporate Secretary

This Notice of Annual Meeting, Proxy Statement and form of Proxy are first being sent to stockholders on or about March 30, 2017.

**IMPORTANT - PLEASE MAIL YOUR PROXY PROMPTLY, WHETHER YOU PLAN TO
ATTEND THE MEETING IN PERSON OR NOT**

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We will provide, without charge, to each person solicited with this proxy statement, upon the written request of any such person, a copy of our annual report, including the financial statements. The written request should be directed to Jonathan Lipschitz, Vice President & Controller, VSB Bancorp, Inc., 4142 Hylan Boulevard, Staten Island, New York 10308.

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Proxy Statement

SUMMARY

Q: Why am I receiving these materials?

A: Our Board of Directors is sending you these proxy materials in connection with our annual meeting of stockholders, which will take place on April 25, 2017. You may attend the annual meeting in person but we ask that you send us your proxy card and vote on the proposals described in this proxy statement to make sure that your vote is counted.

Q: What proposals will stockholders vote on at the annual meeting?

A: There are three proposals that stockholders are scheduled to vote on at the meeting:

- the election of a director for a three-year term;
- the approval, on an advisory non-binding basis, of VSB Bancorp, Inc.'s Named Executive Officer compensation; and
- the ratification of the appointment of Crowe Horwath LLP as our independent registered public accountants.

Q: What are the Board of Directors' recommendations?

A: The Board of Directors recommends a vote **IN FAVOR** of all the proposals described in this proxy statement.

Q: Who has been nominated as a director?

A: The Board of Directors, upon the recommendation of the Nominating Committee, has nominated Raffaele M. Branca for election as a director. His is now a director of both our company and our subsidiary, Victory State Bank (the "Bank").

Q: What shares can I vote?

A: You can vote all shares that you owned at the close of business on March 13, 2017 (the "Record Date"). You may cast one vote for each share of stock.

Q: How can I vote my shares?

A: The best way to vote your shares is to mail your proxy card in the enclosed pre-paid envelope. You can still attend the meeting and change your vote, but sending your proxy card will make sure your vote is counted. If you own your stock in street name through a stockbroker, please be sure to send your voting instructions to your broker so your shares will be voted. If you want to attend the meeting and vote in person, you may obtain directions by calling us at 718-979-1100 or by going to www.google.com, clicking on "Maps", then clicking on

“Get Directions,” and then inserting the address you are coming from in slot “A” and 4142 Hylan Boulevard, Staten Island, New York in slot “B”.

Q: *Can I change my vote?*

A: You may change your voting instructions at any time before the vote at the annual meeting. You may do so by submitting a new proxy card on our form with a later date, by signing any other document that revokes your proxy and causing it to be delivered at the meeting, or by attending the meeting and voting in person. Attending the meeting will not automatically revoke your proxy unless you specifically so request. If you own your stock in street name, you must contact your broker to change your vote or to vote in person at the meeting.

Q: *How many votes are required for election as a director?*

A: The nominee with the highest vote total will be elected.

Q: *How many votes are required to approve the other proposals?*

A: The approval of each of the other proposals requires “FOR” votes from a majority of those shares voting at the meeting. Abstentions and broker non-votes are not counted in determining the number of shares voted.

Q: *What is the effect of the advisory vote on the Named Executive Officer compensation?*

A: This vote will provide advice to the Board of Directors regarding the stockholders’ opinions on this issue. This vote is advisory only and thus there is no mandatory consequence that will result from the vote.

**Important Notice Regarding the Availability of Proxy Materials
for the Shareholder Meeting To Be Held on April 25, 2017.**

The proxy statement and annual report to security holders are available at www.victorystatebank.com/AnnualMeeting.

General Information

We are furnishing this Proxy Statement and the accompanying form of proxy to the stockholders of VSB Bancorp, Inc. in connection with our solicitation of proxies for our Annual Meeting of Stockholders to be held on April 25, 2017 at 5:00 p.m. (local time) at the main office of our subsidiary, Victory State Bank, at 4142 Hylan Boulevard, Staten Island, New York 10308, and at any adjournments of the meeting.

The Proxy

Our Board of Directors is soliciting your proxy. If you properly sign and return the enclosed form of proxy prior to or at the meeting and you do not revoke it, all your shares covered by the proxy will be voted at the meeting and, if you give instructions on how you want your shares to be voted, the holder of the proxy will follow your instructions. If you properly sign and return the proxy but you do not specify how you want to vote, your shares will be voted for the election of the director nominees named below and in favor of the ratification of the appointment of accountants, but no vote will be cast on the advisory proposal regarding executive compensation. If you hold your stock in street name through a broker, you must send your voting instructions to your broker.

We will solicit proxies by mail and by delivery to agents for street name holders. We may also solicit proxies by telephone, facsimile or in person by officers and other employees of ours or of our subsidiary. We

will pay the entire cost of this solicitation. We will reimburse financial institutions, brokerage houses or other custodians, nominees or fiduciaries for their reasonable expenses in forwarding the forms of proxy and proxy materials to beneficial owners. You may revoke your proxy at any time before the vote is cast for your shares, either by written notice or by your oral revocation at the meeting. To be valid, written notice must be actually received by Joan Nerlino Caddell, Corporate Secretary, VSB Bancorp, Inc., 4142 Hylan Boulevard, Staten Island, New York 10308 before the proxy is used at the meeting. Attendance at the meeting will not in and of itself revoke a proxy.

Other than the matters listed in the attached Notice of Annual Meeting, our Board of Directors does not know of any other matters that will be presented for a vote at the meeting. If you sign the enclosed proxy, the holders of the proxy will have the authority to vote your shares in accordance with their best judgment on any other unanticipated business that may properly come before the meeting.

Capital Stock Outstanding and Record Date

The close of business on March 13, 2017 is the record date to determine which stockholders are entitled to notice of, and to vote at, the meeting. At the close of business on that date, there were 1,828,298 shares of our common stock outstanding and entitled to vote at the meeting. Common stock is our only authorized class of stock. Each outstanding share is entitled to one vote at the meeting on each matter to be voted upon. There will be no cumulative voting of shares for the election of directors.

If 609,433 shares of our common stock are represented at the meeting in person or by proxy, representing one-third of the issued and outstanding shares, there will be a quorum. Abstentions and broker non-votes are counted to determine whether there is a quorum.

On all the proposals except for the election of directors, you may vote "FOR", "AGAINST" or "ABSTAIN." Each of those proposals requires the affirmative vote of a majority of the votes cast to be approved.

On the election of directors, you may vote for one candidate. You may not cast more than one vote per share for any one nominee. You may "Withhold Authority" to vote for the nominee named below by so indicating in the appropriate space on the proxy. The nominee with the most votes will be elected to a three-year term. Votes that are withheld have no effect on the election of directors.

Abstentions, broker non-votes, and the failure to vote at the meeting have no effect on the results of the vote on any of the proposals.

Please return your proxy card to our transfer agent, Computershare Trust Company N.A., in the envelope we provide. Stockholders who own their stock in street name must instead send their voting instructions to their broker. Inspectors of election designated by the Board will count the votes. There are no dissenters' rights arising out of any of the proposals set forth in this Proxy Statement.

Forward-Looking Statements

When used in this proxy statement, or in any written or oral statement made by us or our officers, directors or employees, the words and phrases "will result," "expect," "will continue," "anticipate," "estimate," "project," or similar terms are intended to identify "forward-looking statements." A variety of factors could cause our actual results and experiences to differ materially from the anticipated results or other expectations expressed in any forward-looking statements. Some of the risks and uncertainties that may affect our operations, performance, development and results, the interest rate sensitivity of our assets and liabilities, and the adequacy of our loan loss allowance, include, but are not limited to:

- deterioration in local, regional, national or global economic conditions which could result in, among other things, an increase in loan delinquencies, a decrease in property values, or a change in the real estate turnover rate;
- changes in market interest rates or changes in the speed at which market interest rates change;
- changes in laws and regulations affecting the financial service industry;

- changes in competition; and
- changes in consumer preferences.

Please do not place undue reliance on any forward-looking statement, which speaks only as of the date made. There are many factors, including those described above, that could affect our future business activities or financial performance and could cause our actual future results or circumstances to differ materially from those we anticipate or project.

Proposal 1 - The Election of Directors

General Information Regarding the Nominee and Our Other Directors

Our Board of Directors has seven members. At the meeting, one director is to be elected, for three-year term, to serve until his or her successor is elected and has qualified. The Board of Directors has nominated Raffaele M. Branca for a three-year directorship. The nominee is presently a member of the Board of Directors, with his term expiring at the meeting.

If any nominee becomes unavailable for election, which we do not anticipate, the shares represented by proxies that would otherwise have been voted for such nominee will be voted for a substitute nominee designated by our Board of Directors.

The following table provides information about the nominee and our other six directors. Length of service as a director includes service as a director of Victory State Bank prior to our holding company reorganization.

Name, Age, Length of Service as Director and Expiration of Term

Principal Occupation During Past 5 Years and Directorships of Public Companies

Nominee:

Raffaele M. Branca (52)
Director since 1997
Term expires 2017

President, Chief Executive Officer and Chief Financial Officer, November 2007 to present; formerly Executive Vice President and Chief Financial Officer, Victory State Bank from November 1997 through November 2007 and VSB Bancorp, Inc. from January 2003 through November 2007. Founding director of Victory State Bank and VSB Bancorp, Inc. Mr. Branca has more than 35 years of experience in banking, with particular expertise on risk management, investments, strategic planning, matters of financial accounting and the maintenance of a control environment assuring accuracy in financial reporting. Mr. Branca has spent his entire professional career focused on the business and regulatory environment in which banks must operate successfully in order to survive. Mr. Branca's extensive community involvement includes, among other activities, serving as the Immediate Past Chairman of the Staten Island Chamber of Commerce Foundation, Chairman of the Staten Island Economic Development Corporation, the past Chairman of the Staten Island Chamber of Commerce, the past Chairman of the Seaman's Society for Children and Families, the Vice Chair for Friends of Seamen's Society, the Immediate Past Chair of the Staten Island Museum, a director of the Building Industry Association of New York City, a past director of the Italian Cultural Center at Casa Belvedere, and past president of the Staten Island Council, Boy Scouts of America. He is also a member of the St. Joseph by the Sea Development Committee.

Continuing Directors:

Joseph J. LiBassi (81)
Director since 1997
Term expires 2019

Founding Chairman, VSB Bancorp, Inc. and Victory State Bank; self-employed real estate investor. Mr. LiBassi was a director of Gateway State Bank from its inception in 1977 until its merger in 1995. Mr. LiBassi also served as Gateway's Audit Committee Chair. Mr. LiBassi brings to the Board his expertise in Staten Island real estate and more than 35 years of experience as a director of a bank, during which time he has developed substantial expertise in the highly regulated business of banking. Mr. LiBassi is heavily involved in the community, past Chairman of the Italian Cultural Center at Casa Belvedere, past Chairman of the Staten Island Mental Health Society, a member of the Da Vinci Society of Wagner College, former Vice Chairman of the Snug Harbor Cultural Center and Botanical Garden and former director of the Staten Island Chamber of Commerce and the College of Staten Island Foundation.

Joan Nerlino Caddell (59)
Director since 1997
Term expires 2019

Founding Director, Secretary, VSB Bancorp, Inc. and Victory State Bank; attorney at law and member/owner of Joan Nerlino Caddell & Associates, PLLC since January 2006 and partner in Nerlino & Gambale, LLP from March 2002 through December 2005, both firms being attorneys for Victory State Bank. Ms. Nerlino Caddell brings to the Board more than 30 years of legal experience, especially as it relates to the laws affecting banks and bank holding companies. Ms. Nerlino Caddell has spent her entire professional career working on Staten Island and has substantial broad-based knowledge of the Staten Island business community. Ms. Nerlino Caddell also acts as counsel to Community Agency for Senior Citizens, Inc., Staten Island Senior Resources Corp. and Senior Housing Resource Corporation. Ms. Nerlino Caddell was a trustee of Richmond University Medical Center and is currently a member of the Richmond County Bar Association, New York State Bar Association and the Staten Island Women's Bar Association.

Robert P. Moore (66)
Director since 2009
Term expires 2019

Retired Vice President of Keyspan (now National Grid). Mr. Moore brings to us his marketing expertise and his substantial contacts throughout the Staten Island business community. Mr. Moore is the Executive Vice Chairman, director and management committee member and the Immediate Past Chair of the Staten Island Economic Development Corporation. Mr. Moore is also the assistant Treasurer, executive committee member and a board member of the Staten Island Zoological Society.

Alfred C. Johnsen (70)
Director since 2003
Term expires 2018

Certified public accountant and owner of the firm Alfred C. Johnsen Certified Public Accountant. Mr. Johnsen brings his expertise in accounting and finance and is the Chair of our Audit and ALCO Committee. Mr. Johnsen is involved in the community by serving as a trustee or director of the Visiting Nurse Association and the Notre Dame Academy.

Carlos Perez, MD (77)
Director since 1997
Term expires 2018

Founding Director, Doctor of Gynecology. Dr. Perez brings us his management and entrepreneurial expertise. He has been active as a physician in the Staten Island community for more than 30 years. Dr. Perez serves as the Chair of our Personnel and Compensation Committee. Dr. Perez is a member of the Richmond County Medical Society.

Bruno Savo (58)
Director since 2004
Term expires 2018

President, Savo Brothers, Inc. a local building firm that constructs mainly residential housing. Mr. Savo brings us his construction and real estate expertise and experience. He has extensive knowledge of all aspects of Staten Island real estate and numerous contacts in the Staten Island business community. Mr. Savo's community involvements include serving as a trustee or director of the Building Industry Association of New York City, the College of Staten Island Foundation and the Staten Island Council, Boy Scouts of America, among others.

The Board of Directors held 14 meetings during 2016.

Our Board Of Directors Unanimously Recommends That You Vote In Favor Of The Election Of Director Branca As A Director.

Board Leadership Structure

Both VSB Bancorp, Inc. (the “Company”) and Victory State Bank (the “Bank”) have a Chairman of the Board (Mr. LiBassi) and a President and Chief Executive Officer (Mr. Branca). Mr. LiBassi is not actively involved in the day to day operations of either the Company or the Bank. He conducts Board meetings and supervises Board operations and functions. He also acts as the liaison between the Board and the officers of the Bank between Board meetings and performs functions as the public face of the Board throughout the year, including maintaining close relationships with local government officials on matters of interest to the Company and the Bank. The Company believes this structure provides appropriate checks and balances to assure proper development and implementation of policies and procedures for the Company and the Bank.

Committees of the Board of Directors

The Board of Directors has a Nominating Committee, an Audit Committee and a Personnel and Compensation Committee. These committees all operate jointly with comparable committees of the Board of Directors of Victory State Bank having the same members. Except for the issue of stockholder recommendations to the Nominating Committee for director candidates, which applies only to the VSB Bancorp, Inc. Nominating Committee, the following discussion regarding committees relates to both the Victory State Bank and VSB Bancorp, Inc. committees.

Audit Committee

The Audit Committee conducts the annual statutory directors’ examination of Victory State Bank, reviews reports of examination made by regulatory authorities, reviews and discusses the audited financial statements with our independent public accountants and makes periodic reports to the Board of Directors regarding the findings of the regular audits by Victory State Bank’s internal auditor. The Audit Committee also receives a report from our independent registered public accountants regarding critical accounting policies and procedures, any material alternate treatment discussed with management, and other written communications from those accountants to management. The Audit Committee also approves the retention and compensation of our independent registered public accountants, and reports the approved firm to the Board of Directors.

During 2016, the Audit Committee reviewed the quality and integrity of our financial statements, our compliance with legal and regulatory requirements, the qualifications and independence of our independent public accountants, the performance of the internal audit function and our independent public accountants, and significant financial matters. Each of the Audit Committee members satisfies the definition of independent director under NASDAQ Stock Market Rule 5605. The Audit Committee met five times during 2016.

The Board and the Audit Committee have adopted a charter for the Audit Committee. The charter was most recently re-approved in 2017. The Board of Directors of the Bank has also approved the same charter for its Audit Committee. The charter is available for review on our web site at www.victorystatebank.com.

The Audit Committee has reviewed our audited consolidated financial statements and discussed the statements with management. The Audit Committee has discussed with Crowe Horwath LLP, our independent registered public accountants for 2016, the matters related to the conduct of the audit of our financial statements. Crowe Horwath LLP also disclosed to the Audit Committee all relationships with the accountants that may reasonably bear on independence. Crowe Horwath confirmed the firm’s independence. Based on the review and discussions noted above, the Audit Committee recommended to the Board that the audited consolidated financial statements be included in our Annual Report for 2016 as sent to our stockholders.

Nominating Committee

The Nominating Committee proposes candidates to the Board of Directors for election as directors by stockholders. The Committee also reviews issues of independence and conflicts of interest regarding directors and candidates for nomination. The Nominating Committee consists of directors Joseph J. LiBassi, Alfred C. Johnsen and Carlos Perez MD. All of the members of the Nominating Committee are independent of management. The Nominating Committee met once during 2016. The Board of Directors has adopted a charter for the Nominating Committee. The charter was most recently re-approved in 2017. The charter is available for review on our web site at www.victorystatebank.com.

We are principally engaged in business in Staten Island. Our existing directors are active, well-known members of the community. In most cases, we anticipate that existing directors will be re-nominated if they want to continue to serve as directors. If an existing director will not be re-nominated for any reason, or if the size of the board of directors is increased, then the Nominating Committee, in consultation with the other directors and based upon their knowledge of the Staten Island community, will seek to identify individuals known to them with character, experience, knowledge and business relationships that reflect favorably on their ability to act as productive members of the Board of Directors. Once candidates are identified, the committee will evaluate their credentials and form a judgment as to which candidate or candidates have the greatest ability to both guide us and assist in the growth of our business. All candidates suggested to the committee will be evaluated in the same manner, regardless of whether the candidate is suggested by a director, officer, stockholder or other person. The Board evaluates the business experience and expertise of each candidate, taking into account their field of business in an effort not to duplicate this expertise on the Board.

We seek director nominees who, at a minimum, possess:

- knowledge of the business community in Staten Island;
- expertise in the evaluation of financial matters;
- the ability to review, absorb and comment on financial statements which are an integral part of our operations;
- the character and reputation appropriate for a director of a bank holding company; and
- no blemishes in their past which would cause concerns among federal or state bank regulators who regularly examine the operations of VSB Bancorp or its subsidiary, Victory State Bank.

On February 9, 2016, our Board of Directors amended our by-laws to increase the mandatory retirement age for directors. No person is eligible for initial election as a director who is 70 years of age or more, and the office of any director shall become vacant on the last day of the month in which such director reaches his or her 72nd birthday, except for directors who have been directors of the Company since it was formed.

This retirement age applies to all directors, whether nominated by the Nominating Committee or by stockholders pursuant to our by-laws. In addition, under our by-laws, in order to qualify as a director, an individual must reside in New York or New Jersey and either (i) have a primary residence in Richmond County, New York; or (ii) have a principal place of employment located in Richmond County, New York.

These qualification standards apply to all directors, whether nominated by the Nominating Committee or by stockholders pursuant to our by-laws.

The Board of Directors believes that diversity of business experience and diversity of business involvement are important components of the qualities that make up a well-functioning Board of Directors. Therefore, the Board has determined that it is in the best interests of the Company to consider diversity of business background as a significant component in assessing whether a potential candidate for director would have a positive effect on both Board deliberations and the marketing of the Company. The Nominating Committee Charter provides that whenever there is a vacancy on the Board of Directors, this policy should be implemented by the Nominating Committee by evaluating the business background of existing directors and give preference to candidates who would expand the breadth of the Board. The effectiveness of the policy

regarding consideration of diversity is assessed by considering the diverse business backgrounds of the Board members.

The Nominating Committee will consider, for inclusion in the Board of Directors' slate of nominees for director, candidates suggested by stockholders. In order to suggest a candidate, a stockholder must send a notice to the Nominating Committee which we must receive at our principal office no later than 120 calendar days before the date which corresponds to the date of our proxy statement for the prior year's annual meeting. The notice must be signed by the stockholder and must provide the following information:

- A detailed resume of the proposed nominee showing his or her academic and business achievements and history; his or her experience and qualifications to be a director; and any other information that the stockholder or the proposed nominee considers relevant in evaluating the person's qualifications to be a director;
- All information regarding the proposed nominee that we would be required to disclose about that nominee under the regulations of the Securities and Exchange Commission in our proxy statement if the nominee is nominated by the Board of Directors; and
- The name and address of the stockholder submitting the notice; the class and number of shares beneficially owned by the stockholder; when such shares were acquired by the stockholder; whether the stockholder owns any put options, has sold any call options, or otherwise owns any other derivative securities with respect to any shares of stock of the Company or has any existing contracts that now or may in the future affect the stockholder's ownership or voting rights in the shares; and a description of any business, family or employment relationship between the stockholder and the candidate.

Personnel and Compensation Committee

The Personnel and Compensation Committee makes salary and compensation decisions for all officers at the level of Senior Vice President and above. The committee also functions as the stock plan committee under our stock option and stock award plans. The Personnel and Compensation Committee consists of directors Carlos Perez MD, chairman, Joseph J. LiBassi and Alfred C. Johnsen. All of the members of the Personnel and Compensation Committee are independent of management. The Board of Directors has adopted a charter for the Personnel and Compensation Committee. The charter was most recently approved in 2017. The Personnel and Compensation committee met once during 2016.

Stockholder Communications with Directors

Stockholders may communicate directly with a director by mailing or delivering a letter addressed to the director by name at our principal office. The envelope should be conspicuously marked on the outside front "Confidential." We will forward any such letters to the named director unopened. Letters addressed to the Board of Directors as a whole will be given to the Chairman of the Board, who will then distribute copies to all directors.

Attendance by Directors at Our Annual Meeting

The Board has a policy that all directors should attend the annual meeting of stockholders. It has been the practice of Victory State Bank and VSB Bancorp, Inc., to hold meetings of their Boards of Directors immediately after the annual stockholders' meeting. Therefore, we anticipate that most, if not all, of the directors will attend the annual meeting of stockholders. In 2016, six out of our eight directors in office at that time attended the annual stockholders' meeting of our Company.

Compensation

This section provides information regarding cash and non-cash compensation paid to certain executive officers and directors of VSB Bancorp, Inc. and its subsidiaries for the periods indicated.

The following table provides information regarding the compensation of Raffaele M. Branca, the sole executive officer of the Company (“Named Executive Officer”). There were no persons who were executive officers for a part of 2015 or 2016 but not at the end of 2016.

Name and principal position	Year	Salary	Bonus ¹	Stock Awards ^{2,4}	Option Awards ^{3,4}	All Other Compensation ⁵	Total
Raffaele M. Branca, President, PEO and CFO	2016	\$335,447	\$93,544	\$61,750	None	\$ 44,548	\$535,289
	2015	\$326,616	\$77,723	None	None	\$ 43,734	\$448,073

¹ The bonus shown for each year represents the amount approved by the Board of Directors with respect to that year. However, bonuses are not fully paid until after audited financial statements are available for the following year and are subject to adjustment by the Board of Directors until they are actually paid.

² Represents the grant date fair value of restricted stock granted in the applicable year, which vests in three equal annual installments, and additionally, only vests if the Bank’s Total Assets are \$400 million or more.

³ Represents the dollar amount recognized for financial statement reporting purposes of stock options granted in the applicable year, which vests in three equal annual installments from the date of grant.

⁴ See the “Notes to Financial Statement” included in our Annual Report for a discussion of the assumptions used in calculating these amounts.

⁵ Represents the following items:

Name	Year	Car Allowance	401(k) match and profit sharing plan contribution	Contributions to the Employee Stock Ownership Plan	Life and Long Term Disability Insurance	Miscellaneous
Raffaele M. Branca	2016	\$7,096	\$14,575	\$15,191	\$6,438	\$1,248
	2015	\$6,691	\$14,575	\$14,614	\$6,606	\$1,248

Explanatory Information Regarding the Summary Compensation Table

General. In 2016, we granted equity-based compensation but we did not re-price or otherwise modify any equity-based compensation plan or award, nor did we waive or modify any target, goal or condition under any non-stock incentive plan. In April 2016, we granted Mr. Branca a restricted stock award of 5,000 shares of our common stock, pursuant to an existing stockholder-approved restricted stock plan. The award has no expiration and the price of our common stock on the date of the grant was \$12.35 per share. The stock award vests in three equal annual installments on the first three anniversaries of the grant and additionally, will only vest once the Bank has exceeded \$400 million in total assets. At December 31, 2016, the Bank had total assets of \$333 million, compared to \$306 million at year end 2015 and \$281 million at year end 2014. During 2015, we did not grant equity-based compensation.

The bonuses shown in the above table were awarded by vote of the Board of Directors upon the recommendation of the Personnel and Compensation Committee. The bonuses were based upon an evaluation of general factors by the Personnel and Compensation Committee and the Board of Directors.

Employment Agreement. Victory State Bank has an employment agreement with President and CEO Raffaele M. Branca, which was approved by the Board of Directors in October 2015 and became effective upon the expiration of his previous employment agreement in November 2015. The employment agreement is intended to maintain a stable and competent management base. The agreement expires in November 2020.

The agreement provides for an initial salary at an annual rate of \$331,004, with the Board of Directors having the authority to approve raises or bonuses in its sole discretion. The agreement provides that Victory State Bank may terminate Mr. Branca’s employment without cause at any time during the five year term, but if

it does so, he is entitled to a severance payment equal to from eighteen months to two years of salary, plus continued health insurance benefits for a like period, depending upon when the termination occurs. If the agreement is not renewed for at least two years at expiration, then Mr. Branca is entitled to severance in an amount equal to eighteen months of salary and health insurance benefits.

If there is a change in control of our company or Victory State Bank during the term of the agreement, and Mr. Branca's employment is terminated within six months after the change in control, including termination by him, Mr. Branca is entitled to a payment equal to 2.99 times his then current salary plus the most recent incentive bonus, plus continued health, life and disability insurance benefits for three years after the change in control, but in no event will the amount payable to Mr. Branca exceed the maximum amount payable without the imposition of any excise tax under Section 280G of the Internal Revenue Code or \$1.2 million, whichever is lower.

The agreement also includes non-solicitation and non-competition provisions in the event employment is terminated other than after a change in control.

401(k) Plan. We maintain a qualified 401(k) salary deferral plan for all eligible employees. We match 100 percent of the first two percent, and 50% of the next three percent, of salary voluntarily deferred by all employees, including officers. At our sole discretion, we can also make a discretionary (or profit sharing) contribution to the Plan in addition to the matching contribution. Our contributions vest in annual installments of 20% beginning after the second anniversary of eligibility in the 401(k) plan. Employee voluntary contributions are immediately vested. For 2016 and 2015, we made a discretionary contribution to the Plan equal to 2.0% of compensation. Aggregate contributions to the accounts of an employee under the 401(k) plan may not exceed \$53,000 annually (subject to cost of living adjustments).

Employee Stock Ownership Plan. The ESOP purchased 92,900 shares of our common stock from us out of authorized but unissued shares in 2004 using the proceeds of a loan we made to the ESOP. The loan was fully repaid and the shares were gradually allocated to participating employee accounts over the following ten years.

The ESOP purchased 89,000 shares of our common stock from us out of authorized but unissued shares in 2014 using the proceeds of a new loan we made to the ESOP. Of those shares, 26,130 shares have been allocated to the ESOP accounts of participating employees. There are 62,870 shares that remain pledged as collateral for the remainder of the new ESOP loan, which shares will be released for allocation as the loan is repaid.

The ESOP continues to hold stock, even after it is allocated to employee accounts, and any other amounts held for the benefit of each employee, until that employee's employment terminates, whether by retirement, resignation or termination by the employer, provided that there are minimum release provisions for employees who are over age 70-1/2. After termination of employment, the employee's vested balance will be distributed to the employee. Benefits for each employee vest over a seven-year period, with no vesting during the first two years of employment, and 20% vesting each year for the next five years of employment. The plan provides that in the event of a change in control, all benefits will fully vest automatically. Mr. Branca is a participant and fully vested in his plan balance.

In general, when stock is released from the security interest of the ESOP loans, the stock is allocated based upon the relative compensation of each participant for the year. Other amounts contributed to the ESOP that are allocated to employees will be allocated in the same manner, based upon compensation. However, profits, such as any gain on the sale of unallocated stock held by the ESOP, will be allocated based upon each employee's relative ESOP account balance.

Outstanding Equity Awards

We have one employee incentive stock option plan, which our stockholders approved in 2010 that has not expired. We have two previous stockholder-approved incentive stock option plans that have expired, but

there are unexercised options outstanding under those two plans. There are 19,927 options available to be granted to employees under the 2010 incentive stock option plan.

There is also one existing stock option plan for directors, which our stockholders extended in 2014 that has not expired. There are 42,500 options that were granted under that plan in 2014. Options to purchase an additional 12,000 shares previously granted under that plan remain outstanding. There are 19,250 stock options available to be granted to directors under the plan.

In addition, in 2016, our stockholders approved the addition of 50,000 shares of our common stock to the Recognition and Retention Plan (“RRP”). The RRP provides for the award of up to an additional 50,000 shares of our common stock to officers and non-officer directors. Each director with at least five years of service received an award in 2016 of 5,000 shares of restricted stock under the RRP.

The following table sets forth information at December 31, 2016 regarding each outstanding option and stock awards held by Mr. Branca.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END								
OPTION AWARDS							STOCK AWARDS	
Name	Grant Date	Number of Securities Underlying Unexercised Options Exercisable ¹	Number of Securities Underlying Unexercised Options Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options	Option Exercise Price ¹	Option Expiration Date	Number of Shares or Units That Have Not Vested ¹	Market Value of Shares or Units That Have Not Vested
Raffaele M. Branca	06/08/2010 05/06/2014 04/26/2016	10,000 ² 4,166 ³ -0-	-0- 2,084 ³ -0-	-0- 2,084 -0-	\$11.45 \$11.25 -0-	06/08/2020 05/06/2024 N/A	5,000 ⁴	\$78,750

¹ Number of shares and exercise prices have been adjusted for all stock dividends.

² The grant vests in five equal annual installments beginning on June 8, 2011.

³ The grant vests in three equal annual installments beginning on May 6, 2014. The fair value at the date of grant was \$11.25. Market value at December 31, 2016 was \$15.75 per share.

⁴ The grant vests in three equal annual installments beginning on April 26, 2017 and additionally, only if the Bank’s total assets are \$400 million or more. The fair value at the date of grant was \$12.35. Market value at December 31, 2016 was \$15.75 per share.

Director Compensation.

Non-employee directors, other than the Chairman of the Board, receive Board-approved attendance fees of \$1,075 per board meeting and \$511 per Audit and Personnel committee meeting, and \$457 for ALCO and Loan Workout committees of the Company or the Bank (\$322.50 per meeting for meetings of the Bank’s loan committee). The committee attendance fee for the Chairman of the committee is \$780 per meeting for Audit and Personnel, \$725 per meeting for ALCO and Loan Workout Committees and \$483.75 per loan committee meeting. The Chairman of the Board received a director’s fee fixed by the Board of \$65,000 in 2016 and 2015, but did not receive per meeting fees. The Chairman of the Board also received \$50,000 for business development services for the Company and the Bank in 2016 and 2015. Mr. LiBassi did not receive reimbursement of expenses incurred on matters benefiting the Company or the Bank. In 2016, seven non-employee directors received 5,000 shares of restricted stock under the RRP, and one employee director received an award of 5,000 shares of restricted stock under the RRP, all of which will vest in three equal annual installments from the date of the award and additionally, will only vest if the Bank’s Total assets exceed \$400 million. There were no stock option grants or restricted stocks awarded to directors in 2015.

The following table shows compensation paid to directors during 2016. The table excludes non-compensatory amounts paid to directors for goods or services rendered other than in their capacity as directors, as discussed below under the caption, "Transactions with Directors and Officers and Their Related Interests."

<u>Name</u>	<u>Fees Earned or Paid in Cash</u>	<u>Restricted Stock Awards</u>	<u>Option Grants</u>	<u>All Other Compensation</u>	<u>Total</u>
Joan Nerlino Caddell	\$25,300	\$61,750	None	None	\$87,050
Chaim Farkas	\$28,400	\$61,750	None	\$696	\$90,846
Alfred C. Johnsen	\$20,800	\$61,750	None	None	\$82,550
Joseph J. LiBassi	\$115,000	\$61,750	None	\$366	\$177,116
Robert P. Moore	\$25,975	\$61,750	None	None	\$87,725
Carlos M. Perez MD	\$17,100	\$61,750	None	None	\$78,850
Bruno Savo	\$14,000	\$61,750	None	None	\$75,750

Security Ownership of Management and Certain Beneficial Owners

The following table sets forth, to our knowledge based upon a review of our records, the beneficial ownership of our common stock as of the record date by directors and executive officers, including options, as detailed in the notes to the table, that are exercisable now or within 60 days after the record date. Our common stock is no longer registered with the Securities and Exchange Commission under the Securities Exchange Act of 1934 and thus outsiders who own 5% or more of our common stock are not required to file reports showing their ownership of our common stock. Thus, we can provide no information regarding ownership by such persons. Under federal and New York State banking laws, applications or notices are required to be filed with bank regulators in order for a person or company to acquire 10% or more of our common stock. To the best of our knowledge, no person or company has filed any such application or notice.

<u>Name</u>	<u>Number of Shares</u>	<u>Percent of Total</u>
<i>Directors and Executive Officer</i>		
<i>Raffaele M. Branca – CEO and President</i>	136,527 (1)(9)	7.40%
<i>Joan Nerlino Caddell</i>	69,863 (2)(9)	3.81%
<i>Chaim Farkas</i>	48,749 (3)	2.65%
<i>Alfred C. Johnsen</i>	25,250 (4)(9)	1.37%
<i>Joseph J. LiBassi</i>	161,863 (5)(9)	8.82%
<i>Robert P. Moore</i>	12,273 (8)(9)	0.67%
<i>Carlos Perez MD</i>	89,030 (6)(9)	4.85%
<i>Bruno Savo</i>	51,898 (7)(9)	2.82%
<i>All directors and executive officer as a group (8 persons)</i>	<u>595,463</u>	<u>31.38%</u>
<i>Employee Stock Ownership Plan</i>	<u>149,146</u>	<u>8.16%</u>

- (1) Excludes 700 shares owned by his spouse, as to which he disclaims voting power and beneficial ownership. Includes 2,200 shares owned by the Branca Family Trust dated 03/30/2011, of which he is a beneficiary and trustee. Includes options to purchase 14,167 shares under our stock option plans which are vested and exercisable, and 2,083 shares under our stock option plans which will vest within 60 days.

- (2) Excludes 5,750 shares, which are owned by her spouse, as to which she disclaims voting power and beneficial ownership. Includes 2,500 shares held for Ms. Nerlino Caddell's child for which she is a custodian. Includes 2,500 shares under a trust that will be transferred to her child or a trust to be created for her child. Includes options to purchase 3,333 shares under our stock option plans which are vested and exercisable, and 1,667 shares under our stock option plans which will vest within 60 days.
- (3) Includes 30,000 shares owned as joint tenants with his spouse. Includes options to purchase 4,167 shares under our stock option plans, and no shares under our stock option plans which will vest within 60 days.
- (4) Includes 5,000 shares owned by the ACJ Profit Sharing Plan dated 1/1/92, of which he is a beneficiary. Includes options to purchase 8,167 shares under our stock option plans, and 2,083 shares under our stock option plans which will vest within 60 days.
- (5) Excludes 1,250 shares, which are owned by Melinda LiBassi, Mr. LiBassi's spouse, as to which Mr. LiBassi disclaims voting power and beneficial ownership. Includes options to purchase 4,167 shares under our stock option plans, and 2,083 shares under our stock option plans which will vest within 60 days.
- (6) Includes 57,500 shares owned by the Carlos Perez M.D. Trust, of which he is a beneficiary. Includes 10,000 shares owned as joint tenants with his spouse, Angela Perez. Excludes 5,000 shares owned by his adult children, as to which he disclaims voting power and beneficial ownership. Includes options to purchase 4,167 shares under our stock option plans, and 2,083 shares under our stock option plans which will vest within 60 days.
- (7) Includes 28,781 shares owned as joint tenants with his spouse, Deborah Savo. Excludes 800 shares owned by his spouse, as to which he disclaims voting power and beneficial ownership. Includes 3,750 shares for Mr. Savo's three minor children, for which Mr. Savo is the custodian. Includes 435 shares owned as joint tenants with his son. Includes 36 shares owned as joint tenants with his daughter. Includes options to purchase 8,167 shares under our stock option plans, and 2,083 shares under our stock option plans which will vest within 60 days.
- (8) Includes 3,273 shares owned as joint tenants with his spouse.
- (9) Includes 5,000 shares of restricted stock under the Recognition and Retention Plan ("RRP") that were granted in 2016 but are not vested.

Joseph J. LiBassi's address is c/o Victory State Bank, 4142 Hylan Boulevard, Staten Island, New York 10308. Raffaele M. Branca's address is c/o Victory State Bank, 4142 Hylan Boulevard, Staten Island, New York 10308.

Transactions with Directors and Officers and Their Related Interests

Some of our directors and officers and some of the corporations and firms with which they are associated also are our customers in the ordinary course of business, or have loans from Victory State Bank. None of them have loans from VSB Bancorp, Inc. It is anticipated that some of these individuals, corporations and firms will continue to be our customers or may continue to have loans from Victory State Bank on a similar basis in the future. All loans extended to such individuals, corporations and firms were made in the ordinary course of business, did not involve more than normal risk of collectability or present other unfavorable features, and were made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable Victory State Bank transactions with unaffiliated persons.

Director Joan Nerlino Caddell is a member/owner of the law firm of Joan Nerlino Caddell & Associates, PLLC, which firm provides legal services to the Bank. Fees paid to that firm for legal services were \$151,431 in 2016 and \$193,670 in 2015, and out of pocket disbursements incurred for the Bank, in the amount of \$3,464 in 2016 and \$3,695 in 2015.

Former Director Chaim Farkas is President and a stockholder of the firm of Dataware Systems Lease, Inc. ("Dataware") from which Victory State Bank purchased computer hardware and related software in the ordinary course of business. The fees paid to Dataware, in the aggregate, totaled \$90,652 in 2016 and \$99,710 in 2015.

Director Bruno Savo is a member of Boardwalk Estates, LLC, NBM Development, LLC, BMN LLC, Savo Brother, Inc. and Jolene Estates, LLC, which develop residential real estate for resale. Savino Savo, a former director and the father of Bruno Savo, is the president of Village Green Shopping Center, Inc. and Village Green Maintenance Corp, which are real estate companies. All of these companies had loans or unused but available lines of credit from Victory State Bank at December 31, 2016 and December 31, 2015. The loans and lines of credit were made in the ordinary course of business, were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions

with persons not related to Victory State Bank, and did not involve more than the normal risk of collectability or present other unfavorable features.

It is our policy that all such transactions or arrangements with directors, including loans, must be approved in advance by our Board of Directors, or the Board of Directors of Victory State Bank, as applicable. All such transactions must also comply with legal requirements applicable to transactions between a bank or a bank holding company and a director officer. The Board of Directors has evaluated the relationships between its directors and management and has determined that Directors Johnsen, LiBassi, Moore, Perez and Savo are independent of management under the Marketplace Rules of the NASDAQ Stock Market. Directors Johnsen, Moore and Perez are independent for audit committee purposes.

Proposal 2 – Advisory Vote on the Compensation of the Named Executive Officer

At our 2014 annual meeting of stockholders, as required by the regulations of the Securities and Exchange Commission that applied to us at that time, our stockholders voted in a non-binding resolution that we should seek a non-binding advisory vote from our stockholders on the compensation of our President and CEO every year. Although those regulations and the related statute no longer apply to us, our Board has voluntarily decided to seek the advisory vote on the compensation of our President and CEO this year.

The compensation of our President and CEO is determined annually by the Board of Directors upon the recommendation of the Personnel and Compensation Committee. Each year, the committee and then the full Board, reviews data regarding compensation payable to the chief executive officers of banks with assets of \$500 million or less as reported by independent objective sources. We then stratify the data based upon banks with assets from \$300 million to \$500 million and further stratify the data based upon type of bank (commercial), ownership type (stock), and based upon geography, with special focus on institutions located in the mid-Atlantic region. The Board also considers different potential components of salary, such as base salary, bonus, options, restricted stock awards, 401(k) contributions and ESOP benefits to develop an overall compensation package for the CEO. The Board then evaluates the performance of the President and CEO based upon the peer group data, the performance of Victory State Bank, and its knowledge of the work and effort of the President and CEO, to determine an overall compensation package and the breakdown of that package between the different components of compensation.

This Proposal 3, commonly known as a "Say-on-Pay" proposal, gives our stockholders the opportunity to express their views on the compensation provided to the President and CEO. This vote is not intended to address any specific item of compensation, but rather overall compensation.

Accordingly, the Board invites you to review carefully the tabular and other disclosures on compensation under the section titled "Compensation" and approve the following resolution:

RESOLVED, that the compensation paid to the Company's Named Executive Officer, as disclosed in this Proxy Statement, including the compensation tables and narrative discussion, is hereby APPROVED.

The Say-on-Pay vote is advisory, and therefore not binding on the Company or its Board of Directors. The advisory vote will not overrule any decision made by the Board or any of its Committees or create or imply any additional fiduciary duty by our Directors. Our Board of Directors values the opinions of stockholders and will consider the voting results, along with relevant factors, in connection with its ongoing executive compensation activities.

The Board of Directors Recommends an Advisory Vote "For" Approval of Named Executive Officer Compensation as Described in This Proxy Statement

Proposal 3 – Ratification of Independent Registered Public Accountants

Our Audit Committee and our Board of Directors have approved the engagement of Crowe Horwath LLP to be our independent registered public accounting firm for 2017, subject to the ratification of the engagement by our stockholders. At the Annual Meeting, stockholders will consider and vote on the ratification of that engagement of Crowe Horwath LLP. We expect that representatives of Crowe Horwath LLP will attend the meeting and be available to respond to appropriate questions. The representatives will be allowed to make a statement, if they desire to do so.

Audit and Other Fees

The following table sets forth the aggregate fees billed or expected to be billed by Crowe Horwath LLP for services rendered to us during 2016 and 2015 on our behalf on a combined basis, including Victory State Bank and VSB Bancorp, Inc., as well as all out-of-pocket costs incurred in connection with these services, which have been billed or will be billed to us. It is the policy of the Audit Committee that all non-audit services must be approved in advance by the Audit Committee. Only the Audit Committee has the authority to approve services to be provided by our independent registered public accountants and all members of management are aware that they must report to the Audit Committee any proposal to obtain non-audit services from our independent accountants and obtain approval from such committee before any such services are provided. All (100%) of the services provided by Crowe Horwath LLP were approved in advance by the Audit Committee.

	<u>2016</u>	<u>2015</u>
<i>Audit Fees</i>	\$ 88,000	\$ 86,200
<i>Audit-Related Fees</i>	\$ -	\$ -
<i>Tax Fees</i>	\$ 18,200 ⁽¹⁾	\$ 19,300 ⁽¹⁾
<i>All Other Fees</i>	\$ -	\$ -

(1) For preparation of 2016 tax return in 2017 and 2015 tax return in 2016, respectively.

Our Board of Directors unanimously recommends that you vote IN FAVOR of the ratification of the appointment of Crowe Horwath LLP as our independent registered public accountants for the fiscal year ending December 31, 2017.

Financial Information

Accompanying this Proxy Statement is our Annual Report containing financial and related information. The Annual Report is not part of this Proxy Statement.

Other Matters

Stockholder Nominations or Proposals

Our bylaws provide that, except for proposals or nominations by the Board of Directors, a stockholder may nominate a person to serve as a director or present a proposal to stockholders at an annual meeting only if they give advance written notice before making any such nomination or submitting such a proposal. To be timely, a stockholder's notice must be signed by the stockholder and delivered to or mailed to our Secretary. The Secretary must receive it at our principal executive offices not less than one hundred and twenty (120) days and not more than one hundred and fifty (150) days prior to the first anniversary of the date the proxy statement for the previous year's annual meeting was released to stockholders. If the date of the annual meeting is changed by more than thirty (30) days from the date in the prior year, then the deadline for receipt is a reasonable time before we begin to prepare and mail our proxy materials. For the 2018 annual meeting of stockholders, assuming that this proxy statement is mailed on March 30, 2017 as expected, the Secretary must receive the notice not before November 1, 2017 and not after December 1, 2017.

To nominate a person as a director, the notice must state: (i) all information that we would be required to disclose about that nominee under the then-current regulations of the Securities and Exchange Commission in our proxy statement if the nominee had been nominated by our Board of Directors; (ii) the nominee's signed written consent to serve as a director if elected; and (iii) as to the stockholder giving the notice: (a) the name and address of the stockholder as they appear on our books; (b) the class and number of shares of our stock that are beneficially owned by the stockholder; (c) when such shares were acquired by the stockholder; (d) whether the stockholder owns any put options, has sold any call options, or otherwise owns any other derivative securities with respect to any shares of our stock or has any existing contracts that now or may in the future affect the stockholder's ownership or voting rights in any of our shares; and (e) any business, familial or employment relationship between the stockholder and such nominees.

To make any other proposal, the notice must state: (i) a brief description of the proposed business; (ii) the reasons for conducting such business at the annual meeting; (iii) the name and address of the stockholder as they appear on our books; (iv) the class and number of shares of the Corporation's capital stock that are beneficially owned by such stockholder; (v) the date or dates when such shares were acquired by such stockholder; (vi) the class and number of shares of our stock that are beneficially owned by the stockholder; (vii) when such shares were acquired by the stockholder; (viii) whether the stockholder owns any put options, has sold any call options, or otherwise owns any other derivative securities with respect to any shares of our stock or has any existing contracts that now or may in the future affect the stockholder's ownership or voting rights in any of our shares; and (ix) any material interest of such Stockholder in such business.

We will not be required to name any stockholder nominee or describe any stockholder proposal in any proxy statement for a proxy solicitation by our Board of Directors or to solicit votes for such nominee or proposal unless required by law to do so. Only business which is a proper subject of stockholder action may be proposed at or voted on at the meeting.

Dated: March 30, 2017