ANNUAL REPORT 2014

Empire Bancorp, Inc.

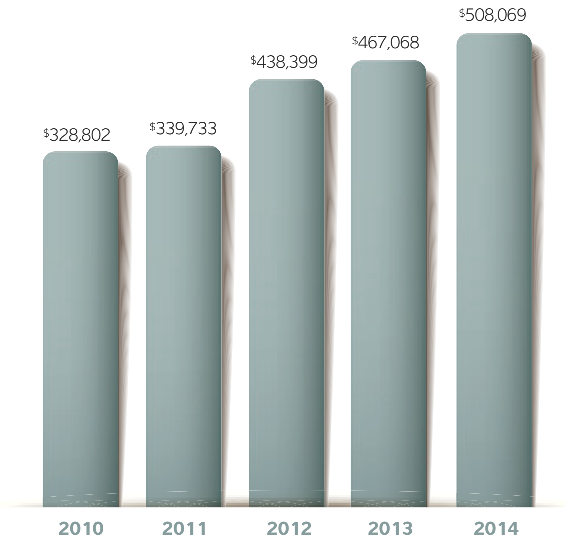
OUR MISSION

To offer the community banking products and services shaped by emerging ideas and technologies, combined with time-honored values of trust and integrity; to provide the highest quality service with a sense of urgency.

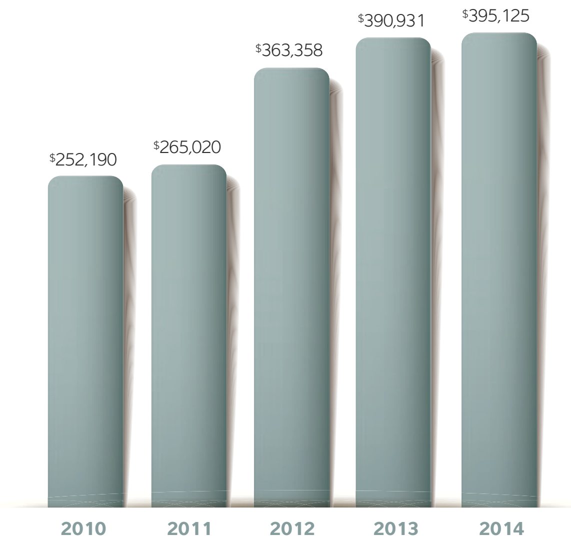
SELECTED FINANCIAL DATA

(dollars in thousands)

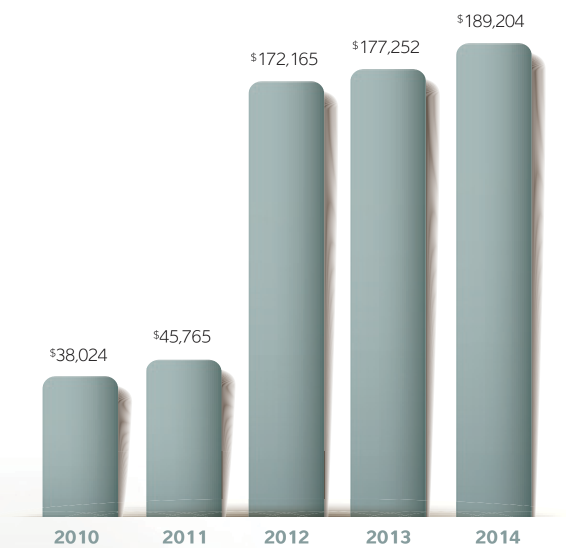
TOTAL ASSETS



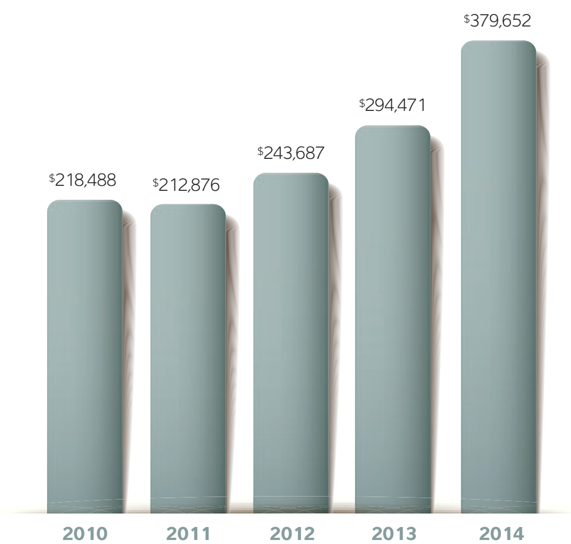
TOTAL DEPOSITS



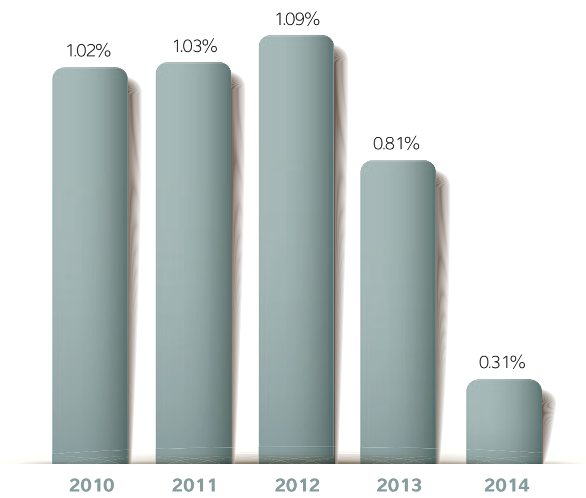
TOTAL DEMAND DEPOSITS



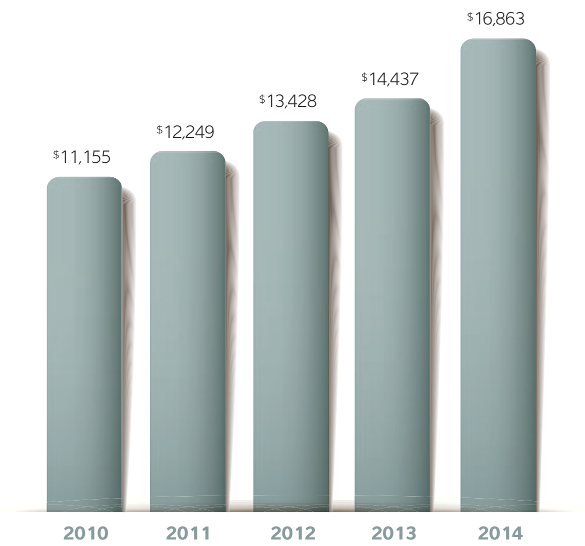
TOTAL LOANS



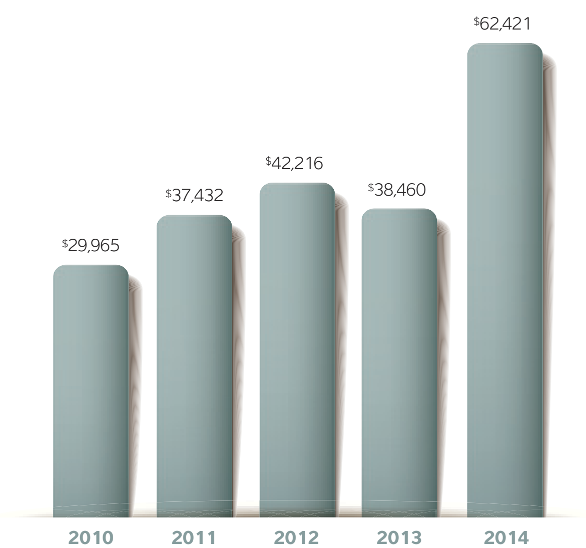
NON-PERFORMING LOANS TO TOTAL LOANS



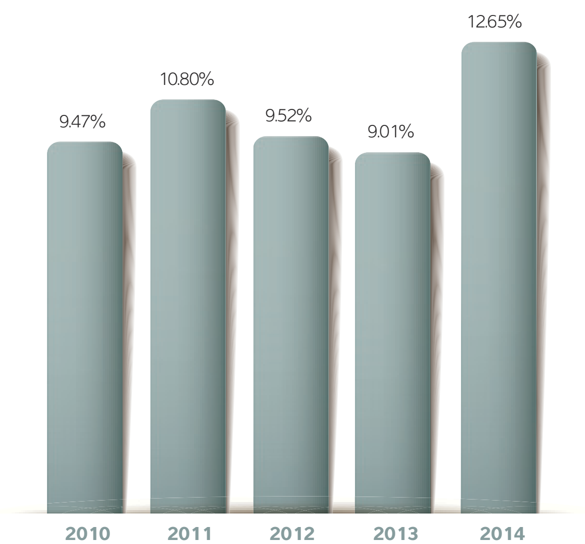
NET INTEREST INCOME



TOTAL STOCKHOLDERS' EQUITY



TIER 1 LEVERAGE RATIO (BANK ONLY)



FINANCIAL HIGHLIGHTS

(dollars in thousands, except per share data)

For the year ended December 31,	2014	2013	2012	2011	2010
FINANCIAL CONDITION DATA:					
Total Assets	$508,069	$467,068	$438,399	$339,733	$328,802
Total Loans	$379,652	$294,471	$243,687	$212,876	$218,488
Total Deposits	$395,125	$390,931	$363,358	$265,020	$252,190
Total Demand Deposits	$189,204	$177,252	$172,165	$ 45,765	$ 38,024
Total Stockholders' Equity	$ 62,421	$ 38,460	$ 42,216	$ 37,432	$ 29,965
SELECTED STATISTICAL DATA:					
Net Interest Margin	3.55%	3.29%	3.48%	3.82%	3.85%
Return on Average Assets	0.38%	0.29%	0.90%	1.39%	0.64%
Return on Average Equity	4.43%	3.19%	8.90%	13.92%	6.33%
Efficiency Ratio	77.37%	84.31%	89.30%	86.12%	92.02%
RATIOS:					
Net Charge-offs to Average Loans	0.01%	0.08%	0.01%	–	0.01%
Non-performing Loans to Total Loans	0.31%	0.81%	1.09%	1.03%	1.02%
Non-performing Assets to Total Assets	0.23%	0.51%	0.61%	0.65%	0.68%
Allowance for Loan Losses to Total Loans	1.17%	1.44%	1.84%	1.98%	1.93%
Tier 1 Leverage Capital Ratio	12.65%	9.01%	9.52%	10.80%	9.47%
Tier 1 Risk-Based Capital Ratio	16.02%	12.78%	14.65%	15.36%	13.31%
Total Risk-Based Capital Ratio	17.17%	14.03%	15.90%	16.62%	14.56%
OPERATING DATA:					
Net Interest Income	$ 16,863	$ 14,437	$ 13,428	$ 12,249	$ 11,155
Provision for Loan Losses	$ 243	–	$ 285	–	$ 772
Other Income	$ 1,033	$ 898	$ 1,941	$ 2,630	$ 2,302
Other Expense	$ 13,825	$ 13,054	$ 12,532	$ 10,989	$ 10,740
Net Income	$ 1,844	$ 1,286	$ 3,624	$ 4,609	$ 1,945
PER SHARE DATA:					
Diluted Earnings Per Share	$ 0.41	$ 0.29	$ 0.83	$ 1.09	$ 0.46
Book Value, as converted	$ 9.07	$ 8.78	$ 9.64	$ 8.60	$ 7.11

NOTE: Selected financial data and financial highlights for 2014 were derived from the audited consolidated financial statements of Empire Bancorp, Inc. Selected financial data and financial highlights for periods prior to 2013 were derived from the audited financial statements of Empire National Bank. Regulatory capital ratios presented on bank-only basis. Book value, as converted, treats the Series A preferred stock as having been converted into common stock because it has been structured as a nonvoting common stock equivalent.

DEAR SHAREHOLDER

We closed 2014 strengthened by our recent sale of capital stock and ready to deploy the new equity to boost our returns and shareholder value. Our earnings for 2014 were solid, even after absorbing a one-time after-tax write off of approximately $386 thousand. Net income for the year totaled $1.8 million or $0.41 per diluted share, compared to $1.3 million or $0.29 per share for the year ended December 31, 2013, an increase of $558 thousand. Profits before income taxes increased more than $1.5 million, or approximately 68% compared to the prior year, generated largely by an increase in net interest income of $2.4 million or 16.8%, which was due primarily to our loan growth. We believe that our simple, stable business model and strategy will be the cornerstone to our asset and earnings growth over the coming years.

As discussed above, our 2014 earnings were materially impacted by a one-time expense, which was related to a change in the New York state tax laws. During 2014, New York State made a significant change to its corporate tax code by repealing the banking corporation franchise tax and subjecting banks to the general business franchise tax. For community banks such as us, the tax code now provides a tax benefit for a portion of interest earned on both small business loans up to $5 million and residential mortgages made to New York borrowers. Since most of our loan portfolio meets the criteria for the tax benefit, these modifications are especially meaningful to us as we expect a material reduction in our state tax liability over the long term. However, as a result of the change in the law, we were required to write down the value of our state deferred tax asset by $386 thousand, which considerably lowered our 2014 earnings. The state deferred tax asset represented a state tax benefit that we expected to be able to utilize under the prior tax rules, which was eliminated as a result of the tax law changes. We estimate that we will fully recover the amount of the write down through lower state taxes within two years. Excluding the impact of this write off which is reflected as income tax expense, our net income year over year increased $944 thousand or 73.4%. Our combined effective tax rate for 2014, excluding the impact of the write off of the state deferred tax asset, decreased to 41.8% from 43.6% for the year ended December 31, 2013.

In 2014, we completed a private placement of our capital stock that resulted in net proceeds to us of $18.7 million. As one of the last remaining community banking organizations on Long Island, our aim is to use the net proceeds from this offering to support our continued organic growth. Although the stock issuance was slightly dilutive to book value, we believe that the capital raise allowed us to reposition our balance sheet to bolster opportunities for growth and enhance shareholder value in 2015 and beyond.

Douglas C. Manditch, Chairman & Chief Executive Officer (left) with Thomas M. Buonaiuto, President & Chief Operating Officer

We continued to firmly hold our pricing and credit standards while at times observing certain competitors give way to secure asset growth. Notwithstanding our selective underwriting process, loan growth exceeded 28%, totaling $85.2 million for the year, chiefly fueled by an increase in our multifamily loan portfolio. The New York City multifamily market is differentiated from other cities in the country not only by its number and share of residents that live in rental properties, but also by the City's immense array of rent regulation. The majority of our deals are located in Kings, Queens and Manhattan counties, where we best understand the economic realities of the communities. Multifamily rentals are the largest segment of the housing stock in New York City. Through the third quarter of 2014 the industry wide delinquency rate and reported charge offs on multifamily loans continued to trend downward. Nationwide, we see a shift toward rentals versus home ownership, which is reflected in lower vacancy rates as demand for rental housing grows. Multifamily lending is a nice fit for our credit culture, a culture averse to taking on loans with higher credit risks.

Our historical delinquency rates remained low as our asset quality continued to mirror our conservative credit standards, and our provision for loan losses booked during 2014 reflected our low level of loan delinquencies. As of year-end, our percentage of non performing assets comprised 0.23% of total assets, significantly below many of our peers. Looking forward, we plan to further diversify our mix of loans.

With the recent renewal of our core processing contract, we committed to improving our customers' experience including a forthcoming enhanced system for online wire transfers. Our electronic product offerings continue to expand as we plan the roll out a consumer mobile remote deposit product. Joining our staff in 2014 was Susanne Pheffer as Senior Vice President and Chief Technology Officer. Susanne earned both her graduate and undergraduate degrees at Adelphi University. Her career includes over thirty years of working expertise in the financial technology arena. Most recently she spent eight years consulting on information technology for financial institutions throughout the nation, including the management and successful completion of many core conversion projects. Previously she held the position of Chief Information Officer at the then largest independent commercial bank headquartered on Long Island, managing all of the bank's technology and directing all of the in-house data center's operations. During the first quarter of 2015, we rolled out a newly redesigned website to better engage with our mobile products. Over the past year we initiated a presence on social media expanding our traditional marketing distribution channels. Cybersecurity is now essential for all companies - especially community banks - and Susanne leads a team who are relentless in everyday monitoring to protect the assets and personal information of our customers.

Economic news remained mixed throughout the past year. Speaking with small business owners on a daily basis, we detect cautious optimism about the local economy. Apprehension regarding the timing and direction of interest rate movements continues not only in the financial services industry, but across different sectors. Trepidation regarding future business conditions remains as managers tackle taxes, availability of credit, and the cost of increasing regulations. Economists look at the same data and draw different conclusions, many questioning the validity of reported numbers, such as our official unemployment rate.

Government regulation and red tape remain the noose around the neck of community banking. In the early months of 2015, witnesses were testifying to Congress on the onerous impact on community banks of the regulations introduced in 2010 by the Dodd-Frank Act. Banking trade groups have spearheaded efforts for regulatory relief, including gathering support for easing the effects of Dodd-Frank to establish more efficient approaches for risk management in this time of historically low net interest margins. To put this in perspective, for every dollar that we generated in revenue, we spent thirteen cents on total compliance and governance costs in 2014 and fourteen cents in 2013.

During 2015, we are well positioned to add market share at our existing branch locations. As a community bank we are continually focused on relationships. Our service philosophy affords us enviable customer retention rates, and we are strategizing to refine and sharpen our sales model and product offerings. Our branches in Islandia, Shirley and Port Jefferson Station, coupled with our state of the art remote deposit services, provide additional opportunities for loan and deposit growth. Moreover, we are only beginning to tap the prospects of our branch located on Old Country Road in Mineola, which opened in October 2013.

Our current infrastructure, coupled with improved capital levels, establishes the foundation for our future growth and for enhanced returns for our shareholders. During the de novo stage of our development, at times we chose to forgo short term profitability with the intent to create a platform for enhancing long term value for our shareholders. However, growing earnings per share is now our focus, and building franchise value remains our priority.

We applaud the dedication of our staff and Board of Directors. Again, as a shareholder, we remind you to please keep us top of mind when discussing banking needs with your family, friends and colleagues. On behalf of our Board of Directors and the entire team, we thank you for your continued support as a valued shareholder. We look forward to seeing you at our shareholder meeting on Thursday, May 21, 2015, being held at the Islandia Marriott Long Island at 3635 Express Drive North in Islandia.

God Bless America!

Douglas C. Manditch
Chairman and Chief Executive Officer

Thomas M. Buonaiuto
President and Chief Operating Officer

FORWARD LOOKING STATEMENTS

This Annual Report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and 21E of the Securities Exchange Act of 1934. These forward-looking statements include statements that reflect the current views of our senior management with respect to our financial performance and future events with respect to our business and the banking industry in general. These statements are often, but not always, made through the use of words or phrases such as “may,” “should,” “could,” “predict,” “potential,” “believe,” “will likely result,” “expect,” “will continue,” “anticipate,” “seek,” “estimate,” “intend,” “plan,” “projection,” “would” and “outlook,” and similar expressions of a future or forward-looking nature. These statements involve estimates, assumptions and risks and uncertainties. Accordingly, there are or will be important factors that could cause our actual results to differ materially from those indicated in these statements.

We believe that these factors include, but are not limited to the following: our ability to successfully implement our growth strategy; the accuracy of the assumptions underlying the elements of our growth strategy; changes in the strength of the United States economy in general, as well as the economy in our local market areas, and the corresponding impact of those changes on the ability of our customers to transact business with us on profitable terms, including the ability of our borrowers to repay their loans according to their terms or the sufficiency of any related collateral; changes in interest rates and market prices and the corresponding impact of those changes on our net interest margin, asset valuations and expense expectations; changes in the levels of loan prepayments and the resulting effects on the value of our loan portfolio; increased competition for deposits and loans adversely affecting rates and terms; our ability to adequately measure and monitor the credit risk inherent in our loan and securities portfolios; the failure of assumptions underlying our allowance for credit losses; a determination or downgrade in the credit quality and credit agency ratings of the securities in our securities portfolio; increased asset levels and changes in the composition of assets and the resulting impact on our capital levels and regulatory capital ratios; changes in the availability of funds resulting in increased costs or reduced liquidity; the loss of senior management or operating personnel and the potential inability to hire qualified personnel at reasonable compensation levels; our ability to adequately manage the risks associated with technology and security; our ability to access capital markets on acceptable terms as necessary to support the continued growth and safety and soundness of our organization; legislative or regulatory developments, including changes in laws and regulations concerning taxes, banking, securities, insurance and other aspects of the financial securities industry, such as the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”), and the extensive rule making required to be undertaken by various regulatory agencies under the Dodd-Frank Act; further government intervention in the U.S. financial system; changes in statutes and government regulations or their interpretations applicable to us, including changes in tax requirements and tax rates; acts of terrorism, an outbreak of hostilities or other international or domestic calamities, weather or other acts of God and other matters beyond our control; and other risks and uncertainties listed from time to time in our reports and documents filed with the Office of the Comptroller of the Currency (“OCC”).

The foregoing factors should not be construed as exhaustive and should be read together with the other cautionary statements included in this Annual Report. If one or more events related to these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may differ materially from what we anticipate. Accordingly, you should not place undue reliance on any such forward-looking statements. Any forward-looking statement speaks only as of the date on which it is made, and we do not undertake any obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and we cannot predict all such factors. In addition, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

Unless we state otherwise or the context otherwise requires, references in this management’s discussion and analysis to “we,” “our” and “us” refer to Empire Bancorp, Inc. and Empire National Bank, on a consolidated basis.

SELECTED HISTORICAL FINANCIAL INFORMATION

The following table sets forth selected historical financial and operating data regarding our organization. As the holding company reorganization was completed on August 22, 2013, the historical financial information for periods prior to 2013 is presented on a bank-only basis, while 2013 and 2014 information is presented on a consolidated basis. You should review this information together with the discussion that follows and the audited financial statements and related notes included elsewhere in this Annual Report. Substantially all average balances were computed based on daily balances. Our historical results may not be indicative of our future performance. All dollars are in thousands, except per share data.

	As of and for the year ended December 31,				
	2014	**2013**	**2012**	**2011**	**2010**
Income Statement Data:					
Interest income	$ 18,540	$ 16,216	$ 15,696	$ 14,765	$ 13,999
Interest expense	1,677	1,779	2,268	2,516	2,844
Net interest income	16,863	14,437	13,428	12,249	11,155
Provision for loan losses	243	—	285	—	772
Net interest income after provision	16,620	14,437	13,143	12,249	10,383
Other income	1,033	898	1,941	2,630	2,302
Other expense	13,825	13,054	12,532	10,989	10,740
Income before income taxes	3,828	2,281	2,552	3,890	1,945
Income tax expense (benefit)	1,984	995	(1,072)	(719)	—
Net income	$ 1,844	$ 1,286	$ 3,624	$ 4,609	$ 1,945
Period-End Balance Sheet Data:					
Investment securities, available-for-sale	$ 100,617	$ 152,639	$ 180,202	$ 114,502	$ 92,696
Loans, net of allowance for loan losses	375,199	290,227	239,211	208,660	214,272
Allowance for loan losses	4,453	4,244	4,476	4,216	4,216
Total assets	508,069	467,068	438,399	339,733	328,802
Noninterest-bearing deposits	189,204	177,252	172,165	45,765	38,024
Interest-bearing deposits	205,921	213,679	191,193	219,255	214,166
Stockholders' equity	62,421	38,460	42,216	37,432	29,965
Per Share Data:					
Diluted earnings	$ 0.41	$ 0.29	$ 0.83	$ 1.09	$ 0.46
Basic earnings	0.42	$ 0.29	$ 0.83	$ 1.09	$ 0.46
Book value, as converted(1)	9.07	8.78	9.64	8.60	7.11
Weighted average common shares outstanding	4,427,830	4,379,970	4,373,279	4,213,866	4,212,330
Weighted average preferred shares outstanding	41,182	—	—	—	—
Performance Ratios:					
Return on average equity	4.43%	3.19%	8.90%	13.92%	6.33%
Return on average assets	0.38	0.29	0.90	1.39	0.64
Net interest margin	3.55	3.29	3.48	3.82	3.85
Efficiency ratio(2)	77.37	84.31	89.30	86.12	92.02
Asset Quality Ratios:					
Nonperforming assets to total assets(3)(4)	0.23%	0.51%	0.61%	0.65%	0.68%
Nonperforming loans to total loans(3)(4)	0.31	0.81	1.09	1.03	1.02
Allowance for loan losses to total loans(4)	1.17	1.44	1.84	1.98	1.93
Net charge-offs to average loans	0.01	0.08	0.01	—	0.01
Capital Ratios (bank level only):					
Tier 1 leverage capital	12.65%	9.01%	9.52%	10.80%	9.47%
Tier 1 risk-based capital	16.02	12.78	14.65	15.36	13.31
Total risk-based capital	17.17	14.03	15.90	16.62	14.56

(1) Book value, as converted, treats the Series A preferred stock as having been converted into common stock because it has been structured as a nonvoting common stock equivalent.
(2) Efficiency ratio is the ratio of noninterest expense to net interest income and noninterest income.
(3) For the periods presented, nonperforming assets consist solely of nonperforming loans and nonperforming loans consist solely of nonaccrual loans.
(4) Total loans are net of unearned discounts and deferred fees and costs.

OUR BUSINESS

Overview

We are a bank holding company, headquartered in Islandia, New York, which offers a broad range of financial services through our wholly-owned banking subsidiary, Empire National Bank. Our primary market is the counties of Suffolk, Nassau, Kings, Queens and New York in the State of New York which we serve from our main office located at 1707 Veterans Highway, Suite 8, Islandia, New York and from our three branch offices located in Shirley, Port Jefferson Station and Mineola, New York. We believe that our market presents attractive demographic attributes and favorable competitive dynamics, providing long-term growth opportunities for our organization.

We are led by a team of experienced bankers, all of whom have substantial banking experience and relationships on Long Island. We believe that recent changes and disruption within our primary market has created an underserved base of small and medium sized businesses, professionals and other organizations that are interested in banking with a company headquartered in, and with decision-making authority based in, this market. We believe that our management's long-standing presence in the area gives us insight into the local market and, as a result, the ability to tailor our products and services, particularly the structure of our loans, more closely to the needs of our targeted customers. We seek to develop comprehensive, long-term banking relationships by cross-selling loans and core deposits, offering a diverse array of products and services and delivering high quality customer service.

Our operating strategy

Our business model focuses on a traditional, relationship-based, community bank structure guided by the following principles: disciplined risk management; responsive, high-quality service; focus on building long-term relationships; credibility within our communities; and efficiency. We believe our flexible organizational structure, service philosophy, and depth of market knowledge acquired by our management over their banking careers differentiates us from other financial institutions. Our operating strategy focuses on steady, long-term growth and increased profitability.

To execute our business model, we have implemented a number of operating strategies, including:

- Hiring and retaining qualified banking officers with extensive experience in our market;
- Utilizing technology and strategic outsourcing to provide a broad array of secure and convenient products and services in a cost-effective manner;
- Developing a suite of focused products and services tailored for professional practice customers in our market;
- Operating from highly visible and accessible banking offices in close proximity to a concentration of targeted commercial businesses and professionals;
- Expanding our geographic footprint within our primary market through additional branch locations;
- Providing individualized attention with consistent, prompt local decision-making authority; and
- Leveraging the diverse community involvement, client referrals and professional expertise of our directors and officers.

Our competitive strengths

We believe that we are well-positioned to create value for our shareholders, particularly as a result of the following competitive strengths:

Cohesive core management team with extensive local banking experience. Our senior management team is led by Douglas C. Manditch and Thomas M. Buonaiuto. Mr. Manditch has 49 years of banking experience, all of which have been on and around Long Island, including approximately 25 years as Chief Executive Officer of Long Island-based financial institutions. Mr. Buonaiuto has more than 22 years of banking experience, substantially all of which have been in executive officer capacities of financial institutions in the New York metropolitan area. Janet Verneuille, Chief Financial Officer, has over 27 years banking experience primarily in finance roles including serving as Executive Vice President and Chief Financial Officer at another Long Island-based financial institution. John Pinna, Chief Information Officer, has over 22 years banking experience centered in technology and operations. He worked with Messrs. Manditch and Buonaiuto managing another commercial banking franchise in our market area. Susanne Pheffer, Senior Vice President and Chief Technology Officer, has over 30 years of working expertise in the financial technology arena. Most recently, she spent eight years providing consulting services with respect to information technology for financial institutions across the country. Previously, she served as Chief Information Officer at the then largest independent commercial bank headquartered on Long Island. Each member of our senior management team has experience at growing financial institutions in the New York metropolitan area.

Stable and scalable platform. Throughout our operating history, we have maintained a stable banking platform with strong capital levels and sound asset quality. At December 31, 2014, the Bank had a 12.65% Tier 1 leverage capital ratio, a 16.02% Tier 1 risk-based capital ratio and a 17.17% total risk-based capital ratio. In addition, we maintain no debt or other long-term liabilities at the holding company level. Contributing to our stability is our track record of sound asset quality. Our highest annual rate of net loan charge-offs to average loans over the past five years was 0.08% or $232 thousand in 2013, and our average annual rate of net loan charge-offs to average loans over the same period was 0.02%. Utilizing the prior experience of our management team at larger banks operating within our primary market, we believe that we have built a scalable corporate infrastructure, including technology and banking processes, capable of supporting continued growth, while improving operational efficiencies. We enhanced our capital strength during the fourth quarter of 2014 when we completed a private placement of our capital stock, generating $18.7 million in net proceeds. We believe that our strong capital and asset quality levels will allow us to grow and that our operating platform will allow us to manage that growth effectively, resulting in greater efficiency and improved profitability.

Growing deposit base. A significant driver of our franchise is the growth and stability of our deposits, which we use to fund our loans and investment portfolio. At December 31, 2014, our total deposits were $395.1 million, representing a compounded annual growth rate of 11.2% since December 31, 2010. Our deposit growth has been driven significantly by the growth in our noninterest-bearing demand deposits, which represented approximately 47.9% of our total deposits at December 31, 2014, up from 15.1% of our total deposits at December 31, 2010. Although the rate of deposit growth decreased during 2014, we continued our shift in composition to a higher proportion of noninterest-bearing demand deposits. The shift in deposit mix over this period has resulted in lowering the average cost of our deposit liabilities. We seek to cross-sell deposit products at loan origination, which provide a basis for expanding our banking relationships and a stable source of funding.

Our challenges

In implementing our business model, we have faced, and expect to continue to face, a number of challenges that could impact our financial condition, operating results and prospects in future periods. We believe that the most consequential risks to our business include the following:

- Our business is concentrated on Long Island and in certain boroughs of New York City, and we are more sensitive than our more geographically diversified competitors to adverse changes in the local economy;

- The fair value of our investment securities can fluctuate due to factors outside of our control;

- We face significant competition to attract and retain customers;

- We operate in a highly regulated environment, which could restrain our growth and profitability;

- We depend heavily on our information technology and telecommunications systems, which are subject to systems failures, interruptions and security risks; and

- We may not be able to adequately measure and limit our credit risk, which could impact our profitability.

Our market

Our primary market is the counties of Suffolk County and Nassau County, New York, although we also conduct significant business in the counties of Kings, Queens and Manhattan in the State of New York. The economy of our markets reflects a diverse cross section of employment sectors, with a mix of services; wholesale/retail trade; federal, state and local government; healthcare; banking and education.

Our primary market is diverse, in terms of educational attainment, income level and ethnic background. According to data provided by the U.S. Census Bureau, the population of Suffolk County was approximately 1,499,738 residents as of July 1, 2013, which represents a 0.4% increase in population since April 1, 2010. Similarly, the population of Nassau County was approximately 1,352,146 residents as of July 1, 2013, which represents a 0.9% increase in population since April 1, 2010. This population growth has attracted businesses to the area and led to growth in the local service economy, and, while it is not certain, we expect that this trend will continue. In addition, as of 2013, the median household incomes in Suffolk County and Nassau County were $87,763 and $97,690, compared to a New York state household income average of $58,003. Further, according to data provided by the FDIC, between June 30, 2010 and June 30, 2014, FDIC-insured deposits in Suffolk County and Nassau County have increased by approximately 23.4% and 15.2%, respectively. We believe that our primary market area presents attractive growth opportunities with a diversified and growing customer base. As a community bank, we are focused on serving the needs of the small-and medium-sized businesses, professionals, nonprofit organizations, and other organizations primarily in Suffolk and Nassau Counties on Long Island, and as well as individual consumers within the communities that we serve.

We compete with a wide range of financial institutions in our market, including local, regional and national commercial banks, thrifts and credit unions. Consolidation activity involving financial institutions based outside of Long Island has altered the competitive landscape in our market within recent years. As of June 30, 2005, approximately 46% of the deposits in Suffolk and Nassau counties were held in banks that were based on Long Island; where as of June 30, 2014, that number had decreased to less than 20%, due in large part to the acquisitions of locally-based financial institutions by larger banks based outside of our primary market area. Although competition within our market area is strong, we believe that the customer disruption associated with these acquisitions, as well as the loss of in-market decision-making and relationship-based banking, will continue to provide us with additional growth opportunities. We also compete with mortgage companies, investment banking firms, brokerage houses, mutual fund managers, investment advisors, and other “non-bank” companies for certain of our products and services. Some of our competitors are not subject to the degree of supervision and regulatory restrictions that we are.

Interest rates, both on loans and deposits, and prices on fee-based services are significant competitive factors among financial institutions generally. Many of our competitors are much larger financial institutions that have greater financial resources than we do and that compete aggressively for market share. These competitors attempt to gain market share through their financial product mix, pricing strategies and banking center locations. Due to the benefits of scale, our larger regional and national bank competitors can, in many cases, offer pricing that is more attractive than that which we can offer, although this pricing has historically been reserved for customers of a size for which we generally would not compete. Other important competitive factors in our market area include office locations and hours, quality of customer service, community reputation, continuity of personnel and services, capacity and willingness to extend credit, and ability to offer sophisticated cash management and other commercial banking services. Many of our competitors are organized along lines of business and use efficient but impersonal approaches to providing products and services to customers.

While we seek to be competitive with respect to rates, we believe that we compete most successfully on the basis of our service and relationship-based culture. Because we are unburdened by legacy main frame computer systems, we believe that our technology platform enables us to be more flexible in developing and implementing new services in a competitive marketplace.

Loans

General. Lending has the highest priority for our asset utilization. Our primary lending focus is to serve small and medium sized businesses, professionals, nonprofit organizations, and other organizations in our primary market with a variety of financial products and services, while maintaining strong and disciplined credit policies and procedures. We offer a full array of commercial and consumer lending products to serve the needs of our customers. Commercial lending products include commercial real estate loans, multi-family loans, real estate construction and development loans and general commercial loans (such as business term loans, equipment financing and lines of credit). Consumer lending products include home equity loans and lines of credit and consumer installment loans, such as loans to purchase cars, boats and other recreational vehicles. We do not engage in a material amount of consumer lending, which is offered primarily as an accommodation to our commercial customers, and their executives and employees. In addition, our lending policies do not provide for any loans that are highly speculative, sub-prime, or that have high loan-to-value ratios.

We market our lending products and services to qualified borrowers through conveniently located banking offices, relationship networks and high touch personal service. Our relationship managers actively target long-standing businesses operating in the communities we serve. We seek to attract new lending customers through professional service, relationship networks and competitive pricing.

Commercial real estate loans. We offer real estate loans for commercial property that is owner-occupied as well as commercial property owned by real estate investors. Commercial real estate loan terms generally are limited to 10 to 15 years or less, although payments may be structured on a longer amortization basis. The interest rates on our commercial real estate loans may be fixed or adjustable, although rates typically are not fixed for a period exceeding five to ten years. We generally charge a documentation or loan processing fee for our services. With the exception of our multi-family lending which is generally non-recourse, we require personal guarantees from the principal owners of the business supported by a review of the principal owners' personal financial statements. We make efforts to limit our risks with respect to commercial real estate loans by analyzing borrowers' cash flow and collateral value. The real estate securing our existing commercial real estate loans includes a wide variety of property types, such as offices/warehouses/production facilities, office buildings, hotels, mixed-use residential/commercial, retail centers and multi-family properties.

Construction loans. We finance the construction of owner occupied and income producing properties. Construction financing generally requires preapproved permanent financing, unless made on a speculative basis. Construction and development loans are generally made with a term of one to two years and interest is paid monthly. The ratio of the loan principal to the value of the collateral, as established by independent appraisal, typically will not exceed industry standards. Any speculative loans are based on the borrower's financial strength and ability to generate cash flow. Loan proceeds are disbursed based on the percentage of completion and only after the project has been inspected by an experienced construction lender or third-party inspector.

Commercial loans. We offer a wide range of commercial loans, including business term loans, equipment financing and lines of credit to small and midsized businesses. Our target commercial loan market is professional establishments and small to medium sized businesses. The terms of these loans vary by purpose and by type of underlying collateral, if any. Our commercial loans primarily are underwritten on the basis of the borrower's ability to service the loan from cash flow. We make equipment loans with conservative margins generally for a term of five years or less at fixed or variable rates, with the loan fully amortizing over the term. Loans to support working capital typically have terms not exceeding one year and usually are secured by accounts receivable, inventory and personal guarantees of the principals of the business. For loans secured by accounts receivable or inventory, principal typically is repaid as the assets securing the loan are converted into cash, and for loans secured with other types of collateral, principal amortizes over the term of the loan. The quality of the commercial borrower's management and its ability both to properly evaluate changes in the supply and demand characteristics affecting its markets for products and services and to effectively respond to such changes are significant factors in a commercial borrower's creditworthiness. Although most loans are made on a secured basis, loans may be made on an unsecured basis where warranted by the overall financial condition of the borrower.

Consumer loans. We make a variety of loans to individuals for personal purposes, including secured and unsecured installment loans and home equity lines of credit. The amortization of second mortgages generally does not exceed 15 years and the rates generally are not fixed for over 12 months. Consumer loans secured by depreciable assets, such as boats, cars and trailers, are typically amortized over the useful life of the asset. We review the borrower's past credit history, past income level, debt history and, when applicable, cash flow and evaluate the impact of all these factors on the ability of the borrower to make future payments as agreed.

Investments

In addition to loans, we purchase investment securities that are principally either direct debt obligations of the United States Treasury or one of the agencies of the United States government. We may also invest in mortgage-backed securities issued by the Government National Mortgage Association, the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, the Federal Home Loan Bank and the Federal Farm Credit Bureau. Each of these issuer's securities are backed by mortgages conforming to its underwriting guidelines and each issuer guarantees the timely payment of principal and interest on its securities. Our approved policies also allow for investment in both tax exempt and taxable municipal securities, corporate securities and certain equity securities as might be required to deal with various government agencies or banking associations. We regularly evaluate the composition of this category as changes occur with respect to the interest rate yield curve. Overall investment goals are established by the bank's Investment Committee, which reviews the investment portfolio on a periodic basis, and monitors and makes adjustments as necessary based upon current market interest rates and the economic environment, as well as our established policies and strategies. The Bank's investment strategies seeks to maximize long-term investment earnings through management of both securities gains and losses as well as interest income. Day-to-day activities pertaining to the investment portfolio are conducted under the supervision of the Bank's President and Chief Operating Officer.

Deposits

Deposits are our primary source of funds to support our earning assets. We offer traditional depository products, including checking, savings, money market and certificates of deposit with a variety of rates. Deposit products are structured to be competitive with rates, fees, and features offered by other local institutions. The primary sources of core deposits are professional practice monies, small to medium sized businesses and their employees, and consumers located within our primary market. We generate deposits through our business development efforts as well as referrals from our existing customers, officers and directors as well as various marketing campaigns. In 2012, we met the requirements established by the United States Trustee for deposits of bankruptcy funds. In addition, we participate in the Certificate of Deposit Account Registry Service ("CDARS®") program, which allows us to accept deposits in excess of the FDIC insurance limits for larger depositors and obtain "pass through" insurance for the total deposit by placing the portion of the deposit in excess of FDIC insurance limits with other FDIC-insured institutions that are members of the CDARS® network.

Our deposit mix has changed substantially over our seven year history. At inception, we relied heavily on savings, N.O.W. and money market deposits, as well as certificates of deposit, which require limited customer interaction or convenience in location, while our transactional account customer base and branch networks expanded. We also relied significantly on advances from the Federal Home Loan Bank of New York. Since that time, we have built out a network of four deposit-taking banking offices and attracted significant transaction account business through our relationship-based approach. As of December 31, 2009, the end of our first full calendar year of operations, demand deposits comprised only 15.7% of our total deposits. Since that time, we have shifted the composition of our deposit mix so that demand deposits now comprise our largest source of deposits. As of December 31, 2014, demand deposits comprised 47.9% of our total deposits. The growth in demand deposits has resulted in a lower overall cost of funding for our balance sheet.

Supervision and regulation

We are subject to extensive regulation and supervision that govern almost all aspects of our operations at the holding company and bank levels. We are regulated by the Federal Reserve at the holding company level and by the Office of the Comptroller of the Currency at the bank level. Banking laws, regulations and policies, and the supervisory framework that oversees their administration, are primarily intended to protect consumers, depositors, the Deposit Insurance Fund and the banking system as a whole, and not shareholders and counterparties. In addition, these laws, regulations and policies are subject to continual review by governmental authorities, and changes to these laws, regulations and policies, including changes in their interpretation or implementation, or the adoption of new laws, regulations or policies, can affect us in substantial and unpredictable ways.

In the aftermath of the most recent recession, new legislation has been enacted, and new regulations promulgated, that were designed to strengthen the financial system as a whole. These laws and regulations have imposed significant additional costs on all financial institutions and impacted the banking industry in numerous other ways. A number of the most significant changes in laws and regulations affecting the banking industry are discussed below. However, the discussion that follows is only a brief summary of certain of these laws and regulations, and there are many other laws and regulations that affect our operations, other than those discussed below.

Dodd-Frank Act

The Dodd-Frank Act, enacted on July 21, 2010, aimed to restore responsibility and accountability to the financial system by significantly altering the regulation of financial institutions and the financial services industry. The Act, among other things: (i) established the Consumer Financial Protection Bureau, an independent organization within the Federal Reserve dedicated to promulgating and enforcing consumer protection laws applicable to all entities offering consumer financial products or services; (ii) established the Financial Stability Oversight Council, tasked with the authority to identify and monitor institutions and systems that pose a systemic risk to the financial system, and to impose standards regarding capital, leverage, liquidity, risk management, and other requirements for financial firms; (iii) changed the base for FDIC insurance assessments; (iv) increased the minimum reserve ratio for the Deposit Insurance Fund from 1.15% to 1.35%; (v) permanently increased federal deposit insurance coverage from $100,000 to $250,000; (vi) directed the Federal Reserve to establish interchange fees for debit cards pursuant to a restrictive “reasonable and proportional cost” per transaction standard; (vii) limited the ability of banking organizations to sponsor or invest in private equity and hedge funds and to engage in proprietary trading; (viii) granted the U.S. government authority to liquidate or take emergency measures with respect to troubled nonbank financial companies that fall outside the existing resolution authority of the FDIC; (ix) increased regulation of asset-backed securities; (x) increased regulation of consumer protections regarding mortgage originations, including originator compensation, minimum repayment standards, and prepayment considerations; and (xi) established new disclosure and other requirements relating to executive compensation and corporate governance.

Some of these provisions have the consequence of increasing our expenses, decreasing our revenues, and changing the activities in which we choose to engage. The specific impact on our current activities or new financial activities that we may consider in the future, our financial performance and the markets in which we operate will depend on the manner in which the relevant agencies develop and implement the required rules and the reaction of market participants to these regulatory developments. Many aspects of the Dodd-Frank Act are subject to rulemaking that will take effect over the next several years, making it difficult to anticipate the overall financial impact on the financial industry, in general, and on us.

Regulatory capital requirements

On July 2, 2013, the federal banking agencies adopted a final rule revising the regulatory capital framework applicable to all top tier bank holding companies with consolidated assets of $500 million or more and all banks, regardless of size, although threshold for bank holding company is expected to increase to $1 billion during 2015. The Basel III framework became effective on January 1, 2015, although the capital conservation buffer, which is discussed in greater detail below, will be phased in over a three-year period, beginning January 1, 2016.

Under the final rule, we are required to maintain the following minimum regulatory capital ratios:

- A new ratio of common equity Tier 1 capital to total risk-weighted assets of not less than 4.5%;

- A Tier 1 risk-based capital ratio of 6.0% (an increase from 4.0%);

- A total risk-based capital ratio of 8.0%; and

- A leverage ratio of 4.0%.

The final rule also changes the regulatory capital requirements for purposes of the prompt corrective action regulations. Accordingly, as of January 1, 2015, to be categorized as well capitalized, the bank must have a minimum common equity Tier 1 capital ratio of at least 6.5%, a Tier 1 risk-based capital ratio of at least 8.0%, a total risk-based capital ratio of at least 10.0%, and a leverage capital ratio of at least 5.0%. The final rule also implements a requirement for all banking organizations to maintain a capital conservation buffer above the minimum capital requirements to avoid certain restrictions on capital distributions and discretionary bonus payments to executive officers. The capital conservation buffer must be composed of common equity tier 1 capital. The capital conservation buffer requirement will effectively require banking organizations to maintain regulatory capital ratios at least 50 basis points higher than well capitalized levels with respect to the risk-weighted capital measures to avoid the restrictions on capital distributions and discretionary bonus payments to executive officers. In addition, the final rule establishes more conservative standards for including instruments in regulatory capital and imposes certain deductions from and adjustments to the measure of tier 1 capital and tier 2 capital. The final rule alters the method under which banking organizations must calculate risk-weighted assets in an effort to make the calculation of risk-weighted assets more risk-sensitive, to better account for risk mitigation techniques, and to create substitutes for credit ratings (in accordance with the Dodd-Frank Act).

Although management is continuing to evaluate the impact the final rule will have on our organization, we were in compliance with all applicable minimum regulatory capital requirements as of December 31, 2014 and expect to meet all minimum regulatory capital requirements under the final rule when it becomes effective, as if fully phased in.

The final Basel III framework also requires banks and bank holding companies to measure their liquidity against specific liquidity tests. However, under the proposed rules, the Basel III liquidity framework would apply only to banking organizations with $250 billion or more in consolidated assets or $10 billion or more in foreign exposures. As a result, unless modified, the Basel III liquidity framework would not apply to us.

MANAGEMENT'S DISCUSSION OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis presents management's perspective on our financial condition and results of operations on a consolidated basis. However, because we conduct all of our material business operations through Empire National Bank, the discussion and analysis relates to activities primarily conducted at the subsidiary level. The discussion is intended to highlight and supplement other data and information presented elsewhere in this annual report, including our audited consolidated financial statements and the related notes. Please note that the performance related to the prior periods described in this annual report may not be indicative of our future financial performance.

As a bank holding company that operates through one segment, community banking, we generate most of our revenue from interest on loans and investments, service charges and gains on the sale of investment securities. Our primary source of funding for our loans is deposits, and our largest expenses are interest of these deposits and salaries and related employee benefits. We measure our performance through our net interest margin, return on average assets and return on average equity, while maintaining appropriate regulatory leverage and risk-based capital ratios.

Performance summary

Our total assets increased $41.0 million, or 8.8%, to $508.1 million as of December 31, 2014, compared to $467.1 million as of December 31, 2013. Our asset growth was largely driven by loan growth of $85.2 million, or 28.9%, partially offset by a decrease of $52.0 million in securities available for sale. Asset quality remained strong, with total non-performing loans comprising 0.31% of total loans as of December 31, 2014, compared to 0.81% as of December 31, 2013. Total deposits increased $4.2 million, or 1.1%, to $395.1 million as of December 31, 2014, compared to $390.9 million as of December 31, 2013. Our deposit growth was driven primarily by growth across deposit categories, other than other time deposits, which represent our highest cost of funding. Noninterest-bearing deposits, which represent our lowest cost of funding, grew $12.0 million, or 6.7%, during 2014, and the percentage of noninterest-bearing deposits to total deposits grew from 45.3% to 47.9%. Short-term borrowings, which represent advances from the Federal Home Loan Bank of New York grew $11.6 million from $34.5 million as of December 31, 2013 to $46.1 million as of December 31, 2014. Total stockholders' equity increased $23.9 million to $62.4 million as of December 31, 2014, from $38.5 million as of December 31, 2013, primarily as a result of the Company's private placement, which was completed on December 19, 2014 and generated net proceeds, after offering expenses, of approximately $18.7 million. Stockholders' equity also was impacted by an increase of $3.4 million in the value of our securities available for sale, net of applicable taxes, as well as our operating earnings of $1.8 million.

Net income for the year ended December 31, 2014 was $1.8 million or $0.41 per diluted share, compared to net income of $1.3 million, or $0.29 per diluted share, in 2013, an increase of $558 thousand, or 43.4%. The increase in net income during 2014 was positively impacted by an increase in net interest income of $2.4 million, or 16.8%, to $16.9 million, which resulted from an increase of $36.9 million, or 8.4%, in our average interest-earning assets, as well as the expansion of our net interest margin from 3.29% to 3.55%, as compared to the year ended December 31, 2013. Other income increased by $135 thousand or 15.0% to $1.0 million for year ended December 31, 2014 primarily as a result of the net increase of $176 thousand for net securities gains/losses, offset by the decline of $98 thousand in professional practice revenue. Other expenses increased $771 thousand, or 5.9%, as compared to the year ended December 31, 2013, primarily as a result of an increase in salaries and employee benefits of $399 thousand, or 6.3%. The increase in net income was most negatively impacted by the write-off of approximately $386 thousand in book value of certain deferred tax assets as a result of a change in the New York corporate tax laws, which is discussed in greater detail below. Excluding the impact of the write-off, our net income for 2014 increased $944 thousand, or 73.4%, over 2013.

Our efficiency ratio improved to 77.37% for the year ended December 31, 2014, as compared to 84.31% for the year ended December 31, 2013, primarily as a result of our increased operating leverage and an increase in our net interest income. Basic and diluted earnings per share for the year ended December 31, 2014 were $0.42 and $0.41, respectively, compared to $0.29 for both in 2013. Our return on average assets was 0.38% for 2014, as compared to 0.29% for 2013, and our return on average equity was 4.43% for 2014, as compared to 3.19% for 2013. The increase in our return on average equity reflects the improvement in operating performance in 2014.

Comparison of operating results for the years ended December 31, 2014 and 2013

Analysis of net interest income

Net interest income, the primary contributor to our earnings, represents the difference between the income that we earn on our interest-earning assets and the cost to us of our interest-bearing liabilities. Our net interest income depends upon the volume of interest-earning assets and interest-bearing liabilities and the interest rates that we earn or pay on them.

The following table presents, for the periods indicated, the average balances of our interest-earning assets and interest-bearing liabilities, average yields and costs, and certain other information. Nonaccrual loans are included in loans, and interest on nonaccrual loans is included only to the extent recognized on a cash basis.

	Year Ended December 31,					
	2014			2013		
	Average Balance	Interest Earned/Paid	Average Yield/Cost	Average Balance	Interest Earned/Paid	Average Yield/Cost
			(dollars in thousands)			
Interest earning assets:						
Loans, net (including fee income)	$ 330,476	$ 15,280	4.62 %	$ 257,718	$ 12,534	4.86 %
Securities available for sale[(1)]	140,633	3,092	2.20	176,513	3,526	2.00
Securities, restricted	3,440	165	4.80	3,497	147	4.20
Deposits with banks	914	3	0.33	565	5	0.88
Securities, tax exempt[(2)]	21	1	4.76	287	7	2.40
Federal funds sold	5	-	-	-	-	-
Total interest-earning assets	$ 475,489	$ 18,541	3.90	$ 438,580	$ 16,219	3.70
Non interest-earning assets:						
Cash and due from banks	6,295			5,482		
Other assets	5,001			7,802		
Total assets	$ 486,785			$ 451,864		
Interest bearing liabilities:						
Savings, N.O.W. and money market deposits	$ 156,573	$ 900	0.57%	$ 139,344	$ 926	0.66%
Certificates of deposit of $100,000 or more	43,323	347	0.80	31,756	268	0.84
Other time deposits	22,241	305	1.37	32,815	450	1.37
Borrowed funds	33,882	125	0.37	35,959	135	0.38
Total interest-bearing liabilities	$ 256,019	$ 1,677	0.66	$ 239,874	$ 1,779	0.74
Non interest-bearing liabilities:						
Demand deposits	184,950			168,561		
Other liabilities	4,181			3,134		
Total liabilities	445,150			411,569		
Stockholders' equity	41,635			40,295		
Total liabilities and stockholders' equity	$ 486,785			$ 451,864		
Net interest income		$ 16,864			$ 14,440	
Net interest spread[(3)]			3.24%			2.96%
Net interest margin[(4)]			3.55%			3.29%

(1) Unrealized gains / (losses) on securities available for sale are included in other assets.

(2) The above table is presented on a tax equivalent basis.

(3) Net interest spread is the weighted average yield on interest-earning assets minus the weighted average rate on interest-bearing liabilities.

(4) Net interest margin is net interest income divided by average interest-earning assets.

Net interest income increased $2.4 million for the year ended December 31, 2014, as compared to the prior year. The increase was attributable to growth in total interest income of $2.3 million and a decrease in total interest expense of $102 thousand. The growth in total interest income was attributable both to the growth in the average balance of interest-earning assets of $36.9 million and to the shift in asset mix from investment securities to loans, which represent our highest yielding asset. For the year ended December 31, 2014, average loans represented 69.5% of our average interest-earning assets, as compared to 58.8% for the year ended December 31, 2013. The shift in asset composition resulted in an increase in our yield on interest-earning assets from 3.70% for 2013 to 3.90% for 2014, although our yield on loans decreased slightly by 4.2% from the continued historically low interest rate environment and market competition. The decrease in total interest expense for 2014 was attributable to a reduction in the cost of average interest-bearing liabilities to 0.66% for the year ended December 31, 2014 from 0.74% for the prior year partially offset by an increase in the average balance of interest-bearing deposits of $18.2 million. The decrease in the cost of average interest-bearing liabilities was primarily due to the continued low interest rate environment. Average balances of borrowed funds decreased by $2.1 million, which represents our lowest cost of interest-bearing funding. The increase in net interest income also was positively impacted by an increase of $16.4 million, or 9.7% in the average balance of noninterest-bearing demand deposits for the year ended December 31, 2014, as compared to the prior year. Net interest margin for the years ended December 31, 2014 and 2013 was 3.55% and 3.29%, respectively, for the reasons described above.

Rate/volume analysis

The following table analyzes the dollar amount of changes in interest income and interest expense for the primary components of interest-earning assets and interest-bearing liabilities. The table shows the amount of the change in interest income or expense caused by either changes in outstanding balances (volume) or changes in interest rates. The effect of a change in volume is measured by applying the average rate during the first period to the volume change between the two periods. The effect of changes in rate is measured by applying the change in rate between the two periods to the average volume during the first period. Changes attributable to both rate and volume that cannot be segregated have been allocated proportionately to the absolute value of the change due to volume and the change due to rate.

	Year Ended December 31, 2014 Over 2013 Increase/(Decrease) Due To		
	Average Volume	Average Rate	Net Change
	(in thousands)		
Interest income on interest-earning assets:			
Loans (including fee income)	$ 3,390	$ (644)	$ 2,746
Securities available for sale	(765)	331	(434)
Securities, restricted	(2)	20	18
Securities, tax exempt [1]	(10)	4	(6)
Deposits with banks	2	(4)	(2)
Total increase (decrease) in interest income	2,615	(293)	2,322
Interest expense on interest-bearing liabilities:			
Savings, N.O.W. and money market deposits	107	(133)	(26)
Certificates of deposit of $100,000 or more	93	(14)	79
Other time deposits	(145)	-	(145)
Borrowed money	(8)	(2)	(10)
Total increase (decrease) in interest expense	47	(149)	(102)
Total increase (decrease) in net interest income	$ 2,568	$ (144)	$ 2,424

(1) The above table is presented on a tax equivalent basis.

Provision for loan losses

We consider a number of factors in determining the required level of our allowance for loan losses and the provision required to achieve that level, including loan growth, loan quality rating trends, nonperforming loan levels, delinquencies, net charge-offs, industry concentrations and economic trends in our market and throughout the nation. We recorded a $243 thousand provision for loan losses for the year ended December 31, 2014. We recorded no provision for loan losses for the year ended December 31, 2013. The increase in the provision for loan losses in 2014 was attributable to the growth in the loan portfolio.

Other income

Total other income, which was comprised of customer-related fees and service charges, net securities gains/losses and other operating income, increased $135 thousand for the year ended December 31, 2014, as compared to the same period in 2013, primarily as a result of the net increase of $176 thousand for net securities gains/losses offset by the decline of $98 thousand in professional practice revenue. We experienced moderate increases in customer-related fees and service charges, as well as other operating income, which were associated with the continued growth in our customer base. Miscellaneous service charges and fees include revenues such as electronic funds transfer fees, assignment fees on loans, and wire transfer fees.

Other expense

Our other expense consists primarily of salary and employee benefits, occupancy and other expenses related to our operation and expansion. Other expense increased by approximately $771 thousand, or 5.9%, during 2014, as compared to 2013, primarily from expenses associated with our continued growth. The biggest components of the growth in other expense was salaries and benefits, which increased $399 thousand, or 6.3%, during 2014, which was largely due to base salary increases, new employees hired to support growth and branch expansion, and an increase in employee benefit costs. We also experienced an increase of $188 thousand in software services, or 13.2%, primarily as a result of the introduction of the bank's call center as well as other software enhancements. Net occupancy and equipment costs also increased $174 thousand, or 8.0%, primarily resulting from the expenses associated with the bank's new Mineola branch office. As of December 31, 2014 and 2013, we employed 68.8 and 64.5 full time equivalents, respectively. Full time equivalents increased as additional personnel were hired for the branch network, as well as back office operations and lending areas, although assets per employee increased to $7.4 million as of December 31, 2014 from $7.2 million as of December 31, 2013.

Provision for income taxes

Income tax expense for the year ended December 31, 2014 was approximately $2.0 million, as compared to $995 thousand for the year ended December 31, 2013. The increase in income tax expense, primarily resulting from an increase in earnings before income taxes of $1.5 million or 67.8%, also was materially impacted by the write-off of approximately $386 thousand in book value of certain deferred tax assets. The write-off was required as a result of revisions to the New York corporate tax laws, which changed the manner in which our income is taxed for state tax purposes. As a result of the changes, we determined that it was not probable that we would be able to utilize $386 thousand in state deferred tax assets that were carried on our balance sheet. Accordingly, we were required to write-off that portion of our deferred tax assets, which resulted in an increase in our income tax expense. We believe that the 2014 revisions to the New York corporate tax laws will result in a decrease in our future state income tax liability as compared to the state tax laws applicable to us prior to the 2014 revisions. Our combined effective tax rate for 2014, excluding the impact of the write off of the state deferred tax asset, decreased to 41.8% from 43.6% for the year ended December 31, 2013.

Financial condition

Our total assets increased $41.0 million, or 8.8%, to $508.1 million as of December 31, 2014, compared to $467.1 million as of December 31, 2013. Net loans increased $85.0 million, or 29.3%, to $375.2 million as of December 31, 2014, compared to $290.2 million as of December 31, 2013. As a result of management's assessment of the credit quality of the loan portfolio, the allowance for loan losses to total loans was 1.17%, or $4.5 million, at December 31, 2014 as compared to 1.44%, or $4.2 million, as of December 31, 2013. Securities available for sale decreased $52.0 million, or 34.1%, to $100.6 million as of December 31, 2014, from $152.6 million as of December 31, 2013. The decrease in securities available for sale was due primarily to dispositions of securities as well as the calls and redemptions on such securities, the proceeds of which were utilized to fund loan growth, but was also affected by an increase in market value as a result of decreasing market interest rates.

Our asset growth for the year ended December 31, 2014 was funded primarily by short-term borrowings and deposit growth. Short-term borrowings increased $11.6 million or 33.6% year over year. Total deposits increased $4.2 million, or 1.1%, to $395.1 million as of December 31, 2014, compared to $390.9 million as of December 31, 2013. Our deposit growth was driven by growth across all deposit categories, other than other time deposits, which represent our highest cost of funding. Demand deposits, which represent a value funding source, increased $11.9 million, or 6.7%, to $189.2 million as of December 31, 2014. Savings, N.O.W. and money market deposits increased $2.8 million, or 2.0%, to $142.3 million as of December 31, 2014. Certificates of deposit of $100,000 or more increased $0.1 million, or 0.2%, to $44.5 million as of December 31, 2014, while other time deposits decreased by $10.6 million, or 35.6%, to $19.2 million as of December 31, 2014. As of December 31, 2014, our loan to deposit ratio was 96.1% as of December 31, 2014, as compared to 75.3% as of December 31, 2013.

Total stockholders' equity increased $23.9 million to $62.4 million as of December 31, 2014, from $38.5 million as of December 31, 2013. The increase in stockholders' equity was primarily as a result of the Company's private placement, which was completed in December 2014 and generated $18.7 million in net proceeds. Stockholders' equity also was impacted by an increase of $3.4 million in the value of our securities available for sale, net of applicable taxes, as well as our operating earnings of $1.8 million. As of December 31, 2014, the Bank was "well capitalized" under applicable regulatory capital guidelines and was in compliance with all applicable regulatory capital standards, with leverage, Tier 1 risk-based and total risk-based capital ratios of 12.65%, 16.02% and 17.17%, respectively.

Loans

Our primary source of income is interest on loans. Our primary target market is small and medium sized businesses and real estate investors in our market area. Our loan portfolio consists primarily of commercial and industrial loans and real estate loans secured by multi-family and commercial real estate properties located in our primary area. Our loan portfolio represents the highest yielding component of our earning asset base.

The following table sets forth the amount of loans, by category, as of the respective periods:

	December 31, 2014		December 31, 2013	
	Amount	Percent	Amount	Percent
	(dollars in thousands)			
Commercial real estate mortgages	$ 130,369	34.4 %	$ 127,977	43.5 %
Commercial real estate - multi-family	149,105	39.4	98,586	33.5
Commercial and industrial	50,955	13.4	48,338	16.5
One-to-four family	26,499	7.0	8,276	2.8
Real estate - construction	14,124	3.7	3,591	1.2
Home equity lines of credit	4,028	1.1	3,148	1.1
Lease financing	3,232	0.9	3,094	1.1
Installment/consumer	549	0.1	872	0.3
Total	$ 378,861	100.0	$ 293,882	100.0
Net deferred loan costs and fees	791		589	
Allowance for loan losses	(4,453)		(4,244)	
Net loans	$ 375,199		$ 290,227	

Over the past three years, we have experienced significant growth in our loan portfolio, and our primary focus has been on commercial real estate mortgages and multi-family lending, which constituted 73.8% of our loan portfolio as of December 31, 2014. Although we expect continued growth with respect to our loan portfolio, we do not expect any significant changes over the foreseeable future in the composition of our loan portfolio.

The following table sets forth the contractual maturity ranges, and the amount of loans with fixed and variable rates, in each maturity range as of December 31, 2014:

	Within One Year	After One But Within Five Years	After Five Years	Total
		(in thousands)		
Commercial real estate mortgages	$ 5,219	$ 25,385	$ 99,765	$ 130,369
Commercial real estate - multi-family	483	26,747	121,875	149,105
Commercial and industrial	28,805	12,849	9,301	50,955
One-to-four family	450	1,188	24,861	26,499
Real estate - construction	6,366	7,758	-	14,124
Home equity lines of credit	-	2,992	1,036	4,028
Lease financing	57	3,175	-	3,232
Installment/consumer	200	349	-	549
Total	$ 41,580	$ 80,443	$ 256,838	$ 378,861
Rate provisions:				
Amounts with fixed interest rates	$ 8,296	$ 32,640	$ 26,874	$ 67,810
Amounts with variable interest rates	33,284	47,803	229,964	311,051
Total	$ 41,580	$ 80,443	$ 256,838	$ 378,861

Nonperforming assets

Nonperforming assets consist of nonperforming loans, other real estate owned and other repossessed assets. Nonperforming loans consist of loans that are on nonaccrual status and non-performing restructured loans, which are loans on which we have granted a concession on the interest rate or original repayment terms due to financial difficulties with the borrower. Other real estate owned consists of real property that we have acquired through foreclosure. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows discounted at the loan's contractual rate or at the fair value of collateral if repayment is expected solely from collateral. Troubled debt restructurings are accounted for in accordance with FASB ASC 310, "Receivables."

We have maintained low levels of nonperforming assets since our inception in 2008. Our total non-performing loans comprised 0.31% of total loans as of December 31, 2014, compared to 0.81% as of December 31, 2013. We believe that our historically low level of nonperforming assets reflects our long-term knowledge and relationships with a significant percentage of our borrowers, management's experience and knowledge with respect to our market and our underwriting discipline. Additional information regarding our past due and nonaccrual loans, as well as our troubled debt restructurings, is included in the notes to our consolidated financial statements included in this Annual Report.

Allowance for loan losses

We maintain an allowance for loan losses that represents management's best estimate of the loan losses and risks inherent in the loan portfolio. In determining the allowance for loan losses, we estimate losses on specific loans, or groups of loans, where the probable loss can be identified and reasonably determined. The balance of the allowance for loan losses is based on internally assigned risk classifications of loans, historical loan loss rates, changes in the nature of the loan portfolio, overall portfolio quality, industry concentrations, delinquency trends, current economic factors and the estimated impact of current economic conditions on certain historical loan loss rates, among other things. The allowance for loan losses is increased by our loan loss provision, which was discussed above, and reduced by net loan charge-offs. Loans are charged-off when we determine that collection has become unlikely. Recoveries are recorded only when cash payments are received. The allowance for loan losses was $4.5 million, or 1.17% of total loans as of December 31, 2014, compared to $4.2 million, or 1.44% of total loans, as of December 31, 2013.

In 2014, we had charge-offs of $36 thousand and recoveries of $2 thousand. We had net charge-offs of $232 thousand and $25 thousand for the years ended December 31, 2013 and 2012, respectively. However, historical performance is not necessarily an indicator of future performance, particularly considering our limited operating history. Future results could differ materially. However, management believes, based upon known factors, management's judgment and regulatory methodologies, that the current methodology used to determine the adequacy of the allowance for loan losses is reasonable. An analysis of our allowance for loan losses and net charge-offs is presented in the notes to our consolidated financial statements, which are included in this Annual Report.

The following table sets forth the allocation of the total allowance for loan losses by loan type and sets forth the percentage of loans in each category to gross loans. The allocation of the allowance for loan losses as shown in the table should neither be interpreted as an indication of future charge-offs, nor as an indication that charge-offs in future periods will necessarily occur in these amounts or in the indicated proportions.

	2014		**2013**	
	Amount	**Percentage of Loans to Total Loans**	**Amount**	**Percentage of Loans to Total Loans**
Commercial real estate mortgages	$ 1,513	34.0 %	$ 1,653	39.0 %
Commercial real estate - multi-family	1,471	35.4	1,126	26.5
Commercial and industrial	1,156	23.1	1,321	31.1
One-to-four family	186	4.5	-	-
Real estate - construction	106	2.5	27	0.7
Home equity lines of credit	8	0.2	81	1.9
Lease financing	12	0.3	13	0.3
Installment/consumer	1	-	23	0.5
Total	$ 4,453	100.0 %	$ 4,244	100.0 %

Although we believe that our allowance for loan losses was adequate to provide for probable incurred losses in our loan portfolio as of December 31, 2014, future provisions will be subject to ongoing evaluations of the risks in our loan portfolio.

Securities

Our securities portfolio is used to make various term investments, to provide a source of liquidity and to serve as collateral for certain types of deposits and borrowings and to provide interest income. We manage our investment portfolio according to a written investment policy approved by our Board of Directors. Investment balances in our securities portfolio are subject to change over time based on our funding needs and interest rate risk management objectives. Our liquidity levels take into account anticipated future cash flows and all available sources of credits and are maintained at levels management believes are appropriate to assure future flexibility in meeting our anticipated funding needs.

As of December 31, 2014, our securities portfolio consisted primarily of U.S. Government agency obligations and mortgage-backed securities with varying contractual maturities. However, these maturities do not necessarily represent the expected life of the securities as the securities may be called or paid down without penalty. No investment in any of those instruments exceeds any applicable limitation imposed by law or regulation. The Investment Committee reviews the investment portfolio on an ongoing basis in order to ensure that the investments conform to our investment policy as approved by the Board of Directors. As of December 31, 2014, our investment portfolio consisted entirely of available for sale securities. As a result, the carrying values of our investment securities are adjusted for unrealized gain or loss as a valuation allowance, and any gain or loss is reported on an after-tax basis as a component of stockholders' equity.

The following table presents a summary of the amortized cost and estimated fair value of our investment portfolio as of the dates presented:

	December 31, 2014		December 31, 2013		December 31, 2012	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
			(in thousands)			
Available for sale:						
U.S. government agency securities	$ 24,558	$ 24,471	$ 28,530	$ 27,634	$ 24,975	$ 25,267
Mortgage backed securities – residential	76,245	76,146	130,437	125,005	152,531	154,935
Total	$ 100,803	$ 100,617	$ 158,967	$ 152,639	$ 177,506	$ 180,202
Held to maturity:						
Municipal securities	$ -	$ -	$ 300	$ 300	$ -	$ -
Total	$ -	$ -	$ 300	$ 300	$ -	$ -

All of our mortgage-backed securities are agency securities. We do not hold any Fannie Mae or Freddie Mac preferred stock, corporate equity, collateralized debt obligations, collateralized loan obligations, structured investment vehicles, private label collateralized mortgage obligations, sub-prime, Alt-A, or second lien elements in our investment portfolio. At December 31, 2014, our investment portfolio did not contain any securities that are directly backed by subprime or Alt-A mortgages.

The following table sets forth the fair value, amortized cost, maturities and approximated weighted average yield based on estimated annual income divided by the average amortized cost of our securities portfolio at December 31, 2014. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Available for sale	Amortized Cost	Fair Value	Yield
	(dollars in thousands)		
Due in one year or less	$ -	$ -	- %
Due from one to five years	18,990	18,817	1.58
Due from five to ten years	5,568	5,654	2.42
Due after ten years	-	-	-
Mortgage backed securities – residential	76,245	76,146	2.35
	$ 100,803	$ 100,617	2.21 %

Deposits

Deposits are our primary source of funds to support our earning assets. Total deposits were $395.1 million as of December 31, 2014 compared to $390.9 million as of December 31, 2013. To expand and diversify our deposit base the following strategies are deployed:

- Expansion of our suite of products and services targeting professional practices;
- Growth of our retail branch network to provide deposit-taking services from four banking locations;
- Focus on developing and maintaining long-term relationships between our relationship bankers and customers through high quality service; and
- Commitment to the implementation of technology to enhance customer access to banking products and services.

In addition to our deposit growth, the composition of our deposit base has changed substantially since our inception. In our initial years of operation, we relied significantly on certificates of deposit, including brokered deposits, due to our limited branch network, deposit pricing and the timing of our funding needs. Since that time, we have expanded our geographic footprint with two additional branch locations and have attracted significant transaction account business through many of the factors described above. The transition has resulted in a more stable core deposit portfolio with a lower overall cost of funds as the composition of the deposit portfolio shifts from higher cost deposits toward noninterest-bearing demand deposits.

The following table shows the growth of our deposit portfolio, and the shift in the composition of our deposits, since December 31, 2012:

	As of December 31,					
	2014		2013		2012	
	Amount	Percent	Amount	Percent	Amount	Percent
	(dollars in thousands)					
Demand deposits	$ 189,204	47.9 %	$ 177,252	45.3 %	$ 172,165	47.4 %
Savings, N.O.W. and money market deposits	142,286	36.0	139,524	35.7	129,451	35.6
Certificates of deposit of $100,000 or more	44,484	11.3	44,382	11.4	23,215	6.4
Other time deposits	19,151	4.8	29,773	7.6	38,527	10.6
Total deposits	$ 395,125	100.0 %	$ 390,931	100.0 %	$ 363,358	100.0 %

Capital resources

Total stockholders' equity increased $23.9 million to $62.4 million as of December 31, 2014, from $38.5 million as of December 31, 2013. The increase in stockholders' equity was primarily attributable to the results of our private placement offering, which was completed in December 2014 and generated $18.7 million in net proceeds from the sale of 1,343,750 shares of common stock and 1,156,250 shares of preferred stock at a price of $8.00 per share. The preferred stock sold in the offering was structured as a nonvoting common stock equivalent and is entitled to dividends or distributions on the same basis as our common stockholders. The preferred stock is expected to be converted into nonvoting common stock, subject to the approval of an amendment authorizing a class of nonvoting common stock at the 2015 annual meeting of stockholders. Stockholders' equity was also impacted by an increase of $3.4 million in the value of our securities available for sale, net of applicable taxes, as well as our operating earnings of $1.8 million. Historically, we have not paid cash dividends on our common stock, but instead have retained our earnings to support the continued growth of our organization. We expect to continue this practice for the foreseeable future.

We are subject to various regulatory capital requirements administered by the federal banking agencies. At this time, these regulatory capital requirements apply only at the bank level. As of December 31, 2014, we were in compliance with all applicable regulatory capital requirements, and the Bank was classified as "well capitalized," for purposes of the OCC's prompt corrective action regulations, with leverage, Tier 1 risk-based and total risk-based capital ratios of 12.65%, 16.02% and 17.17%, respectively. "Well capitalized" is the highest capital classification for FDIC-insured financial institutions in the United States. As we employ our capital and continue to grow our operations, our capital levels may decrease depending on our level of earnings. However, we expect to monitor and control our growth in order to remain a "well capitalized" under the applicable regulatory guidelines and in compliance with all regulatory capital standards applicable to us.

CONSOLIDATED STATEMENTS OF CONDITION

	At December 31, 2014	At December 31, 2013
	(dollars in thousands, except share and per share data)	
ASSETS:		
Cash and due from banks	$ 5,631	$ 5,486
Interest earning deposits with banks	12,354	480
Total cash and cash equivalents	17,985	5,966
Securities available for sale, at fair value	100,617	152,639
Securities held to maturity (fair value of $0 and $300)	—	300
Securities, restricted	3,962	3,450
Loans	379,652	294,471
Less: Allowance for loan losses	(4,453)	(4,244)
Loans, net	375,199	290,227
Premises and equipment, net	5,989	6,743
Accrued interest receivable	1,494	1,420
Deferred tax asset	2,309	5,326
Other assets	514	997
Total assets	$ 508,069	$ 467,068
LIABILITIES AND STOCKHOLDERS' EQUITY		
Demand deposits	$ 189,204	$ 177,252
Savings, N.O.W and money market deposits	142,286	139,524
Certificates of deposit of $100,000 or more	44,484	44,382
Other time deposits	19,151	29,773
Total deposits	395,125	390,931
Short-term borrowings	46,105	34,500
Accrued interest payable	106	114
Other liabilities	4,312	3,063
Total liabilities	445,648	428,608
Stockholders' equity:		
Preferred stock, par value $0.01 per share; 30,000,000 authorized shares; Convertible Non-Cumulative Series A, 1,156,250 issued and outstanding at December 31, 2014 and 0 issued and outstanding at December 31, 2013	8,950	—
Common stock, par value $0.01 per share; 100,000,000 authorized shares; 5,723,720 issued and outstanding at December 31, 2014 and 4,379,970 issued and outstanding at December 31, 2013	57	44
Surplus	54,809	45,061
Accumulated deficit	(1,283)	(3,127)
	62,533	41,978
Accumulated other comprehensive income (loss):	(112)	(3,518)
Total stockholders' equity	62,421	38,460
Total liabilities and stockholders' equity	$ 508,069	$ 467,068

See accompanying notes to the Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31, 2014	2013
	(dollars in thousands, except per share data)	
Interest income:		
Loans (including fee income)	$ 15,280	$ 12,534
Securities available for sale	3,092	3,526
Securities, restricted	165	147
Securities held to maturity	—	4
Deposits with banks	3	5
Total interest income	18,540	16,216
Interest expense:		
Savings, N.O.W and money market deposits	900	926
Certificates of deposit of $100,000 or more	347	268
Other time deposits	305	450
Other borrowed funds	125	135
Total interest expense	1,677	1,779
Net interest income	16,863	14,437
Provision for loan losses	243	—
Net interest income after provision for loan losses	16,620	14,437
Other income:		
Service charges on deposit accounts	453	432
Other service charges and fees	329	293
Professional practice revenue	224	322
Net securities gains (losses)	27	(149)
Total other income	1,033	898
Other expense:		
Salaries and employee benefits	6,740	6,341
Occupancy and equipment, net	2,340	2,166
Software services	1,612	1,424
Advertising and business development	756	717
Professional fees	561	612
FDIC insurance	285	273
Other operating expenses	1,531	1,521
Total other expenses	13,825	13,054
Income before income taxes	3,828	2,281
Income tax expense	1,984	995
Net income	$ 1,844	$ 1,286
Basic earnings per share	$ 0.42	$ 0.29
Diluted earnings per share	$ 0.41	$ 0.29

See accompanying notes to the Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Year Ended December 31, 2014	Year Ended December 31, 2013
	(in thousands)	
Comprehensive income (loss):		
Net income	$ 1,844	$ 1,286
Unrealized holding gains (losses) arising during the period	6,169	(9,173)
Reclassification adjustment for (gains) losses included in net securities gains (losses) on the consolidated statements of income	(27)	149
Change in unrealized net gains (losses)	6,142	(9,024)
Tax effect	(2,736)	3,880
Other comprehensive income (loss)	3,406	(5,144)
Total comprehensive income (loss)	$ 5,250	$ (3,858)

See accompanying notes to the Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Non-Cumulative Series A Preferred Stock		Common Stock					
	Shares Outstanding	Amount	Shares Outstanding	Amount	Surplus	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
	(dollars in thousands, except shares)							
Balance at January 1, 2013	—	—	4,379,970	$ 4,380	$40,623	$ (4,413)	$ 1,626	$42,216
Exchange of shares of Empire National Bank, $1.00 par value, for shares of Empire Bancorp, Inc., $0.01 par value	—	—	—	(4,336)	4,336	—	—	—
Stock option compensation expense			—	—	102	—	—	102
Total comprehensive income	—	—	—	—	—	1,286	(5,144)	(3,858)
Balance at December 31, 2013	—	—	4,379,970	44	45,061	(3,127)	(3,518)	38,460
Issuance of common stock	—	—	1,343,750	13	10,737	—	—	10,750
Issuance of preferred stock	1,156,250	8,950	—	—	300	—	—	9,250
Capitalized offering costs	—	—	—	—	(1,340)	—	—	(1,340)
Stock option compensation expense	—	—	—	—	51	—	—	51
Total comprehensive income	—	—	—	—	—	1,844	3,406	5,250
Balance at December 31, 2014	1,156,250	$ 8,950	5,723,720	$ 57	$54,809	$ (1,283)	$ (112)	$ 62,421

See accompanying notes to the Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,	
	2014	**2013**
	(in thousands)	
Operating activities:		
Net income	$ 1,844	$ 1,286
Adjustment to reconcile net cash provided by operating activities:		
Provision for loan losses	243	—
Depreciation and amortization	1,029	987
Amortization and accretion	770	1,378
Share based compensation expense	51	102
Net securities (gains) losses	(27)	149
Increase in accrued interest receivable	(74)	(5)
Decrease in other assets	483	376
Increase in accrued and other liabilities	1,241	461
Decrease in deferred income tax	281	248
Net cash provided by operating activities	5,841	4,982
Investing activities:		
Purchases of securities available for sale	—	(27,964)
Sales of securities available for sale	39,585	19,408
Calls/redemptions of securities available for sale	17,836	25,569
Purchase of securities held to maturity	(100)	(300)
Maturities, calls and principal payments of securities held to maturity	400	—
Purchases of securities, restricted	(14,746)	(12,633)
Sales of securities, restricted	14,234	12,366
Net increase in loans, net of charge-offs	(85,215)	(51,016)
Purchase of banking premises and equipment, net of disposals	(275)	(1,318)
Net cash used by investing activities	(28,281)	(35,888)
Financing activities:		
Net increase in deposits	4,194	27,573
Increase in other borrowings	11,605	4,391
Net proceeds from issuance of stock	18,660	—
Net cash provided by financing activities	34,459	31,964
Increase in cash and cash equivalents	12,019	1,058
Cash and cash equivalents beginning of period	5,966	4,908
Cash and cash equivalents end of period	$ 17,985	$ 5,966
Supplemental information-cash flows:		
Cash paid for:		
Interest	$ 1,685	$ 1,830
Income taxes	$ 1,630	$ 499

See accompanying notes to the Consolidated Financial Statements.

EMPIRE BANCORP, INC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements include the accounts of Empire Bancorp, Inc. ("Corporation") and its wholly-owned subsidiary Empire National Bank. Throughout these Notes, "Corporation" refers to Empire Bancorp, Inc. and its consolidated subsidiaries, except as the context otherwise requires, and "Bank" refers only to Empire National Bank.

The Corporation was incorporated on March 22, 2013 for the purpose of becoming a bank holding company for the Bank. The holding company reorganization transaction was effected by means of a statutory share exchange, whereby each share of Bank common stock was exchanged for one share of common stock of the Corporation. The reorganization transaction became effective on August 22, 2013.

Because the Bank is the sole material asset of the Corporation, other than cash, the Corporation's financial condition and operating results principally reflects those of the Bank. The Bank is a national banking association domiciled in Islandia, New York, which commenced operations on February 25, 2008. The principal business office of the Corporation and Bank is located at 1707 Veterans Highway, Suite 8, Islandia, New York.

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") and to general practices within the financial institution industry. Certain reclassifications have been made to prior year amounts to conform to the current year presentation. The following is a description of the significant accounting policies that the Corporation follows in preparing its financial statements.

a) Use of Estimates

In preparing the financial statements, management has made estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reported periods. Such estimates are subject to change in the future as additional information becomes available or previously existing circumstances are modified. Actual future results could differ significantly from those estimates.

b) Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks and federal funds sold, which mature overnight. Cash flows are reported net for customer loan and deposit transactions and overnight borrowings.

c) Securities

Current accounting standards require that investment securities be classified as held to maturity, trading or available for sale. Held to maturity securities are where management has a positive intent and ability to hold to maturity, which are to be reported at amortized cost. The trading category is not applicable to any securities in the Corporation's portfolio because the Corporation does not buy or hold debt or equity securities principally for the purpose of selling in the near term. Available for sale securities, or debt and equity securities which are neither held to maturity securities nor trading securities, are reported at fair value, with unrealized gains and losses, net of the related income tax effect, included in other comprehensive income, a separate component of stockholders' equity. Restricted securities, as disclosed on the balance sheet consisting of Federal Home Loan Bank stock and Federal Reserve Bank stock, are carried at cost.

Interest income includes amortization of purchase premium or accretion of discount. Premiums and discounts on securities are amortized or accreted on the level-yield method. Prepayments are anticipated for mortgage-backed securities. Realized gains and losses on the sale of securities are determined using the specific identification method.

Declines in the fair value of securities below their cost that are other-than-temporary are reflected as realized losses. In determining other-than-temporary losses, management considers many factors, including: (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, (3) whether the market decline was affected by macroeconomic conditions and (4) whether the Corporation has the intent to sell the debt security or more likely than not will be required to sell the debt security before its anticipated recovery. The assessment of whether an other-than-temporary decline exists involves a high degree of subjectivity and judgment and is based on the information available to management at a point in time.

When other-than-temporary loss occurs, management considers whether it intends to sell, or, more likely than not, will be required to sell a security in an unrealized loss position before recovery of its amortized cost basis. If either of these criteria is met, the entire difference between amortized cost and fair value is recognized in earnings. For securities that do not meet the aforementioned criteria, the amount of impairment recognized in earnings is limited to the amount related to credit losses, while impairment related to other factors is recognized in other comprehensive income.

d) Federal Home Loan Bank and Federal Reserve Bank Stock

The Bank is a member of and owns stock in the Federal Home Loan Bank of New York ("FHLB of New York") and the Federal Reserve Bank of New York. The FHLB of New York requires member banks to own a certain amount of stock based on the level of borrowings and other factors, and additional amounts may be invested. Both stocks are carried at cost, classified as restricted securities and periodically evaluated for impairment based on the prospects for the ultimate recovery of par value. Both cash and stock dividends, if any, are reported as income.

e) Loans and Allowance for Loan Losses

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at the principal amount outstanding less any charge-offs, net of deferred origination fees and costs, and an allowance for loan losses. Interest on loans is credited to income based on the principal amount outstanding. Loan origination and commitment fees and certain direct and indirect costs incurred in connection with loan originations are deferred and amortized to income over the life of the related loans without anticipating prepayments and as an adjustment to yield. When a loan prepays, the remaining unamortized net deferred origination fees and costs are recognized immediately upon payoff.

Past due status is based on the contractual terms of the loan. Unless a loan is well secured and in the process of collection, the accrual of interest income is discontinued when a loan's principal or interest payments become ninety days past due. Loans that are deemed uncollectable according to the terms of the loan agreement, or are 90 days past due, are automatically placed on nonaccrual and previously accrued interest is reversed and charged against interest income. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. Interest received on nonaccrual loans is accounted for on the cash basis or cost-recovery method until the loans qualify for return to an accrual status. However, if the Corporation believes that the loan will be fully collectible based upon the individual loan evaluation assessing factors such as collateral and collectability, accrued interest will be recognized upon attainment of certain events. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current for a period of time, and future payments are reasonably assured. When the accrual of interest income is discontinued on a loan, any accrued but unpaid interest is reversed against current period income. Unless otherwise noted, the above policy is applied consistently to all loan classes.

The allowance for loan losses is established through provisions for loan losses charged against income. When available information confirms that specific loans or portions thereof, are uncollectible, these amounts are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance. Although the allowance for loan losses has two separate components, a specific component for impairment losses on individual loans and a general component for collective impairment losses on pools of loans, the entire allowance for loan losses is available to absorb realized losses as they occur whether they relate to individual loans or pools of loans.

The allowance for loan losses is an amount that management currently believes will be adequate to absorb probable incurred losses in the Corporation's loan portfolio. The process for estimating credit losses and determining the allowance for loan losses as of any balance sheet date is subjective in nature and requires material estimates. Actual results could differ significantly from those estimates.

Management currently estimates the general component of the allowance based upon factors including but not limited to an evaluation of inherent risks in the loan portfolio, industry experience, credit risk grades assigned to loans, adverse situations that may affect the borrowers' ability to repay, the estimated value of any underlying collateral, and current economic conditions. Future additions to the allowance may be necessary based on changes in economic conditions or other factors used in management's determination as well as probable incurred losses. In addition, as part of their examination process, regulatory agencies may require additions to the allowance based on their judgments about information available to them.

Estimated losses for loans individually deemed to be impaired are based on either the fair value of collateral, less costs to sell, or the discounted value of expected future cash flows. For all collateral dependent impaired loans, impairment losses are measured based on the fair value of the collateral, less costs to sell. A loan is considered to be impaired when, based on current information and events, it is probable that the Corporation will be unable to collect the scheduled principal and interest when due according to the contractual terms of the current loan agreement. Loans that experience minor payment delays and payment shortfall generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due.

Troubled debt restructurings are renegotiated loans for which concessions have been granted to the borrower that the Corporation would not have otherwise granted and the borrower is experiencing financial difficulty. Troubled debt restructurings are separately identified for impairment disclosures. Troubled debt restructurings are by definition impaired loans and are generally reported at the present value of estimated future cash flows using the loan's effective rate at inception. However, if a troubled debt restructuring is considered to be a collateral dependent loan, the loan is reported at the loan's observable market price or the fair value of the collateral, less costs to sell. For troubled debt restructurings that subsequently default, the Corporation determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses. Unless otherwise noted, the above policy is applied consistently to all portfolio segments and loan classes.

f) Concentration of Credit Risk

The Corporation's portfolio segments are comprised of commercial real estate loans, commercial real estate – multi-family loans, one-to-four family, real estate – construction loans, commercial and industrial loans, lease financing, home equity lines of credit and installment/consumer loans. Risk characteristics of the Corporation's commercial real estate and real estate construction loans tend to be subjective due to vacancy rates, cash flows and the underlying real estate values located in the Corporation's market and primary service area of the counties of Suffolk, Nassau, Kings, Queens and New York. Commercial and industrial and lease financing risk characteristics are driven by economic conditions and the management and capital strength of the borrower.

g) Premises and Equipment

Buildings, furniture and fixtures and equipment are stated at cost less accumulated depreciation. Equipment, computer hardware and software, and furniture and fixtures are depreciated using the straight-line method with a range for useful lives of two to ten years. Leasehold improvements are amortized over the lives of the respective leases, including any option extensions when expected to exercise, or the service lives of the improvements whichever is shorter.

Improvements and major repairs are capitalized, while the cost of ordinary maintenance, repairs and minor improvements is charged to operations.

h) Loan Commitments and Related Financial Instruments

Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and stand-by letters of credit, issued to meet customer-financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay.

i) Income Taxes

Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using tax rates. Temporary differences are differences between the tax basis of assets and liabilities and their reported amounts in the financial statements that will result in taxable or deductible amounts in future years. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recorded for deferred tax assets if the Corporation cannot determine that the benefits will more likely than not be realized.

A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than fifty percent likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded.

j) Earnings per Share

Basic earnings per common share is computed by dividing net income by the weighted-average number of common shares outstanding for the period. Diluted earnings per share, which reflect the potential dilution of the mandatory convertible preferred stock outstanding as well as the dilution that could occur if outstanding options and warrants were exercised and resulted in the issuance of common stock that then shared in the earnings of the Corporation, is computed by dividing net income by the weighted average number of common shares and common stock equivalents.

k) Stock Based Compensation Plans

The Empire National Bank 2008 Stock Incentive Plan provides for the issuance of "incentive stock options" and "nonqualified stock options" to certain qualified individuals. At the time of the holding company reorganization, the plan and all stock options issued by the Bank prior to the reorganization were assumed by the Corporation. All stock options that have been issued under the plan have a ten-year term and vest at a rate of twenty percent on each of the annual anniversary dates from the date of grant. Each option entitles the holder to purchase one share of the Corporation's common stock at an exercise price not less than fair market value at the time of issuance. The Corporation recognizes expense for options awarded under the stock incentive plan over the vesting period at the fair market value of the options on the date they were awarded in accordance with FASB ASC 718, "*Compensation – Stock Compensation.*"

l) Comprehensive Income

Comprehensive income includes net income and other comprehensive income. Other comprehensive income includes revenues, expenses, gains and losses that under generally accepted accounting principles are included in comprehensive income but excluded from net income. Comprehensive income and accumulated other comprehensive income are reported net of related income taxes. Accumulated other comprehensive income for the Corporation includes unrealized holding gains or losses on available for sale securities. Such gains or losses are net of reclassification adjustments for realized gains (losses) on sales of available for sale securities.

m) Fair Value of Financial Instruments

Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect these estimates.

n) New Accounting Standards

There were no new accounting standards issued in the current year that had a material impact on the Corporation's financial position, results of operations or disclosures.

o) Subsequent Events

The Corporation has evaluated subsequent events for recognition and disclosure through March 30, 2015, which is the date the financial statements were available to be issued.

2. SECURITIES

The following tables summarize the amortized cost and fair value of securities available-for-sale and securities held-to-maturity at December 31, 2014 and 2013 and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive income (loss) and gross unrecognized gains and losses:

	December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(in thousands)			
Available for sale:				
U.S. government agency securities	$ 24,558	$ 86	$ 173	$ 24,471
Mortgage-backed securities-residential	76,245	761	860	$ 76,146
Total available for sale securities	$ 100,803	$ 847	$ 1,033	$ 100,617

	December 31, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(in thousands)			
Available for sale:				
U.S. government agency securities	$ 28,530	$ -	$ 896	$ 27,634
Mortgage-backed securities-residential	130,437	149	5,581	$ 125,005
Total available for sale securities	$ 158,967	$ 149	$ 6,477	$ 152,639
Held to maturity:				
Tax-exempt municipal debt	$ 300	$ -	$ -	$ 300
Total held to maturity	$ 300	$ -	$ -	$ 300

Securities with unrealized losses at December 31, 2014 aggregated by category and length of time that individual securities have been in a continuous unrealized loss position are as follows:

	December 31, 2014			
	Less than 12 months		Greater than 12 months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(in thousands)			
U.S government agency securities	$ -	$ -	$ 18,817	$ 173
Mortgage-backed securities-residential	-	-	28,672	860
Total	$ -	$ -	$ 47,489	$ 1,033

At December 31, 2014, all of the mortgage-backed securities and U.S. government agency securities held by the Corporation were issued by U.S. government-sponsored entities and agencies, primarily Ginnie Mae and Fannie Mae, institutions which the government has affirmed its commitment to support. Because the decline in fair value is attributable to changes in interest rates and illiquidity, and not credit quality, and because the Corporation does not have the intent to sell these mortgage-backed securities and U.S. government agency securities, and it is likely that it will not be required to sell the securities before their anticipated recovery, the Corporation does not consider these securities to be other-than-temporarily impaired at December 31, 2014.

The fair value of debt securities and carrying amount, if different, at December 31, 2014 by contractual maturity were as follows. Securities not due at a single maturity date, primarily mortgage-backed securities, are shown separately.

	December 31, 2014	
	Available for Sale	
	Amortized Cost	Fair Value
	(in thousands)	
Due in one year or less	$ -	$ -
Due from one to five years	18,990	18,817
Due from five to ten years	5,568	5,654
Due after ten years	-	-
Mortgage-backed securities-residential	76,245	76,146
Total	$ 100,803	$ 100,617

Proceeds from sales and calls of securities available for sale were $57.4 million and $45.0 million for the years ended December 31, 2014 and 2013, respectively. Gross gains of $460 thousand were realized on the sale of securities during 2014 as compared to gross gains of $34 thousand in 2013. There were gross losses on the sale of securities in 2014 and 2013 of $433 and $183 thousand, respectively.

At December 31, 2014, investment securities with a carrying value of $53 million were pledged as collateral to secure public and bankruptcy deposits, of $36 million and $17 million, respectively.

3. LOANS

The following table sets forth the major classifications of loans:

	December 31,	
	2014	2013
	(in thousands)	
Commercial real estate loans	$ 130,369	$ 127,977
Commercial real estate-multi family	149,105	98,586
Commercial and industrial loans	50,955	48,338
One-to-four family loans	26,499	8,276
Real estate - construction loans	14,124	3,591
Home equity lines of credit	4,028	3,148
Lease financing	3,232	3,094
Installment/consumer loans	549	872
Total	$ 378,861	$ 293,882
Net deferred loan costs and fees	791	589
Allowance	(4,453)	(4,244)
Net loans	$ 375,199	$ 290,227

Allowance for Loan Losses

An evaluation of the allowance for loan losses is performed on a quarterly basis. To adequately assess the allowance for loan losses the following quantitative and qualitative factors are considered:

Quantitative factors:

- Delinquency trends of the Corporation and reported delinquency trends for peer banks;
- Historical loss experience of the Corporation;
- Historical loss experience for peer banks;
- Risk rating migrations; and
- Results of internal and external loan reviews.

Qualitative factors:

- Allowance levels and trends for peer banks;
- Changes in lending policies, procedures, underwriting criteria, as well as collection, charge-off and recovery practices;
- Changes in international, national, regional, and local economic and business conditions;
- Changes in portfolio nature and volume;
- Changes in the experience, ability, and depth of lending management and related staff;
- Changes in the volume and severity of past due loans, nonaccrual loans, criticized and classified loans;
- Changes in the quality of the Corporation's loan review system;
- Changes in the value of underlying collateral for collateral-dependent loans;
- Existence and effect of any concentrations of credit and changes in the level of each such concentration;
- Effect of other external factors such as competition and legal and regulatory requirements; and
- Comparison of the Corporation's performance versus that of its peer group.

The following tables present the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment methods as of December 31, 2014 and 2013:

2014	Commercial real estate loans	Commercial real estate-multi family	Commercial and industrial loans	One-to-four family	Real estate-construction loans	Home equity lines of credit	Lease financing	Installment/consumer loans	Total
					(in thousands)				
Beginning balance	$ 1,595	$ 1,126	$ 1,321	$ 58	$ 27	$ 81	$ 13	$ 23	$ 4,244
Provision for loan losses	(82)	345	(131)	128	79	(73)	(1)	(22)	243
Charge-offs	-	-	(36)	-	-	-	-	-	(36)
Recoveries	-	-	2	-	-	-	-	-	2
Net charge-offs/recoveries	-	-	(34)	-	-	-	-	-	(34)
Ending balance	$ 1,513	$ 1,471	$ 1,156	$ 186	$ 106	$ 8	$ 12	$ 1	$ 4,453
Ending balance: individually evaluated for impairment	$ 99	$ -	$ 197	$ -	$ -	$ -	$ -	$ -	$ 296
Ending balance: collectively evaluated for impairment	$ 1,414	$ 1,471	$ 959	$ 186	$ 106	$ 8	$ 12	$ 1	$ 4,157
Loans	$ 130,369	$ 149,105	$ 50,955	$ 26,499	$ 14,124	$ 4,028	$ 3,232	$ 549	$ 378,861
Ending balance: individually evaluated for impairment	$ 413	$ 2,195	$ 770	$ -	$ -	$ -	$ -	$ -	$ 3,378
Ending balance: collectively evaluated for impairment	$ 129,956	$ 146,910	$ 50,185	$ 26,499	$ 14,124	$ 4,028	$ 3,232	$ 549	$ 375,483

2013	Commercial real estate loans	Commercial real estate-multi family	Commercial and industrial loans	One-to-four family	Real estate-construction loans	Home equity lines of credit	Lease financing	Installment/consumer loans	Total
					(in thousands)				
Beginning balance	$ 2,028	$ 764	$ 1,606	$ 15	$ 23	$ -	$ 8	$ 32	$ 4,476
Provision for loan losses	(433)	362	(53)	43	4	81	5	(9)	-
Charge-offs	-	-	(232)	-	-	-	-	-	(232)
Recoveries	-	-	-	-	-	-	-	-	-
Net charge-offs/recoveries	-	-	(232)	-	-	-	-	-	(232)
Ending balance	$ 1,595	$ 1,126	$ 1,321	$ 58	$ 27	$ 81	$ 13	$ 23	$ 4,244
Ending balance: individually evaluated for impairment	$ -	$ -	$ 351	$ -	$ -	$ -	$ -	$ -	$ 351
Ending balance: collectively evaluated for impairment	$ 1,595	$ 1,126	$ 970	$ 58	$ 27	$ 81	$ 13	$ 23	$ 3,893
Loans	$ 127,977	$ 98,586	$ 48,338	$ 8,276	$ 3,591	$ 3,148	$ 3,094	$ 872	$ 293,882
Ending balance: individually evaluated for impairment	$ -	$ 2,173	$ 2,427	$ -	$ -	$ -	$ -	$ -	$ 4,600
Ending balance: collectively evaluated for impairment	$ 127,977	$ 96,413	$ 45,911	$ 8,276	$ 3,591	$ 3,148	$ 3,094	$ 872	$ 289,282

Troubled Debt Restructurings

As of December 31, 2014 and 2013, the Corporation had a recorded investment in troubled debt restructurings of $3.0 million and $4.6 million, respectively. The Corporation had allocated $197 thousand and $351 thousand of specific reserves for those loans at December 31, 2014 and 2013 and has not committed to lend additional amounts.

Based upon continued performance two of the three troubled debt restructured loans, totaling $2.2 million at December 31, 2014, are on accrual status. A fourth troubled debt restructured loan on the books at December 31, 2013 fully repaid during the year ended December 31, 2014.

There were no troubled debt restructured loans identified during the years ending December 31, 2014 and 2013. No loans modified as troubled debt restructurings in previous years subsequently defaulted within twelve months following the modification.

A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms.

In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under the Corporation's internal underwriting policy.

Past Due and Nonaccrual Loans

The following table presents the recorded investment in nonaccrual and loans past due over 90 days still on accrual by class of loans as of December 31, 2014 and 2013:

	2014		2013	
	Nonaccrual	Loan Past Due Over 90 Days still Accruing	Nonaccrual	Loan Past Due Over 90 Days still Accruing
	(in thousands)			
Commercial real estate loans	$ 413	$ -	$ -	$ -
Commercial real estate- multi-family	-	-	-	-
Commercial and industrial loans	749	-	2,389	-
One-to-four family	-	-	-	-
Real estate - construction loans	-	-	-	-
Home equity lines of credit	-	-	-	-
Lease financing	-	-	-	-
Installment/consumer loans	-	-	-	-
Total	$ 1,162	$ -	$ 2,389	$ -

At December 31, 2014, the Corporation had two loans on nonaccrual status, one of which had an outstanding balance of $413 thousand and a specific reserve of $99 thousand. Subsequent to December 31, 2014, that loan was paid off and the Corporation did not incur additional loss beyond the amount of the specific reserve at December 31, 2014.

The amounts of foregone interest on nonaccrual loans for the years ended December 31, 2014 and December 31, 2013 were $146 thousand and $145 thousand, respectively. The Corporation's ratio of nonaccrual loans to total loans was at 0.31% as of December 31, 2014 as compared to a ratio of 0.81% as of December 31, 2013.

One loan totaling $237 thousand was past due greater than thirty days at December 31, 2014. No loans were past due greater than thirty days as of December 31, 2013.

The Corporation categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Corporation analyzes loans individually by rating the loans based on credit risk. A loan is assigned a risk rating at booking. A risk rating for a loan is reviewed periodically in conjunction with annual credit reviews, external loan review or when one or more events occur such as an event requiring credit approval, changes to an existing credit facility or whenever material favorable or unfavorable information regarding the credit is obtained. The Corporation uses the following definitions for risk ratings:

Pass – Non-criticized and non-classified asset.

Special Mention - A special mention asset has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset, or, in the institutions credit position at some future date. Special mention assets are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification. A special mention loan is not a "classified" asset.

Substandard - A substandard asset is inadequately protected by the current creditworthiness and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful - An asset classified as doubtful has all the weaknesses inherent in one classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loss - An asset classified as loss is considered uncollectible and of such little value that continuance as a bankable asset is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be affected in the future.

The following tables present risk grades and classified loans by class of loans as of December 31, 2014 and 2013. Classified loans included loans in risk categories of Pass, Special Mention, Substandard, Doubtful and Loss.

	December 31, 2014				
	Pass	Special Mention	Sub-standard	Doubtful	Loss
			(in thousands)		
Commercial real estate loans	$ 123,850	$ 3,226	$ 3,293	$ -	$ -
Commercial real estate - multi-family	149,105	-	-	-	-
Commercial and industrial loans	48,279	259	2,417	-	-
One-to-four family	26,499	-	-	-	-
Real estate - construction loans	14,124	-	-	-	-
Home equity lines of credit	4,028	-	-	-	-
Lease financing	3,232	-	-	-	-
Installment/consumer loans	549	-	-	-	-
	$ 369,666	$ 3,485	$ 5,710	$ -	$ -

	December 31, 2013				
	Pass	Special Mention	Sub-standard	Doubtful	Loss
			(in thousands)		
Commercial real estate loans	$ 123,032	$ 4,945	$ -	$ -	$ -
Commercial real estate - multi-family	98,586	-	-	-	-
Commercial and industrial loans	43,794	1,156	3,388	-	-
One-to-four family	8,276	-	-	-	-
Real estate - construction loans	3,591	-	-	-	-
Home equity lines of credit	3,148	-	-	-	-
Lease financing	3,094	-	-	-	-
Installment/consumer loans	872	-	-	-	-
	$ 284,393	$ 6,101	$ 3,388	$ -	$ -

Related Party Loans

Certain directors and their related parties, including their immediate families and companies in which they are principal owners, were loan customers of the Corporation during 2014. The balance of related party loans for the years ended December 31, 2014 and December 31, 2013 were $7.4 million and $1.5 million, respectively. There were no loans to directors or executive officers that were nonaccrual at December 31, 2014.

Loans to principal officers, directors, and their affiliates during 2014 were as follows:

	2014
	(in thousands)
Beginning Balance:	$ 1,523
New loans	4,587
Advances on existing lines	2,359
Paydowns	(1,070)
Ending Balance	$ 7,399

4. PREMISES AND EQUIPMENT

Premises and equipment consisted of:

	December 31, 2014	December 31, 2013
	(in thousands)	
Furniture and fixtures	$ 6,119	$ 5,884
Leasehold improvements	6,072	6,032
	12,191	11,916
Less: accumulated depreciation and amortization	(6,202)	(5,173)
	$ 5,989	$ 6,743

The total amount of depreciation expense at December 31, 2014 and 2013 was $1,029 thousand and $987 thousand, respectively.

5. DEPOSITS

Time Deposits

The following table sets for the remaining maturities of the Corporation's time deposits at December 31, 2014:

	Less than $100,000	$100,000 or Greater	Total
		(in thousands)	
2015	$ 14,429	$ 21,699	$ 36,128
2016	3,029	14,528	17,557
2017	737	7,862	8,599
2018	607	-	607
2019	349	-	349
Thereafter	-	395	395
	$ 19,151	$ 44,484	$ 63,635

The total amount of time deposits that meet or exceed the FDIC insurance limit of $250,000 at December 31, 2014 and 2013 was $10.7 million and $8.7 million respectively. The total amounts of brokered deposits at December 31, 2014 and 2013 were $13.1 million and $17.5 million, respectively. Deposits from principal officers, directors, and their affiliates at year-end 2014 and 2013 were $12.3 million and $12.8 million respectively.

6. SHORT-TERM BORROWINGS

At December 31, 2014, the Corporation had $46.1 million of short-term borrowings outstanding with the Federal Home Loan Bank at a rate of 0.32% with a maturity date of January 2, 2015. FHLB advances were collateralized by a blanket lien on commercial mortgages with a lendable value of $201.8 million at December 31, 2014 and $148.2 million at December 31, 2013.

During 2014, the Bank maintained an overnight line of credit with the Federal Home Loan Bank of New York. The Bank has the ability to borrow against its unencumbered mortgages and investment securities owned by the Bank.

As a member of the Federal Reserve Bank, the Bank may borrow on a collateralized basis at the discount window. There were no borrowings from the discount window at December 31, 2014.

At December 31, 2014, the Bank had aggregate lines of credit of $23 million with unaffiliated correspondent banks to provide short-term credit for liquidity requirements. Of these aggregate lines of credit, $19 million were available on an unsecured basis. As of December 31, 2014, the Bank had no such borrowings outstanding.

7. INCOME TAXES

Income tax expense (benefit) was as follows:

	For the years ended December 31,	
	2014	**2013**
	(in thousands)	
Current:		
Federal	$ 1,331	$ 973
State	372	(195)
	1,703	778
Deferred:		
Federal	(90)	271
State	(15)	(54)
	(105)	217
Change in valuation allowance	386	-
Total	$ 1,984	$ 995

The reconciliation of the expected Federal income tax expense at the statutory tax rate to the actual provision follows:

	For the years ended December 31,			
	2014		2013	
	Amount	Percentage of Pre-tax Earnings	Amount	Percentage of Pre-tax Earnings
	(dollars in thousands)			
Federal income tax benefit computed by applying the statutory rate to income before income taxes	$ 1,301	34 %	$ 776	34 %
State tax, net of federal	230	6	143	6
Incentive stock options	18	-	28	1
Other	49	2	48	3
Valuation allowance	386	10	-	-
Provision for income taxes	$ 1,984	52 %	$ 995	44 %

Deferred tax assets and liabilities are comprised of the following:

	For the year ended December 31,	
	2014	2013
	(in thousands)	
Deferred tax assets:		
Allowance for loan losses	$ 1,616	$ 1,520
Organizational and start-up costs	544	610
Nonqualified stock options	229	229
Deferred rent expense	630	624
Nonaccrual loan interest income	58	72
Other	68	98
Net unrealized loss on available for sale securities	74	2,810
	3,219	5,963
Deferred tax liabilities:		
Net deferred loan costs	(314)	(234)
Depreciation	(174)	(369)
Other	(36)	(34)
	(524)	(637)
Valuation allowance	(386)	-
Net deferred tax asset	$ 2,309	$ 5,326

During 2014, New York State enacted significant changes to its corporate tax code by repealing the banking corporation franchise tax and subjecting banks to the general business corporation franchise tax. As a result of the enacted changes, the Corporation expects for the foreseeable future that it will no longer incur New York State tax liability absent the presence of nonrecurring gains or a significant change in the nature of its operations. While the Corporation expects that this change will result in a lower effective tax rate on a going forward basis, the enacted changes also resulted in the elimination of a $386 thousand deferred tax asset that had been created under the New York banking corporation franchise tax laws, as that deferred tax asset is no longer expected to be realized.

At December 31, 2014 and December 31, 2013, the Corporation had no unrecognized tax benefits. The Corporation does not expect the amount of unrecognized tax benefits to significantly change within the next twelve months. The Corporation is not currently under Federal or New York State audit.

The Corporation is subject to U.S. federal and New York state income tax. The tax years 2011 through 2013 remain open to examination by the Internal Revenue Service and New York State. New York State completed an examination of the Corporation's 2010 through 2012 tax years during 2014. The examination was completed with no additional tax liability owed by the Corporation.

8. STOCKHOLDERS' EQUITY

On December 19, 2014, the Corporation completed a private placement of its capital stock, generating $18.7 million in net proceeds from the sale of 1,343,750 shares of common stock and 1,156,250 shares of Series A preferred stock at a price of $8.00 per share. The Series A preferred stock sold in the offering was structured as a nonvoting common stock equivalent and is entitled to dividends or distributions on the same basis as common stock. At December 31, 2014, the Corporation had outstanding 1,156,250 shares of Series A preferred stock outstanding. The shares of Series A preferred stock rank *pari passu* with respect to dividends and upon liquidation as the shares of common stock of the Corporation. Upon the occurrence of a change of control involving the Corporation, each share of Series A preferred stock will be treated as having been converted into the type and amount of consideration into which a holder of the same number of shares of common stock would be converted as a result of the change of control transaction. Series A preferred stock is mandatorily convertible into voting common stock of the Corporation on a one-for-one basis upon (i) the consummation of the transfer by a holder of Series A preferred stock to third parties in a widely dispersed offering or (ii) in the case of an investor whose ownership of the common stock issuable upon a proposed conversion is conditioned upon the execution of passivity commitments in a form acceptable to the Board of Governors of the Federal Reserve System (acting itself or on delegated authority), upon the execution of such passivity commitments. Series A preferred stock is also mandatorily convertible into nonvoting common stock of the Corporation on a one-for-one basis, subject to the approval by the shareholders of the Corporation and effectiveness of an amendment to the Certificate of Incorporation of the Corporation authorizing a class of nonvoting common stock providing for conversion rights into shares of voting common stock on the same terms and conditions as are provided for the conversion of Series A preferred stock to voting common stock and otherwise with terms acceptable to the holder. Holders of Series A preferred stock have no voting rights, except as required by law.

9. EMPLOYEE BENEFITS

401(K) Plan

The Corporation participates in a contributory retirement and savings plan, which meets the requirements of Section 401(k) of the Internal Revenue Code and covers substantially all current employees. Newly hired employees can elect to participate in the savings plan after completing one year and 1,000 hours of service. Under the provisions of the savings plan, employee contributions are partially matched by the Corporation with cash contributions. Participants can invest their account balances into several investment alternatives. As of December 31, 2014, the savings plan did not allow for investment in the common stock of the Corporation. During the years ended December 31, 2014 and 2013, the Corporation recorded compensation expense related to the plan of approximately $180 thousand and $209 thousand, respectively.

Equity Incentive Plan

The Corporation maintains the Empire National Bank 2008 Stock Incentive Plan ("Plan"), which authorizes the issuance of an aggregate of 600,000 stock options to such individuals and in such amounts as may be designated by the Board of Directors or its Compensation Committee. All stock options issued by the Bank prior to the holding company reorganization transaction were assumed by the Corporation as of the effective date of the reorganization.

At December 31, 2014, options to purchase 134,000 shares of common stock remained available for issuance under the Plan. During the years ended December 31, 2014 and 2013, the Corporation did not grant any stock options.

The Corporation accounts for awards issued under this Plan under FAS ASC 718, *"Compensation – Stock Compensation."*

A summary of activity related to the Corporation's stock options as of December 31, 2014 follows:

	Number of Options		Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
Outstanding, beginning of year	515,250	$	10.00	
Granted	-	$	10.00	
Exercised	-		-	
Forfeited	49,250	$	10.00	
Outstanding, end of year	466,000	$	10.00	4.81 years
Exercisable, end of year	423,400	$	10.00	4.33 years
Vested or expected to vest	466,000	$	10.00	4.81 years

	Number of Shares		Price
Range of exercise prices	466,000	$	10.00

All options shown on the table above vest ratably over five years beginning one year from the date of grant and have a ten year duration. Compensation expense attributable to these options was $51 thousand and $102 thousand for the years ended December 31, 2014 and 2013, respectively. As of December 31, 2014, there was $125 thousand of total unrecognized compensation costs related to nonvested stock options granted under the Plan.

10. WARRANTS

At December 31, 2014, the Corporation had 594,376 warrants issued and outstanding. Of this amount, 307,500 warrants were issued by the Bank at inception to the members of its organizational group in exchange for amounts advanced during the organizational stage. Additionally, 57,500 warrants were issued by the Bank at inception to two vendors in exchange for services rendered in connection with the Bank's organization. Each of the warrants originally issued by the Bank was assumed by the Corporation at the time of the holding company reorganization, has an exercise price of $10.00 per share and is exercisable though February 24, 2018. These warrants may be subject to exercise or forfeiture in the event that the Corporation's capital levels have fallen below regulatory minimums (or higher levels as the regulatory agencies may determine). On December 19, 2014, the Corporation issued a total of 229,376 warrants to certain institutional investors as a part of their respective equity investments in the Corporation made on the same date. These warrants have an exercise price of $9.00 per share and a term of 5 years from the grant date.

11. EARNINGS PER SHARE

The following is a reconciliation of earnings per share for December 31, 2014 and 2013.

	For the years ended December 31, 2014		For the years ended December 31, 2013	
	(in thousands, except per share data)			
Net income	$	1,844	$	1,286
Common equivalent shares:				
Weighted average common shares outstanding		4,428		4,380
Weighted average common equivalent shares for dilutive effects of Series A Convertible Preferred Stock		41		-
Weighted average common and common equivalent shares		4,469		4,380
Basic earnings per share	$	0.42	$	0.29
Diluted earnings per share	$	0.41	$	0.29

There are approximately 466,000 options and 594,376 warrants outstanding at December 31, 2014 that were not included in the computation of diluted earnings per share because the exercise prices were greater than the average market price of common stock and were, therefore, antidilutive.

12. COMMITMENTS AND CONTINGENCIES AND OTHER MATTERS

In the normal course of business, the Corporation has various outstanding commitments and contingent liabilities, such as claims and legal actions, minimum annual rental payments under non-cancelable operating leases, guarantees and commitments to extend credit, which are not reflected in Corporation's financial statements. No material losses are anticipated as a result of these actions or claims.

Leases

The Corporation is obligated to make minimum annual rental payments under non-cancelable operating leases on its premises. Projected minimum rentals under existing leases are as follows:

	December 31, 2014	
	(in thousands)	
2015	$	808
2016		834
2017		860
2018		869
2019		606
Thereafter		8,441

Certain leases contain renewal options and rent escalation clauses. In addition, certain leases provide for additional payments based upon real estate taxes, interest and other charges. Rental expenses under these leases for the years ended December 31, 2014 and 2013 approximated $761 thousand and $676 thousand, respectively. The above chart includes the minimum annual rental payments through lease renewal periods based upon management's intentions to execute the renewal options.

Loan Commitments

Some financial instruments, such as loan commitments, credit lines, letters of credit, and overdraft protection, are issued to meet customer financing needs. These are agreements to provide credit or to support the credit of others, as long as conditions established in the contract are met, and usually have expiration dates. Commitments may expire without being used. Off-balance-sheet risk to credit loss exists up to the face amount of these instruments, although material losses are not anticipated. The same credit policies are used to make such commitments as are used for loans, often including obtaining collateral at exercise of the commitment.

The following represents commitments outstanding:

	December 31,			
	2014		2013	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
	(in thousands)			
Standby letters of credit	$ 1,273	$ 172	$ 683	$ 72
Commercial letters of credit	-	-	-	-
Unused loan commitments	281	59,594	1,171	46,516
Commitments to make loans	-	15,374	350	22,290
Total commitments outstanding	$ 1,554	$ 75,140	$ 2,204	$ 68,878

13. ESTIMATED FAIR VALUE MEASUREMENTS

FAS ASC, *"Fair Value Measurements and Disclosures,"* establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The fair values of securities available for sale are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs) or matrix pricing, which is a mathematical technique widely used to in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs).

Assets and liabilities measured at fair value on a recurring basis are summarized below:

	Fair Value Measurements at December 31, 2014 using:		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(in thousands)	
Assets:			
U.S government agency securities	$ -	$ 24,471	$ -
Mortgage-backed securities-residential	$ -	$ 76,146	$ -

	Fair Value Measurements at December 31, 2013 using:		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:		(in thousands)	
U.S government agency securities	$ -	$ 27,634	$ -
Mortgage-backed securities-residential	$ -	$ 125,005	$ -

At December 31, 2014 and 2013 there were no impaired loans carried at fair value.

As of December 31, 2014 and 2013, the carrying amounts and estimated fair values of financial instruments, not previously presented, were as follows:

	Level of Fair Value Hierarchy	December 31, 2014	
		Carrying Amount	Fair Value
		(in thousands)	
Financial assets:			
Cash and cash equivalents	Level 1	$ 17,985	$ 17,985
Securities, restricted	Level 1	3,962	n/a
Loans	Level 3	379,652	378,209
Accrued interest receivable:			
Investment Securities	Level 2	305	305
Loans	Level 3	1,189	1,189
Financial liabilities:			
Demand, savings, N.O.W. and money market deposits	Level 1	$ 331,490	$ 331,490
Certificates of deposits of $100,000 or more and other time deposits	Level 2	63,635	63,567
Short-term borrowings	Level 1	46,105	46,105
Accrued interest payable:		106	106
Demand, savings, N.O.W. and money market deposits	Level 1	7	7
Certificates of deposits of $100,000 or more and other time deposits	Level 2	99	99

	Level of Fair Value Hierarchy	December 31, 2013			
		Carrying Amount		Fair Value	
		(in thousands)			
Financial assets:					
Cash and cash equivalents	Level 1	$	5,966	$	5,966
Securities, held to maturity	Level 1		300		300
Securities, restricted	Level 3		3,450		n/a
Loans			294,471		295,476
Accrued interest receivable:					
Investment Securities	Level 2		449		449
Loans	Level 3		971		971
Financial liabilities:					
Demand, savings, N.O.W. and money market deposits	Level 1	$	316,776	$	316,776
Certificates of deposits of $100,000 or more and other time deposits	Level 2		74,155		74,221
Short-term borrowings	Level 1		34,500		34,500
Accrued interest payable:					
Demand, savings, N.O.W. and money market deposits	Level 1		12		12
Certificates of deposits of $100,000 or more and other time deposits	Level 2		102		102

The carrying amounts of cash and cash equivalents approximate fair values and are classified as Level 1. The fair values of securities held to maturity are determined in the same manner as securities available for sale disclosed earlier in this note. It is not practical to determine the fair value of restricted securities due to restrictions placed on its transferability. The fair value of loans is computed by calculating the new present value of estimated future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the remaining maturities and terms, resulting in a Level 3 classification. The fair values disclosed for demand, savings, N.O.W. and money market deposits are, by definition, equal to the amount payable on demand at the reporting date resulting in Level 1 classification. The fair value for certificates of deposit is computed by calculating the net present value of estimated future cash flows, using the current rates at which similar certificates of deposit would be issued to depositors, resulting in a Level 2 classification. The short term borrowings generally maturing within 90 days approximate their fair values resulting in a Level 2 classification. For accrued interest receivable and payable, the recorded book value is a reasonable estimate of fair value and the fair value level follows the underlying contract.

14. REGULATORY MATTERS

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can result in certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Corporation's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of its assets, liabilities, and certain off-balance sheet items calculated under regulatory accounting practices. The Bank's capital amounts and classification also are subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier 1 capital to risk weighted assets, and of Tier 1 capital to average assets, as those terms are defined in applicable OCC regulations.

As of December 31, 2014, the Bank was classified as "well capitalized," for purposes of the OCC's prompt corrective action regulations. "Well capitalized" is the highest capital classification for FDIC-insured financial institutions in the United States. To be categorized as "well capitalized," the Bank must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the table below. Management believes, as of December 31, 2014, that the Bank met all capital adequacy requirements.

The Bank's actual capital amounts and ratios are presented in the following table:

As of December 31,	2014					
	Actual		To be Adequately Capitalized Under Prompt Corrective Action Provisions		To be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(dollars in thousands)			
Total risk-based capital ratio	$ 66,449	17.17 %	$ 30,959	>8.00 %	$ 38,699	>10.00 %
Tier 1 risk-based capital ratio	61,996	16.02 %	15,479	>4.00 %	23,219	>6.00 %
Tier 1 leverage ratio	61,996	12.65 %	19,608	>4.00 %	24,510	>5.00 %
	2013					
			(dollars in thousands)			
Total risk-based capital ratio	$ 46,001	14.03 %	$ 26,228	>8.00 %	$ 32,785	>10.00 %
Tier 1 risk-based capital ratio	41,901	12.78 %	13,114	>4.00 %	19,671	>6.00 %
Tier 1 leverage ratio	41,901	9.01 %	18,611	>4.00 %	23,264	>5.00 %

15. PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION

Condensed financial information of Empire Bancorp, Inc. (Parent Company only) follows:

CONDENSED STATEMENTS OF CONDITION

	At December 31, 2014	At December 31, 2013
	(in thousands)	
ASSETS:		
Cash	$ 590	$ 76
Other assets	98	-
Investment in the Bank	61,884	38,384
Total assets	$ 62,572	$ 38,460
LIABILITIES AND STOCKHOLDERS' EQUITY:		
Other Liabilities	151	-
Total liabilities	151	-
Total stockholders' equity	62,421	38,460
Total liabilities and stockholders' equity	$ 62,572	$ 38,460

CONDENSED STATEMENTS OF OPERATIONS

	Year Ended December 31,	
	2014	2013 (1)
	(in thousands)	
Dividends from Bank	$ -	$ 100
Other expense	65	24
(Loss) Income before income taxes and equity in undistributed earnings of the Bank	(65)	76
Income tax benefit	26	-
(Loss) Income before equity in undistributed earnings of the Bank	(39)	76
Equity in undistributed earnings of the Bank	1,883	389
Net income	$ 1,844	$ 465

(1) Empire Bancorp, Inc. organization was completed on August 22, 2013 and therefore net income is not a full year.

CONDENSED STATEMENTS OF CASH FLOWS

	Year Ended December 31,	
	2014	2013
	(in thousands)	
Operating activities:		
Net income	$ 1,844	$ 465
Adjustments to reconcile net cash provided by operating activities:		
Equity in undistributed earnings of the Bank	(1,883)	(389)
Increase in other assets	(98)	-
Increase in other liabilities	151	-
Net cash provided by operating activities	14	76
Investing activities:		
Investments in the Bank	(18,160)	-
Net cash used by investing activities	(18,160)	-
Financing activities:		
Net proceeds from issuance of stock	18,660	-
Net cash provided by financing activities	18,660	-
Increase in cash and cash equivalents	514	76
Cash and cash equivalents at beginning of year	76	-
Cash and cash equivalents at end of year	$ 590	$ 76

Crowe Horwath LLP
Independent Member Crowe Horwath International

INDEPENDENT AUDITOR'S REPORT

Board of Directors and Stockholders
Empire Bancorp, Inc.
Islandia, New York

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Empire Bancorp, Inc., which comprise the consolidated statements of condition as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Empire Bancorp, Inc. as of December 31, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Crowe Horwath LLP

Crowe Horwath LLP

New York, New York
March 30, 2015

INVESTOR INFORMATION

Empire Bancorp, Inc. is a registered bank holding company for Empire National Bank. Empire Bancorp, Inc.'s, common stock is listed on the OTCQB marketplace, which is the middle tier of the OTC market, under the symbol "EMPK." Empire National Bank is a Long Island-based independent bank that specializes in serving the financial needs of small and medium-sized businesses, professionals, nonprofit organizations, real estate investors, and consumers. The bank has four banking offices located in Islandia, Shirley, Port Jefferson Station, and Mineola. The bank takes pride in understanding the needs of each and every customer so that it can deliver the highest quality service with a sense of urgency.

Additional copies of Empire Bancorp. Inc.'s Annual Report can be obtained in PDF form from the Bank's website (www.empirenb.com) in the Investor Relations section.

LEGAL COUNSEL

Geoffrey Scot Kay
Fenimore, Kay, Harrison & Ford, LLP
Austin, TX

INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS

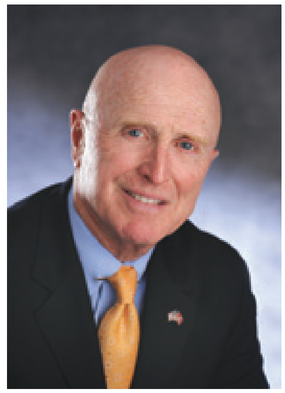
Crowe Horwath LLP
New York, NY

TRANSFER AGENT

Broadridge Corporate Issuer Solutions, Inc.
Philadelphia, PA
(877) 830-4936

BOARD OF DIRECTORS*

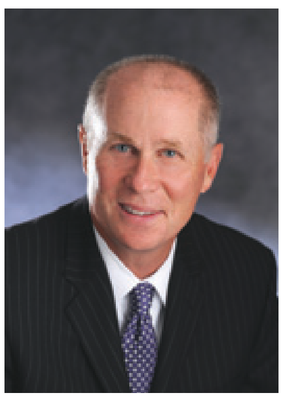
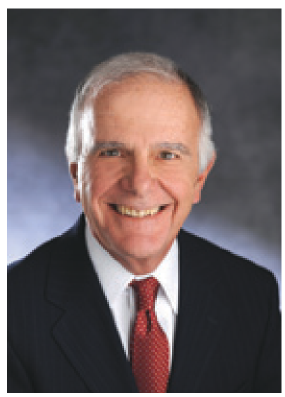




Douglas C. Manditch
Chairman of the Board &
Chief Executive Officer
Empire National Bank

Thomas M. Buonaiuto, CPA
President & Chief Operating Officer
Empire National Bank

John P. Bracken, Esq.
Organizer & Vice Chairman of the Board
Managing Partner, Bracken Margolin Besunder, LLP, Retired

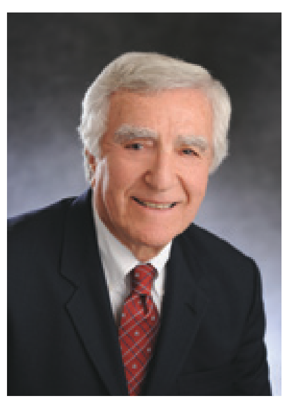




Francis F. Boulton
Organizer & Director
CEO, Long Island Ducks Professional Baseball Club, LLC

John D. Caffrey, Jr.
Organizer & Director
Owner, Castle Financial Advisors, LLC & Castle Asset Management, LLC

John L. Ciarelli, Esq.
Organizer & Director
President, Ciarelli & Dempsey P.C.





Dr. Alan M. Coren
Organizer & Director
President, West Hills Animal Hospital P.C.

Larry R. Davis, Esq.
Organizer & Director
Principal, Davis & Prager, P.C.

Frank A. DiFazio
Organizer & Director
President, Dekal Services, Inc.

Robert D. Falese
Owner & President
Falese Investments, LLC

Salvatore Ferro
Organizer & Director
President & CEO, Alure Home Improvements, Alure Designs & Alure Basements

Dr. Robert J. Frey
Research Professor; Director of the Program in Quantitative Finance in the Dept. of Applied Mathematics & Statistics, Stony Brook University

Mukeshkumar Patel
Organizer & Director
President, Shirley Motel, Inc.

Charles C. Russo, Esq.
Organizer & Director
Senior Partner, Russo Karl Widmaier & Cordano, PLLC

Joseph S. Tantillo, Jr.
Organizer & Director
Founder & CEO, Nassau Suffolk Electrical & Mechanical

Paul J. Tonna
Organizer & Director
Molloy College's Executive Director for the Energeia Partnership

Jeffrey M. Weiner
Organizer & Director
Managing Partner, Marcum, LLP

*Each director serves on the Boards of Empire National Bank and Empire Bancorp, Inc.

OFFICERS

EMPIRE BANCORP, INC.
EXECUTIVE OFFICERS

Douglas C. Manditch
Chairman of the Board, Chief Executive Officer & Secretary

John P. Bracken, Esq.
Vice Chairman of the Board

Thomas M. Buonaiuto, CPA
President, Chief Operating Officer & Assistant Secretary

John Pinna
Vice President

Janet T. Verneuille, CPA
Vice President & Chief Financial Officer

Diane L. Murray, CPA
Assistant Secretary

EMPIRE NATIONAL BANK
EXECUTIVE OFFICERS

Douglas C. Manditch
Chairman of the Board & Chief Executive Officer

Thomas M. Buonaiuto, CPA
President & Chief Operating Officer

John Pinna
Executive Vice President & Chief Information Officer

Janet T. Verneuille, CPA
Executive Vice President & Chief Financial Officer

SENIOR VICE PRESIDENTS

Diane L. Murray, CPA
Chief Risk Officer & Deputy Compliance BSA Officer

Susanne Pheffer
Chief Technology Officer & Security Officer

Robert S. Schepis
Chief Lending Officer

VICE PRESIDENTS

Richard Corrado
Sr. Credit Analyst

Danielle DiGrazia
Operations Officer

William T. Franz
Director of Marketing & Investor Relations

Catherine Giamundo, CPA
Controller

Craig Goldstein
Commercial Loan Officer

Erik Griemsmann
IT Manager

William Guiducci
Branch Manager, *Shirley*

Edy Meyer
Branch Manager, *Port Jefferson Station*

Richard A. Miceli
Loan Administration

Patricia Modena
Commercial Loan Officer

Dorothy Overton
Branch Manager, *Islandia*

Raffaella Palazzo
Credit Administration

Jane Reid
Human Resources

Matthew Ruppert
Portfolio Manager

Marguerite Smith
BSA & Compliance Officer

Michael R. Soffer
Commercial Loan Officer

John P. Solensky
Commercial Loan Officer

EXECUTIVE OFFICERS: Susanne Pheffer; John Pinna; Thomas M. Buonaiuto; Janet T. Verneuille; Robert S. Schepis; Diane L. Murray; Douglas C. Manditch

ASSISTANT VICE PRESIDENTS

Krista M. Braccia
Branch Manager, *Mineola*

Jeanne M. Dahl
Assistant Branch Manager, *Port Jefferson Station*

Miranda M. D´Angelis
Assistant Controller

Margaret Downing
Assistant Branch Manager, *Shirley*

Deborah McCullough
Assistant Branch Manager, *Mineola*

Jessica M. Michalski
Staff Accountant

Steven Post
Electronic Banking Manager

Janet Weissman
Assistant Branch Manager, *Islandia*

MANAGERS
Assistant Branch Managers

Suzanne Fox
Assistant Branch Manager, *Islandia*

Theresa Naumann
Assistant Branch Manager, *Shirley*

Sueann Rando
Assistant Branch Manager, *Port Jefferson Station*

Michael Wilk
Assistant Branch Manager, *Islandia*

ISLANDIA

Headquarters

1707 Veterans Highway, Suite 8
Islandia, NY 11749

631-348-4444

MINEOLA

170 Old Country Road, Suite 1WA
Mineola, NY 11501

516-741-0444

PORT JEFFERSON STATION

4747 Nesconset Highway, Unit 36
Port Jefferson Station, NY 11776

631-928-4444

SHIRLEY

1044 William Floyd Parkway
Shirley, NY 11967

631-395-9500

SUPPORTING OUR COMMUNITY

We are well aware that a large part of our success is tied to the strength of the local economy. As a community bank, we embrace our position within each community and look to facilitate helping businesses and individuals grow and prosper.

Our commitment to community is in everyone's best interest. We are proud to work with so many important, local organizations.

2014 U.S. Women's Amateur Golf Championship

Association for Children with Down Syndrome

Advancement for Commerce Industry and Technology

AHRC Suffolk

ALS Ride for Life

Alzheimer's Foundation of America

American Heart Association

Angela's House

Arthritis Foundation – LI Chapter

Association for A Better Long Island

Brookhaven Women and Youth Services

Catholic Kolping Society of America

Central Nassau Guidance & Counseling

Chamber of Commerce of the Mastics

Child Care Council of Nassau, Inc.

Child Care Council of Suffolk, Inc.

Christmas Magic, Inc.

Clark Gilles Foundation

Colonial Youth & Family Services

Commercial Industrial Brokers Society

Community Family Literacy Project

Community Mainstreaming Associates

Comsewogue Youth Club

Contractors for Kids

Cooley's Anemia Foundation, Inc.

Crohn's & Colitis Foundation of America

Cure MS Foundation of New York, Inc.

Doc Fallot Scholarship Fund

Dominican Sisters Family Health Service

East End Arts Council

Eden II and Genesis Foundation

Energeia Partnership at Molloy College

Erika Josephson Foundation

Father John Papallo Lodge

Federation of Organizations

Frank Catalanotto Foundation

Friends and Family of Chris Barnes

Fuoco Memorial Golf Festival

Gallery North

Garden City Chamber of Commerce, Inc.

Girl Scouts of Suffolk County

Greater Long Island Running Club

Great River Fire Department Anniversary Fund

Hauppauge Industrial Association

Hauppauge Public Schools

Heckscher Museum

Hope House Ministries

Hyperbaric Associates of America, LLC.

Interfaith Nutrition Network

Island Harvest

Islip Travel Baseball

James V. Kavanaugh Knights of Columbus

Jocelyn's Operation Holiday Spirit

Kara's Hope Foundation, Inc.

Kiwanis Club of the Mastics

Leukemia & Lymphoma Society

Long Island Council on Alcoholism and Drug Dependence

Long Island Association

Long Island Builders Institute, Inc.

Long Island Community Chest

Long Island Imagine Awards

Long Island Metropolitan Lacrosse Foundation

Long Island Museum of American Art, History and Carriages

Long Island Real Estate Group

Marine Corp Veterans

Marcum Workplace Challenge

Mastic Fire Department

Maureen's Haven

Medford North Patchogue Lions Club

Mercy Haven, Inc.

Metropolitan Mortgage Officers Society

Michael W. McCarthy Foundation, Inc.

Middle Country Library Foundation

Miller Place Athletic Booster Club

Mineola Chamber of Commerce

Molloy College

Morgan Center

Muscular Dystrophy Association

National Multiple Sclerosis Society

New Ground, Inc.

Noyac Civic Council

Nassau Suffolk Autism Society of America

Our Lady Queen of Apostles

Pal-O-Mine Equestrian, Inc.

Port Jefferson Village

Real Estate Practitioners Institute

Resurrection Lutheran Church, Garden City

The Richard J. O'Brien Foundation

Risk Management Association - Long Island Chapter

Rotary Club of the Ronkonkomas

Royal Educational Foundation of Port Jefferson

SCOPE Education Services

Shanti Fund

St. Jude RC Church Golf Committee

St. Charles Hospital Foundation

St. Louis De Monfort Church

Stony Brook Foundation

Suffolk County Coalition Against Domestic Violence

Suffolk Sports Hall of Fame

Telecare

Theodore Roosevelt Association

Townwide Fund of Huntington, Inc.

Tomorrow's Hope Foundation

United Cerebral Palsy of Suffolk

United Veterans Beacon House

United Way of Long Island

Vietnam Veterans of America

Visiting Nurse Service & Hospice of Suffolk

Wall of Wars Fund

Ward Melville Heritage Organization

William Floyd Alumni Association

William Floyd Community Summit

William Floyd Scholarship Fund

Wounded Warrior Project

YMCA of Long Island, Inc.

EmpireNationalBank

HEADQUARTERS
1707 Veterans Highway
Suite 8
Islandia, NY 11749
631-348-4444
empirenb.com