ANNUAL REPORT

TWO THOUSAND FIFTEEN

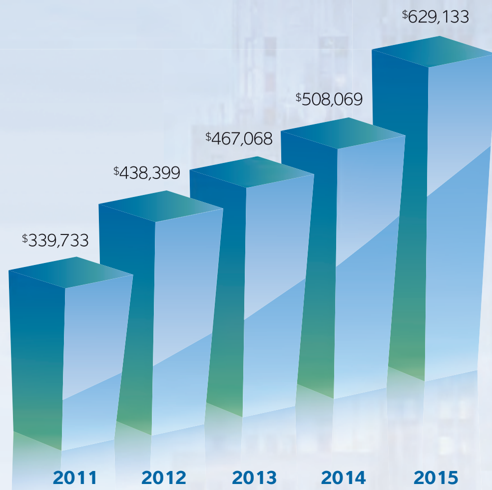
OUR MISSION

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.

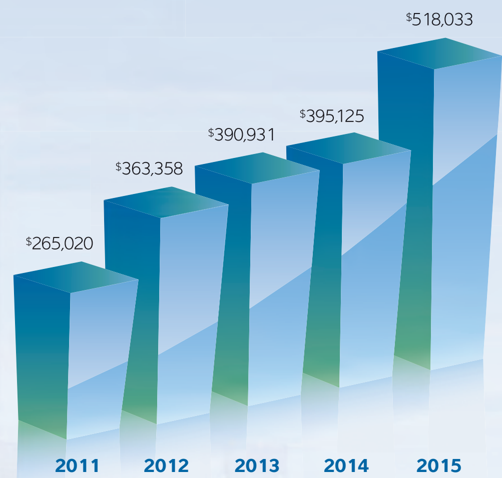
SELECTED FINANCIAL DATA

(dollars in thousands)

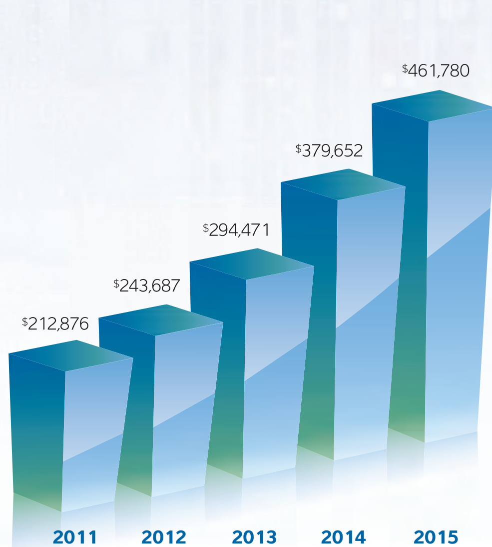
TOTAL ASSETS



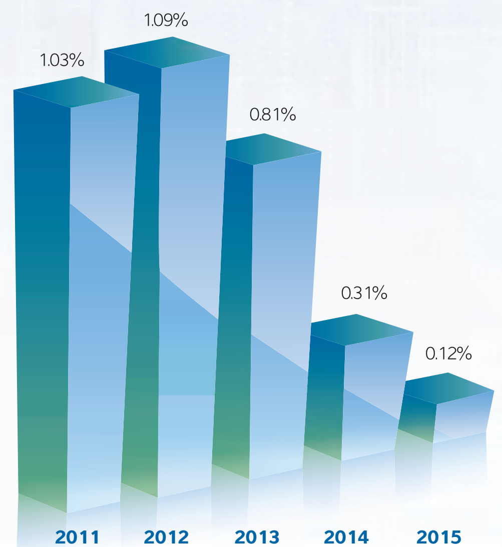
TOTAL DEPOSITS



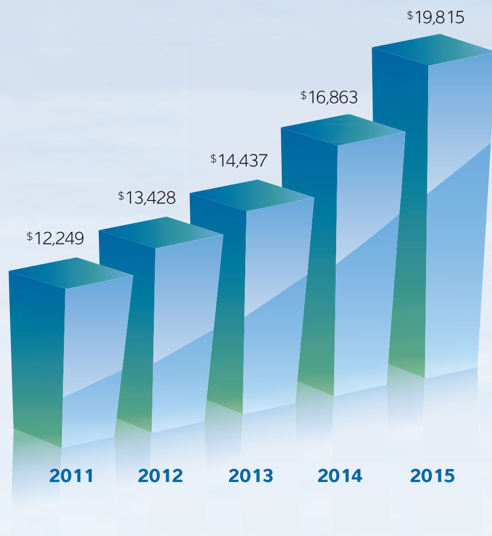
TOTAL LOANS



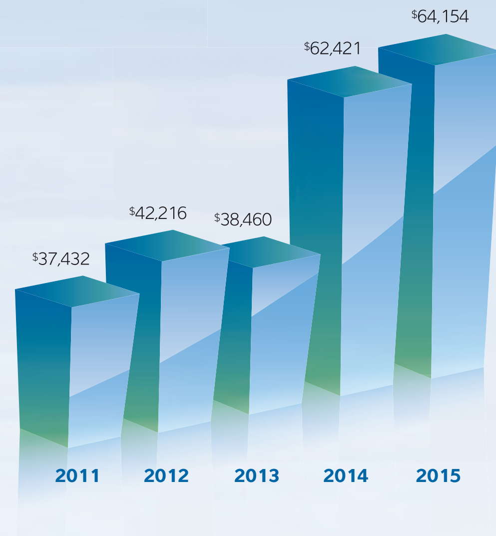
NON-PERFORMING LOANS TO TOTAL LOANS



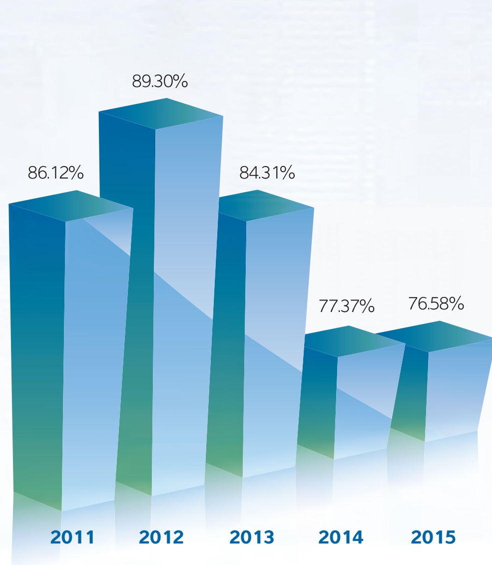
NET INTEREST INCOME



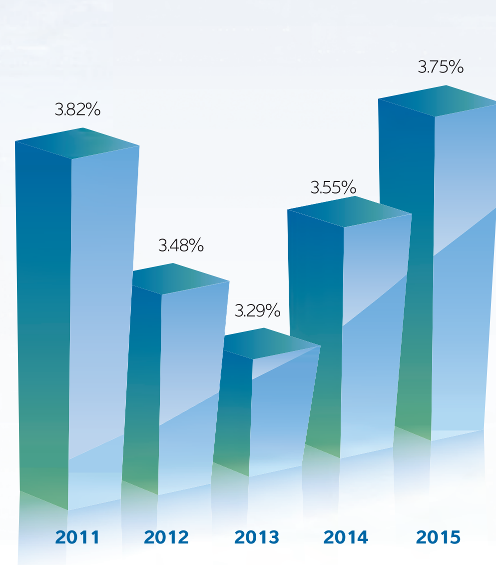
TOTAL STOCKHOLDERS' EQUITY



OPERATING EFFICIENCY RATIO



NET INTEREST MARGIN



FINANCIAL HIGHLIGHTS

(in thousands, except per share data and financial ratios)

For the year ended December 31,	2015	2014	2013	2012	2011
FINANCIAL CONDITION DATA:					
Total Assets	$629,133	$508,069	$467,068	$438,399	$339,733
Total Loans	$461,780	$379,652	$294,471	$243,687	$212,876
Total Deposits	$518,033	$395,125	$390,931	$363,358	$265,020
Total Demand Deposits	$189,200	$189,204	$177,252	$172,165	$ 45,765
Total Stockholders' Equity	$ 64,154	$ 62,421	$ 38,460	$ 42,216	$ 37,432
SELECTED STATISTICAL DATA:					
Net Interest Margin	3.75%	3.55%	3.29%	3.48%	3.82%
Return on Average Assets	0.47%	0.38%	0.29%	0.90%	1.39%
Return on Average Equity	3.98%	4.43%	3.19%	8.90%	13.92%
Efficiency Ratio	76.58%	77.37%	84.31%	89.30%	86.12%
RATIOS:					
Net Charge-offs to Average Loans	0.03%	0.01%	0.08%	0.01%	–
Non-performing Loans to Total Loans	0.12%	0.31%	0.81%	1.09%	1.03%
Non-performing Assets to Total Assets	0.09%	0.23%	0.51%	0.61%	0.65%
Allowance for Loan Losses to Total Loans	1.14%	1.17%	1.44%	1.84%	1.98%
Tier 1 Leverage Capital Ratio	12.22%	12.65%	9.01%	9.52%	10.80%
Common Equity Tier 1 Risk-Based Capital Ratio	16.83%	–	–	–	–
Tier 1 Risk-Based Capital Ratio	16.83%	16.02%	12.78%	14.65%	15.36%
Total Risk-Based Capital Ratio	18.01%	17.17%	14.03%	15.90%	16.62%
OPERATING DATA:					
Net Interest Income	$ 19,815	$ 16,863	$ 14,437	$ 13,428	$ 12,249
Provision for Loan Losses	$ 867	$ 243	–	$ 285	–
Other Income	$ 1,005	$ 1,033	$ 898	$ 1,941	$ 2,630
Other Expense	$ 15,998	$ 13,825	$ 13,054	$ 12,532	$ 10,989
Net Income	$ 2,534	$ 1,844	$ 1,286	$ 3,624	$ 4,609
PER SHARE DATA:					
Diluted Earnings Per Share	$ 0.37	$ 0.41	$ 0.29	$ 0.83	$ 1.09
Book Value	$ 9.32	$ 9.07	$ 8.78	$ 9.64	$ 8.60

NOTE: Selected financial data and financial highlights for 2015 and 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.

DEAR SHAREHOLDER

We are pleased to report, among our 2015 achievements, healthy growth in both earnings and assets while reaching significant milestones set in our business plan. Net income increased $690 thousand or 37.4% over the prior year earnings, and total assets increased 23.8% year over year to exceed $629 million. We remained loyal to our core business model while managing change, successfully entering into new lines of business, and expanding our footprint over the city line.

After assessing the competitive landscape, we decided to enter into New York City with the opening of a deposit and loan production office. As consolidation of our industry in the greater metropolitan area continues to garner opportunity for the few remaining community banks, we were successful in the hiring of seasoned commercial bankers to manage this new office. Our location in Manhattan placed us in the heart of the city, a move structured toward servicing more of the small to medium-sized businesses as well as the mass affluent, prevalent in this vast and lucrative marketplace.

Year-end loan balances grew $82.1 million, or 21.6%, net of loan pay downs, from December 31, 2014. Much of our growth remains in multi-family lending. Even with continued construction, multi-family property values remain elevated as demand in New York City continues to outpace supply. The majority of our loan portfolio is collateralized by multi-family properties in Brooklyn and Manhattan, although we have also expanded our multi-family lending into the Bronx, Queens and Westchester. The Brooklyn and Manhattan boroughs have experienced rapidly rising real estate values in recent years and we believe are somewhat overvalued. Sales and refinancing of properties continue to be fueled by rising real estate values, and borrowers have continued to settle their loans in advance of their loan maturity dates. Accordingly we recognized substantial prepayment fees, written into our loan agreements as protection against early loan payoffs, during 2015. Although accretive to current earnings they have the effect of reducing loan balances, and, in turn, future interest income. However, our new loan generation will partially offset this loss in interest income stemming from loan payoffs. As an organization, we are watchful of the current elevated real estate prices in many sections of New York City and are moving our business development efforts to the areas outlined above.

Currently our strategic focus is on greater diversification into commercial and industrial loans, as well as private banking loans. Once more we recognize an environment where many of our competitors are reaching to book loans with contractual interest rates below our appetite, at times on deal valuations with inadequate cash flows to service the debt being requested. Although our asset quality ratios improved over the year, based upon the growth of average loans by approximately 23.7%, we recorded a loan loss provision of $867 thousand to reflect our recent loan growth.

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

Our funding needs have been addressed by expanding core deposits and by managing the costs and size of our portfolio of bankruptcy account relationships. During 2015 we implemented a strategic initiative focused on attracting municipal deposits to enable us to meet the needs of our expanding loan portfolio while allowing higher cost wholesale deposits to run off the balance sheet. Employing alternative collateral coverage options allowed us to attract new municipal relationships.

In the fourth quarter of 2015, we raised additional capital in the form of $15.3 million in subordinated debt through our holding company and injected $10 million of the proceeds to the bank to provide additional capital to support our continued growth. Although a portion of our earnings will be needed

to support the debt service, we concluded the subordinated debt could be obtained at a lower cost of capital, and was less dilutive to our shareholders, than an additional common stock equity raise. In addition, our interest payments on the debt are tax deductible.

Tightening spreads continue to make it more difficult to grow assets. Our net interest margin of 3.75% for the year ended December 31, 2015, as compared to 3.55% for the year ended December 31, 2014, reflected a significant influx of revenue from loan prepayment penalties which exceeded $1.5 million. As these prepayment fees decrease with changes in market conditions, managing asset growth to outpace the downward pressure on the net interest margin is essential. Loans need to be vetted not only for credit underwriting considerations, but also for appropriate pricing, to protect our prospective revenue streams. We are in a tough time in the lending cycle, but will not relinquish our proven high credit standards to secure additional loan growth. Since entering 2016, the Treasury yield curve has flattened as oil prices have remained low, stocks have sold off and the country continues to plow through a peculiarly unpredictable presidential election year. When and how quickly rates rise is yet to be seen. Given the global economic uncertainties, combined with the geopolitical issues domestically and abroad, our management team continues to take a cautious, well-balanced approach to our balance sheet management.

Intense regulation continues to plague our earnings growth and overall expansion as it requires more and more of management's time, which somewhat constrains us from expanding our customer base. Small and medium-sized banks have paid a very high price in the "one size fits all" regulatory environment we face today. The largest banks can easily absorb the additional costs of regulation while small and medium-sized banks find it to be most costly. In 2015, our costs for compliance due to regulation rose to $2.7 million from $2.5 million in 2014 and $2.4 million in 2013, although the percentage of total revenue represented by the expense decreased to 12% in 2015 from 13.5% in 2014 and 14% in 2013. In our mind, the impact of scale on our regulatory expense burden proves the point that the largest banks are affected the least under the current "one size fits all" regulatory scenario, notwithstanding the fact that they caused the most damage in the most recent economic downturn.

"Too big to fail" continues in discussion and whether it's been fixed depends on the definition of "fails," but "too small to succeed" is rarely spoken about. The absence of new banking charters and the continued consolidation of community banks exemplify the need for change in how regulators examine small and medium-sized banks. Small and medium-sized banks are not systemically dangerous and generally go out of their way to support their communities with monetary contributions and volunteer time for charities. They also create jobs not only in their institutions, but also by lending to local businesses which promotes further expansion and job creation. Community banks also tend to provide more support to local companies, especially during economically troubled times. Community banks do this by knowing their customers and electing to work through difficult situations without going directly to litigation, which, in our experience, generally results in more successful outcomes for all parties.

We also have continuing concerns with the effects of the current regulatory framework – as well as proposed regulations expected to be finalized – on our capital structure. Basel III, which became effective in January 2015, increased regulatory capital requirements and introduced several new capital measures designed to limit our ability to leverage our operations. In addition, we are anticipating a change in the accounting treatment for loans, which effectively would require us to write off a portion of a new loan when the loan is booked. If implemented, this new standard would further limit us from a controlled leveraging of our balance sheet and higher earnings. While we are not opposed to regulation, it seems that a more thoughtful and effective approach to risk would take into consideration the complexity or the simplicity of the institution's balance sheet, rather than a "one size fits all" approach.

We continue to be concerned about competition for our bank and non-bank competitors. We note that a number of our bank competitors are loosening underwriting standards, enabling them to compete more effectively in our marketplace for certain loans. As we have stated on numerous occasions, we will continue to hold firm with our underwriting standards because we believe that, in the long-run, strong underwriting is the best way to minimize future losses in our loan portfolio. We accept that maintaining our conservative standards may result in our foregoing some revenue over the short-term, but believe that problem loans are the quickest way to destroy shareholder value. We also face competition from non-bank lenders, who are not subject to the same level of regulation and supervision that we are. While these lenders have historically focused on certain segments of the marketplace that we have not directly targeted to any meaningful extent, such as the consumer market, these lenders have expanded the scope of their operations in recent years to attract small business customers within our market. Because these non-bank lenders are not subject to the same level of regulation and supervision as we are, they may be in a better position to more aggressively compete on price with respect to certain small business customers. We believe that competition

from non-bank lenders will continue to increase over the foreseeable future, although we are hopeful that a more even regulatory playing field will eventually develop with respect to the industry. Notwithstanding the competitive landscape and the challenges that we face from bank and non-bank competitors, we believe that we have been and will continue to be an effective competitor in the markets that we serve.

We believe the continued low rate environment over the past decade largely drove escalating commercial real estate values. As market rates begin to meaningfully rise, these elevated market values are likely to increase risks associated with credit quality issues. Inadequate cash flows to service debt on investment properties will stress the high debt amounts presently being underwritten in certain areas of our market. Prudent banking principles require recognition of overheated markets as well as underwriting adjustments demonstrating restraint. History shows us this is not the first time the banking industry has experienced overheated markets. It is said that if you do not learn from history, you are doomed to repeat it.

While pursuing different approaches to building our business, we hold true to our service culture, which we believe holds the key to our continued success. We believe that we have a competitive advantage when it comes to serving the needs of small to medium-sized, privately owned businesses, professionals, nonprofits, municipalities and consumers. Incorporating sales into our everyday interactions with our customers, contacts and networks is increasingly important to all members of our team. Our organization is scalable with the right resources to draw upon for increased profitability, and we recognize that consistent financial performance drives shareholder value. Our challenges ahead are not simple, but we face them with drive and confidence. When in the best interest of our shareholders, we are willing to forego short-term profitability for long-term shareholder value.

We continue to improve our delivery models, develop our mobile banking and online capabilities, and work to secure our customers' identities and personal data. Our personal and small business customers embraced our roll out of Mobile Remote Deposit, which also allowed us to attract profitable deposit relationships of business loan customers outside our branch network.

With the increased cyber threat landscape, cybersecurity is always top of mind. As one of today's significant risks to all business globally, we continually add the technology and tools to our infrastructure to safeguard security. Cybersecurity is one of our top priorities. Communicating cyber security awareness to our customers through various communication channels is an important strategy to combat these threats. Our social media outreach continues to evolve as we use it to spread the word on our commitment to work with the local organizations that we serve and support as well as to enhance our existing relationships via brand awareness and educational information sharing.

In 2016, we anticipate the introduction of a new online cash management system and new mobile app to enrich our customers' online banking experience. We believe these product upgrades, from Mobile Bill Payment to Positive Pay/Account Reconciliation services, will provide a better user interface and better support to our corporate client base.

Last January we expanded our Board of Directors with the addition of Robert Falese, Jr., a forty-year veteran of the banking profession. Bob served in senior executive roles in commercial banking and lending throughout his career, and that experience provides us with a valuable and respected resource as we continue maturing as an organization.

We continue to emphasize the creation of shareholder value as a governing principle, and, particularly, increasing long-term returns for our shareholders. Our intention is to continue leveraging our capital to enhance earnings while maintaining our disciplined underwriting standards.

Once again, on behalf of our Board of Directors and management team, we close by thanking our shareholders, employees and other stakeholders for their support and dedication to our success. We look forward to seeing you at our shareholder meeting on May 19, 2016, being held at the Islandia Marriott Long Island at 3635 Express Drive North in Islandia.

God bless the United States of 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 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, 2014, and 2015 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,				
	2015	**2014**	**2013**	**2012**	**2011**
Income Statement Data:					
Interest income	$ 21,504	$ 18,540	$ 16,216	$ 15,696	$ 14,765
Interest expense	1,689	1,677	1,779	2,268	2,516
Net interest income	19,815	16,863	14,437	13,428	12,249
Provision for loan losses	867	243	-	285	-
Net interest income after provision	18,948	16,620	14,437	13,143	12,249
Other income	1,005	1,033	898	1,941	2,630
Other expense	15,998	13,825	13,054	12,532	10,989
Income before income taxes	3,955	3,828	2,281	2,552	3,890
Income tax expense (benefit)	1,421	1,984	995	(1,072)	(719)
Net income	$ 2,534	$ 1,844	$ 1,286	$ 3,624	$ 4,609
Period-End Balance Sheet Data:					
Investment securities, available-for-sale	$ 151,043	$ 100,617	$ 152,639	$ 180,202	$ 114,502
Loans, net of allowance for loan losses	456,512	375,199	290,227	239,211	208,660
Allowance for loan losses	5,268	4,453	4,244	4,476	4,216
Total assets	629,133	508,069	467,068	438,399	339,733
Noninterest-bearing deposits	189,200	189,204	177,252	172,165	45,765
Interest-bearing deposits	328,833	205,921	213,679	191,193	219,255
Stockholders' equity	64,154	62,421	38,460	42,216	37,432
Per Share Data:					
Diluted earnings	$ 0.37	$ 0.41	$ 0.29	$ 0.83	$ 1.09
Basic earnings	0.42	0.42	0.29	0.83	1.09
Book value, as converted(1)	9.32	9.07	8.78	9.64	8.60
Weighted average common shares outstanding(2)	6,100,689	4,427,830	4,379,970	4,373,279	4,213,866
Weighted average preferred shares outstanding(2)	779,281	41,182	-	-	-
Performance Ratios:					
Return on average equity	3.98 %	4.43 %	3.19 %	8.90 %	13.92 %
Return on average assets	0.47	0.38	0.29	0.90	1.39
Net interest margin	3.75	3.55	3.29	3.48	3.82
Efficiency ratio(3)	76.58	77.37	84.31	89.30	86.12
Asset Quality Ratios:					
Nonperforming assets to total assets(4)(5)	0.09 %	0.23 %	0.51 %	0.61 %	0.65 %
Nonperforming loans to total loans(4)(5)	0.12	0.31	0.81	1.09	1.03
Allowance for loan losses to total loans(5)	1.14	1.17	1.44	1.84	1.98
Net charge-offs to average loans	0.03	0.01	0.08	0.01	-
Capital Ratios (bank level only)(6):					
Tier 1 leverage capital	12.22 %	12.65 %	9.01 %	9.52 %	10.80 %
Common equity tier 1 risk-based capital	16.83	-	-	-	-
Tier 1 risk-based capital	16.83	16.02	12.78	14.65	15.36
Total risk-based capital	18.01	17.17	14.03	15.90	16.62

(1) For the year ended December 31, 2014, 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) During the third quarter of 2015, the Corporation converted all of its issued and outstanding Series A preferred stock for an equivalent number of shares of the Corporation's non-voting common stock.

(3) Efficiency ratio is the ratio of noninterest expense to net interest income and noninterest income.

(4) For the periods presented, nonperforming assets consist solely of nonperforming loans and nonperforming loans consist solely of nonaccrual loans.

(5) Total loans are net of unearned discounts and deferred fees and costs.

(6) Capital ratios at December 31, 2015 are calculated under Basel III guidelines.

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, Bronx and New York in the State of New York, which we serve from our main office located at 1707 Veterans Highway, Islandia, New York, three branch offices located in Shirley, Port Jefferson Station and Mineola, New York and a loan and deposit production office located in Manhattan, 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 and throughout New York City. 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:

Each member of our senior management team has experience at growing financial institutions in the New York metropolitan area.

Cohesive core management team with extensive local banking experience. Our senior management team is led by Douglas C. Manditch, Chairman and Chief Executive Officer, and Thomas M. Buonaiuto, President and Chief Operating Officer. Mr. Manditch has 50 years of banking experience, all of which have been on and around Long Island, including approximately 26 years as Chief Executive Officer of Long Island-based financial institutions. Mr. Buonaiuto, a Certified Public Accountant, has more than 23 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, Executive Vice President and Chief Financial Officer, is a Certified Public Accountant with over 28 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, Executive Vice President and Chief Information Officer, has over 23 years banking experience centered in technology and operations. Susanne Pheffer, Executive Vice President and Chief Technology Officer, has over 31 years of working expertise in the financial technology arena serving as a consultant and Chief Information Officer at the then largest independent commercial bank headquartered on Long Island. Michael P. Locorriere, Executive Vice President and Director of Municipal Banking, has more than 25 years of banking and government experience. Prior to joining the bank in 2015, Mr. Locorriere served in similar roles at other commercial financial institutions on Long Island. Diane Murray, Senior Vice President and Chief Risk Officer, is a Certified Public Accountant, with approximately 38 years of accounting experience, including 13 years in public accounting at a Big Four accounting firm and her last 14 years in banking. Raffaella Palazzo, Senior Vice President and Deputy Chief Credit Officer, has over 15 years of commercial lending experience. Prior to joining Empire National Bank in 2008, she spent 10 years at another Long Island-based financial institution where she completed formal credit training and managed a loan portfolio. Matthew Ruppert, Senior Vice President and Deputy Chief Credit Officer, has over 13 years of experience in community banking, specifically the commercial lending and credit areas. Prior to joining Empire National Bank shortly after its inception, he began his career at the then largest independent commercial bank headquartered on Long Island where he was formally credit trained. Robert Schepis, Senior Vice President and Chief Lending Officer, has over 25 years of commercial and industrial as well as commercial real estate lending expertise in the financial services and banking industry on Long Island and in New York City. His experience includes business development as well as risk management.

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, 2015, the Bank had a 12.22% tier 1 leverage capital ratio, a 16.83% common equity tier 1 risk-based capital ratio, a 16.83% tier 1 risk-based capital ratio and a 18.01% total risk-based capital ratio. 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, 2015, our total deposits were $518.0 million, representing a compounded annual growth rate of 17.9% since December 31, 2011. Our deposit growth has been driven significantly by the growth in our savings, N.O.W. and money market deposits primarily from new municipal banking relationships. Savings, N.O.W. and money market deposits represented approximately 55.3% of our total deposits at December 31, 2015, up from 47.7% of our total deposits at December 31, 2011. Active solicitation of municipal deposits in the latter half of 2015 helped reduce our cost of funds and significantly contributed to total

deposit growth. 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, Bronx 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 1,502,968 residents as of July 1, 2014, which represents a 0.6% increase in population since April 1, 2010. Similarly, the population of Nassau County was approximately 1,358,627 residents as of July 1, 2014, which represents a 1.4% 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 2014, the median household incomes in Suffolk County and Nassau County were $88,323 and $98,401, compared to a New York state household income median of $58,687. Further, according to data provided by the FDIC, between June 30, 2010 and June 30, 2015, FDIC-insured deposits in Suffolk County and Nassau County have increased by approximately 35.7% and 26.1%, 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, 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 35% of the deposits in Suffolk and Nassau counties were held in banks that were based on Long Island; where as of June 30, 2015, that number had decreased to less than 17%, 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 ten to fifteen 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 may not require personal guarantees when lending to not-for-profit entities, religious organizations, condominium associations, financial institutions and municipal entities. 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, one-to-four family properties 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 medium-sized 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 fifteen years and the rates generally are not fixed for over twelve 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 our lending activities, 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 seek to maximize long-term investment earnings through managing 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

2014, we joined ICS®, an Insured Cash Sweep® service to manage our growing public fund deposit base. 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, or CDARS®, 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 eight-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, 2015, demand deposits comprised 36.5% of our total deposits.

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

Effective January 1, 2015, we became subject to new rules designed to implement the recommendations with respect to regulatory capital standards, commonly known as Basel III, approved by the International Basel Committee on Banking Supervision. The Basel III framework is applicable to all top tier bank holding companies with consolidated assets of $1.0 billion or more and all banks, regardless of size. Accordingly, at this time, we are subject to Basel III only at the bank level.

The new Basel III rules establish the following minimum regulatory capital ratios:

- A leverage ratio of 4.0%;
- 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%); and
- A total risk-based capital ratio of 8.0%.

The Basel III rules also changed the regulatory capital requirements for purposes of the prompt corrective action regulations. Accordingly, to be categorized as well capitalized, the bank must have a minimum leverage capital ratio of at least 5.0%, common equity tier 1 capital ratio of at least 6.5%, a tier 1 risk-based capital ratio of at least 8.0%, and a total risk-based capital ratio of at least 10.0%. The rules also implemented 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 is being phased in over a three year period, beginning January 1, 2019. 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, 2015 and expect to meet all minimum regulatory capital requirements under the final rule, 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 applies 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 does 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 $121.0 million, or 23.8%, to $629.1 million as of December 31, 2015, compared to $508.1 million as of December 31, 2014. Our asset growth was largely driven by loan growth of $82.1 million, or 21.6% and an increase of $50.4 million in securities available for sale. Asset quality remained strong, with total nonperforming loans comprising 0.12% of total loans as of December 31, 2015, compared to 0.31% as of December 31, 2014. Total deposits increased $122.9 million, or 31.1%, to $518.0 million as of December 31, 2015, compared to $395.1 million as of December 31, 2014. Our deposit growth was driven primarily by savings, N.O.W. and money market growth. The growth in these deposits was driven in large part by new municipal banking relationships. Noninterest-bearing deposits, which represent our lowest cost of funding, remained constant at $189.2 million during 2015 and 2014. The percentage of noninterest-bearing deposits to total deposits declined from 47.9% to 36.5% due to the growth in savings, N.O.W. and money market accounts outpacing the growth in noninterest-bearing deposits. Short-term borrowings, which represent advances from the Federal Home Loan Bank of New York, declined $20.0 million from $46.1 million as of December 31, 2014 to $26.1 million as of December 31, 2015. On December 17, 2015, we completed a private placement of $14.7 million, net of issuance costs, in aggregate principal amount of subordinated notes. Total stockholders' equity increased $1.8 million to $64.2 million as of December 31, 2015, from $62.4 million as of December 31, 2014. Stockholders' equity was impacted by a decrease of $1.0 million in the value of our securities available for sale, net of applicable taxes, as well as our operating earnings of $2.5 million.

Net income for the year ended December 31, 2015 was $2.5 million or $0.37 per diluted share, compared to net income of $1.8 million, or $0.41 per diluted share, in 2014, an increase of $690 thousand, or 37.4%. The increase in net income during 2015 was positively impacted by an increase in net interest income of $3.0 million, or 17.5%, to $19.8 million, which resulted from an increase of $53.1 million, or 11.2%, in our average interest-earning assets, as well as the expansion of our net interest margin from 3.55% to 3.75%, as compared to the year ended December 31, 2014. Other income decreased by $28 thousand, or 2.7%, to $1.0 million for year ended December 31, 2015 primarily as a result of the net decrease of $98 thousand for net securities gains/losses, offset by the increase of $53 thousand in professional practice revenue. Other expenses increased $2.2 million, or 15.7%, as compared to the year ended December 31, 2014, primarily as a result of an increase in salaries and employee benefits of $1.4 million, or 20.6%. Increase in other expenses also reflected the New York State and New York City capital based taxes introduced in 2015, which replaced our New York State and New York City income tax liability. The 2014 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 2014 net income was $2.2 million.

Our efficiency ratio improved to 76.58% for the year ended December 31, 2015, as compared to 77.37% for the year ended December 31, 2014, 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, 2015 were $0.42 and $0.37, respectively, compared to $0.42 and $0.41, respectively, for 2014. Our return on average assets was 0.47% for

2015, as compared to 0.38% for 2014, and our return on average equity was 3.98% for 2015, as compared to 4.43% for 2014.

Comparison of operating results for the years ended December 31, 2015 and 2014

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,					
	2015			2014		
	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)	$ 408,794	$ 19,012	4.65 %	$ 330,476	$ 15,280	4.62 %
Securities available for sale[(1)]	107,307	2,293	2.14	140,633	3,092	2.20
Securities, restricted	3,240	175	5.40	3,440	165	4.80
Deposits with banks	9,284	24	0.26	914	3	0.33
Securities, tax exempt[(2)]	-	-	-	21	1	4.76
Federal funds sold	5	-	-	5	-	-
Total interest-earning assets	$ 528,630	$ 21,504	4.07	$ 475,489	$ 18,541	3.90
Non interest-earning assets:						
Cash and due from banks	7,511			6,295		
Other assets	6,131			5,001		
Total assets	$ 542,272			$ 486,785		
Interest bearing liabilities:						
Savings, N.O.W. and money market deposits	$ 207,410	$ 992	0.48%	$ 156,573	$ 900	0.57%
Certificates of deposit of $100,000 or more	39,292	375	0.95	43,323	347	0.80
Other time deposits	16,300	203	1.25	22,241	305	1.37
Borrowed funds	18,888	73	0.39	33,882	125	0.37
Subordinated debentures	611	46	7.53	-	-	-
Total interest-bearing liabilities	$ 282,501	$ 1,689	0.60	$ 256,019	$ 1,677	0.66
Non interest-bearing liabilities:						
Demand deposits	191,265			184,950		
Other liabilities	4,806			4,181		
Total liabilities	478,572			445,150		
Stockholders' equity	63,700			41,635		
Total liabilities and stockholders' equity	$ 542,272			$ 486,785		
Net interest income		$ 19,815			$ 16,864	
Net interest spread[(3)]			3.47 %			3.24 %
Net interest margin[(4)]			3.75 %			3.55 %

(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 $3.0 million for the year ended December 31, 2015, as compared to the prior year, primarily resulting from the growth in total interest income of $3.0 million year over year. Growth in the average balance of interest-earning assets of $53.1 million as well as a shift in the asset mix from investing securities to loans, our highest yielding asset, primarily attributed to this increase. For the year ended December 31, 2015, average loans represented 77.3% of our average interest-earning assets, as compared to 69.5% for the year ended December 31, 2014. The shift in asset composition resulted in an increase in our yield on interest-earning assets from 3.90% for 2014 to 4.07% for 2015. The decrease in total interest expense for 2015 was attributable to a reduction in the cost of average interest-bearing liabilities to 0.60% for the year ended December 31, 2015 from 0.66% for the prior year partially offset by an increase in the average balance of interest-bearing deposits of $40.9 million. The decrease in the cost of average interest-bearing liabilities was primarily due to the continued low interest rate environment as well as growth in municipal banking deposits, which replaced higher cost wholesale funding sources. Average balances of short-term borrowings, which represent our lowest cost of interest-bearing funding, decreased by $15.0 million. The increase in net interest income also was positively impacted by an increase of $6.3 million, or 3.4%, in the average balance of noninterest-bearing demand deposits for the year ended December 31, 2015, as compared to the prior year. Net interest margin for the years ended December 31, 2015 and 2014 was 3.75% and 3.55%, 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, 2015 Over 2014 Increase/(Decrease) Due To		
	Average Volume	Average Rate	Net Change
		(in thousands)	
Interest income on interest-earning assets:			
Loans (including fee income)	$ 3,642	$ 90	$ 3,732
Securities available for sale	(714)	(85)	(799)
Securities, restricted	(10)	20	10
Securities, tax exempt [1]	(1)	-	(1)
Deposits with banks	22	(1)	21
Total increase (decrease) in interest income	2,939	24	2,963
Interest expense on interest-bearing liabilities:			
Savings, N.O.W. and money market deposits	260	(168)	92
Certificates of deposit of $100,000 or more	(34)	62	28
Other time deposits	(76)	(26)	(102)
Borrowed money	(58)	6	(52)
Subordinated debentures	46	-	46
Total increase (decrease) in interest expense	138	(126)	12
Total increase (decrease) in net interest income	$ 2,801	$ 150	$ 2,951

(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 an $867 thousand provision for loan losses for the year ended December 31, 2015. We recorded a $243 thousand provision for loan losses for the year ended December 31, 2014. The increase in the provision for loan losses in 2015 was primarily 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, decreased $28 thousand for the year ended December 31, 2015, as compared to the same period in 2014, primarily as a result of the net decrease of $98 thousand in net securities gains/losses offset by the increase of $53 thousand in professional practice revenue. We experienced a decrease in customer-related fees and service charges of $64 thousand, as well as an increase in other operating income of $81 thousand, which were associated with miscellaneous service charges and fees that 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 operating expenses also reflect both New York State and New York City capital based taxes, which were enacted in 2015. Other expense increased by approximately $2.2 million, or 15.7%, during 2015, as compared to 2014, primarily from expenses associated with our continued growth. The biggest component of the growth in other expense was salaries and benefits, which increased $1.4 million, or 20.6%, during 2015, largely due to base salary increases, new employees hired to support growth and branch expansion and an increase in employee benefit costs. As of December 31, 2015 and 2014, we employed 72.4 and 68.8 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 $8.7 million as of December 31, 2015 from $7.4 million as of December 31, 2014. Net occupancy and equipment costs increased $237 thousand, or 10.1%, primarily resulting from the expenses associated with the expansion of office space in the bank's main office and the opening of a loan and deposit production office in Manhattan. Our 2015 estimated New York State and New York City capital based taxes totaled $156 thousand.

Provision for income taxes

Income tax expense for the year ended December 31, 2015 was approximately $1.4 million, as compared to $2.0 million for the year ended December 31, 2014. The decrease in income tax expense primarily resulted from the establishment of a valuation allowance on certain deferred tax assets in 2014, as well a change in the manner in which our income is taxed for state tax purposes starting in 2015. The 2014 income tax expense was materially impacted by the required valuation allowance of approximately $386 thousand related to certain deferred tax assets resulting from these revisions to the New York corporate tax laws. As a result of the changes, we determined that it was not more likely than not 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 record a valuation allowance for our deferred tax assets, which resulted in an increase in our income tax expense. During 2015, the Corporation's operations in New York City became subject to New York City taxes, and we began accruing for estimated New York City capital based taxes. We believe that the 2014 revisions to the New York State and New York City corporate tax laws will continue to decrease our future state and local income tax liability. The elimination of our state income tax liability in 2015 reduced our combined effective tax rate for 2015 to 35.9% from 41.8% for the year ended December 31, 2014.

Financial condition

Our total assets increased $121.0 million, or 23.8%, to $629.1 million as of December 31, 2015, compared to $508.1 million as of December 31, 2014. Net loans increased $81.3 million, or 21.7%, to $456.5 million as of December 31, 2015, compared to $375.2 million as of December 31, 2014. As a result of management's assessment of the credit quality of the loan portfolio, the allowance for loan losses to total loans was 1.14%, or $5.3 million, at December 31, 2015 as compared to 1.17%, or $4.5 million, as of December 31, 2014. Securities available for sale increased $50.4 million, or 50.1%, to $151.0 million as of December 31, 2015, from $100.6 million as of December 31, 2014.

Our asset growth for the year ended December 31, 2015 was funded primarily by deposit growth. Total deposits increased $122.9 million, or 31.1%, to $518.0 million as of December 31, 2015, compared to $395.1 million as of December 31, 2014. Demand deposits, which represent a value funding source, remained relatively flat. Savings, N.O.W. and money market deposits increased $144.3 million, or 101.4%, to $286.6 million as of December 31, 2015. The growth in these deposits was driven in large part by new municipal banking relationships. Certificates of deposit of $100,000 or more decreased $12.7 million, or 28.5%, to $31.8 million, while other time deposits decreased by $8.8 million, or 45.8%, to $10.4 million as of December 31, 2015. These represent the Corporation's highest cost deposits and were replaced by lower costing municipal interest bearing deposits. As of December 31, 2015, our loan to deposit ratio was 89.2%, as compared to 96.1% as of December 31, 2014. In December 2015, we issued subordinated debentures, net of debt issuance costs, of $14.7 million.

Total stockholders' equity increased $1.8 million to $64.2 million as of December 31, 2015, from $62.4 million as of December 31, 2014. The increase was due primarily operating earnings of $2.5 million, partially offset by a decrease of $1.0 million in the value of our securities available for sale, net of applicable taxes. As of December 31, 2015, the Bank was "well capitalized" under applicable regulatory capital guidelines and was in compliance with all applicable regulatory capital standards, with leverage, common equity tier 1, tier 1 risk-based and total risk-based capital ratios of 12.22%, 16.83%, 16.83% and 18.01%, 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, 2015		December 31, 2014	
	Amount	Percent	Amount	Percent
	(dollars in thousands)			
Commercial real estate - multi-family	$ 187,380	40.7 %	$ 149,105	39.4 %
Commercial real estate mortgages	121,202	26.3	130,369	34.4
Commercial and industrial	70,325	15.3	50,955	13.4
One-to-four family	54,082	11.8	26,499	7.0
Real estate - construction	19,997	4.3	14,124	3.7
Home equity lines of credit	4,155	0.9	4,028	1.1
Lease financing	2,463	0.5	3,232	0.9
Installment/consumer	965	0.2	549	0.1
Total	$ 460,569	100.0	$ 378,861	100.0
Net deferred loan costs and fees	1,211		791	
Allowance for loan losses	(5,268)		(4,453)	
Net loans	$ 456,512		$ 375,199	

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 67.0% of our loan portfolio

as of December 31, 2015. 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, 2015:

	Within One Year	After One But Within Five Years	After Five Years	Total
	(in thousands)			
Commercial real estate - multi-family	$ 1,593	$ 27,100	$ 158,687	$ 187,380
Commercial real estate mortgages	1,997	34,977	84,228	121,202
Commercial and industrial	43,554	14,083	12,688	70,325
One-to-four family	985	5,222	47,875	54,082
Real estate - construction	16,175	3,822	-	19,997
Home equity lines of credit	-	2,991	1,164	4,155
Lease financing	112	2,351	-	2,463
Installment/consumer	706	259	-	965
Total	$ 65,122	$ 90,805	$ 304,642	$ 460,569
Rate provisions:				
Amounts with fixed interest rates	$ 8,605	$ 43,738	$ 21,842	$ 74,185
Amounts with variable interest rates	56,517	47,067	282,800	386,384
Total	$ 65,122	$ 90,805	$ 304,642	$ 460,569

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 nonperforming 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 nonperforming loans comprised 0.12% of total loans as of December 31, 2015, compared to 0.31% as of December 31, 2014. 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.

We continued accruing interest on one real estate line of credit with an outstanding balance of $100 thousand at December 31, 2015, which was 90 days or more past due on its contractual maturity date. This loan continued to make monthly interest payments consistent with the initial contractual payment schedule. This loan is well secured and is expected to be refinanced, and, therefore, remained on accrual status and was deemed a performing asset at the date indicated above.

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 probable incurred 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 incurred 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 consists of specific and general components, as well as an unallocated component. The unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio. 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 $5.3 million, or 1.14% of total loans as of December 31, 2015, compared to $4.5 million, or 1.17% of total loans, as of December 31, 2014. In 2015, we had an unallocated portion totaling $117 thousand.

In 2015, we had charge-offs of $130 thousand and recoveries of $78 thousand. We had net charge-offs of $52 thousand and $34 thousand for the years ended December 31, 2015 and 2014, 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.

	2015		2014	
	Amount	**Percentage of Allowance to Total Allowance**	**Amount**	**Percentage of Allowance to Total Allowance**
	(dollars in thousands)			
Commercial real estate - multi-family	$ 1,852	35.2 %	$ 1,471	35.4 %
Commercial real estate mortgages	1,289	24.5	1,513	34.0
Commercial and industrial	1,446	27.4	1,156	23.1
One-to-four family	379	7.2	186	4.5
Real estate - construction	150	2.9	106	2.5
Home equity lines of credit	10	0.2	8	0.2
Lease financing	23	0.4	12	0.3
Installment/consumer	2	-	1	-
Unallocated	117	2.2	-	-
Total	$ 5,268	100.0 %	$ 4,453	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, 2015, 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, 2015, 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, 2015, 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, 2015		December 31, 2014		December 31, 2013	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(in thousands)					
Available for sale:						
Mortgage backed securities – residential	$ 81,239	$ 80,418	$ 76,245	$ 76,146	$ 130,437	$ 125,005
U.S. government agency securities	71,252	70,625	24,558	24,471	28,530	27,634
Total	$ 152,491	$ 151,043	$ 100,803	$ 100,617	$ 158,967	$ 152,639
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, 2015, 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, 2015. 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	60,296	59,695	1.32
Due from five to ten years	10,956	10,930	2.40
Due after ten years	-	-	-
Mortgage backed securities – residential	81,239	80,418	2.16
	$ 152,491	$ 151,043	1.95 %

Deposits

Deposits are our primary source of funds to support our earning assets. Total deposits were $518.0 million as of December 31, 2015 compared to $395.1 million as of December 31, 2014. To expand and diversify our deposit base, we deployed the following strategies:

- 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;
- Strategic initiative to increase municipal deposit relationships in our market area;
- 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. In addition to the shift toward noninterest-bearing demand deposits, we experienced significant growth in savings, N.O.W. and money market deposits during 2015, which was primarily attributable to our strategic initiatives focused on municipal deposit growth.

The following table shows the growth of our deposit portfolio, and the shift in the composition of our deposits, since December 31, 2013:

	As of December 31,					
	2015		**2014**		**2013**	
	Amount	**Percent**	**Amount**	**Percent**	**Amount**	**Percent**
	(dollars in thousands)					
Demand deposits	$ 189,200	36.5 %	$ 189,204	47.9 %	$ 177,252	45.3 %
Savings, N.O.W. and money market deposits	286,635	55.4	142,286	36.0	139,524	35.7
Certificates of deposit of $100,000 or more	31,759	6.1	44,484	11.3	44,382	11.4
Other time deposits	10,439	2.0	19,151	4.8	29,773	7.6
Total deposits	$ 518,033	100.0 %	$ 395,125	100.0 %	$ 390,931	100.0 %

Capital resources

Total stockholders' equity increased $1.8 million to $64.2 million as of December 31, 2015, from $62.4 million as of December 31, 2014. The increase was due primarily operating earnings of $2.5 million, partially offset by a decrease of $1.0 million in the value of our securities available for sale, net of applicable taxes. In addition, in September 2015, the shares of Series A preferred stock that we issued in our December 2014 private placement were converted on a one-for-one basis into shares of our nonvoting common stock. The Series A preferred stock had been issued as a nonvoting common stock equivalent and was converted following the approval of an amendment to our certificate of incorporation authorizing a class of nonvoting common stock at our 2015 annual meeting of stockholders. As of December 31, 2015, our equity structure consisted entirely of shares of common stock. 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, 2015, 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, common equity tier 1 risk-based, tier 1 risk-based and total risk-based capital ratios of 12.22%, 16.83%, 16.83% and 18.01%, 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, 2015	At December 31, 2014
	(dollars in thousands, except share and per share data)	
ASSETS		
Cash and due from banks	$ 4,797	$ 5,631
Interest earning deposits with banks	817	12,354
Federal funds sold	7	-
Total cash and cash equivalents	5,621	17,985
Securities available for sale, at fair value	151,043	100,617
Securities, restricted	3,712	3,962
Loans	461,780	379,652
Less: Allowance for loan losses	(5,268)	(4,453)
Loans, net	456,512	375,199
Premises and equipment, net	6,687	5,989
Accrued interest receivable	1,895	1,494
Deferred tax asset, net	2,971	2,309
Other assets	692	514
Total Assets	$ 629,133	$ 508,069
LIABILITIES AND STOCKHOLDERS' EQUITY		
Demand deposits	$ 189,200	$ 189,204
Savings, N.O.W and money market deposits	286,635	142,286
Certificates of deposit of $100,000 or more	31,759	44,484
Other time deposits	10,439	19,151
Total deposits	518,033	395,125
Short-term borrowings	26,064	46,105
Subordinated debentures, net	14,697	-
Total borrowings	40,761	46,105
Accrued interest payable	131	106
Other liabilities	6,054	4,312
Total Liabilities	564,979	445,648
Stockholders' Equity:		
Preferred stock, par value $0.01 per share; 30,000,000 authorized shares; Convertible Non-Cumulative Series A, 0 issued and outstanding at December 31, 2015, and 1,156,250 issued and outstanding at December 31, 2014	-	8,950
Common Stock, par value $0.01 per share; 100,000,000 authorized shares; 5,723,720 issued and outstanding at December 31, 2015 and December 31, 2014	57	57
Non Voting Common Stock, par value $0.01 per share; 20,000,000 authorized shares; 1,156,250 issued and outstanding at December 31, 2015 and 0 issued and outstanding at December 31, 2014	12	-
Surplus	63,791	54,809
Retained earnings (accumulated deficit)	1,251	(1,283)
	65,111	62,533
Accumulated other comprehensive loss	(957)	(112)
Total Stockholders' Equity	64,154	62,421
Total Liabilities and Stockholders' Equity	$ 629,133	$ 508,069

See accompanying notes to the Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31, 2015	2014
	(dollars in thousands, except per share data)	
Interest income:		
Loans (including fee income)	$ 19,012	$ 15,280
Securities available for sale	2,293	3,092
Securities, restricted	175	165
Deposits with banks	24	3
Total interest income	21,504	18,540
Interest expense:		
Savings, N.O.W and money market deposits	992	900
Certificates of deposit of $100,000 or more	375	347
Other time deposits	203	305
Short-term borrowings	73	125
Subordinated debentures	46	-
Total interest expense	1,689	1,677
Net interest income	19,815	16,863
Provision for loan losses	867	243
Net interest income after provision for loan losses	18,948	16,620
Other income:		
Other service charges and fees	410	329
Service charges on deposit accounts	389	453
Professional practice revenue	277	224
Net securities (losses) gains	(71)	27
Total other income	1,005	1,033
Other expense:		
Salaries and employee benefits	8,130	6,740
Occupancy and equipment, net	2,577	2,340
Software services	1,473	1,612
Advertising and business development	794	756
Professional fees	656	561
FDIC insurance	301	285
Other operating expenses	2,067	1,531
Total other expenses	15,998	13,825
Income before income taxes	3,955	3,828
Income tax expense	1,421	1,984
Net income	$ 2,534	$ 1,844
Basic earnings per share	$ 0.42	$ 0.42
Diluted earnings per share	$ 0.37	$ 0.41

See accompanying notes to the Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31,	
	2015	2014
	(in thousands)	
Comprehensive income:		
Net income	$ 2,534	$ 1,844
Unrealized holding (losses) gains arising during the period	(1,333)	6,169
Reclassification adjustment for losses (gains) included in net securities (losses) gains on the consolidated statements of operations	71	(27)
Change in unrealized net (losses) gains	(1,262)	6,142
Tax effect	417	(2,736)
Other comprehensive (loss) income	(845)	3,406
Total comprehensive income	$ 1,689	$ 5,250

See accompanying notes to the Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Non-Cumulative Series A Preferred Stock		Common Stock		Non-Voting Common Stock					
	Shares Outstanding	Amount	Shares Outstanding	Amount	Shares Outstanding	Amount	Surplus	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total
					(dollars in thousands, except shares)					
Balance at January 1, 2014	-	-	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
Conversion of preferred stock to non-voting common stock	(1,156,250)	(8,950)	-	-	1,156,250	12	8,938	-	-	-
Stock option compensation expense	-	-	-	-	-	-	44	-	-	44
Total comprehensive income	-	-	-	-	-	-	-	2,534	(845)	1,689
Balance at December 31, 2015	-	$ -	5,723,720	$ 57	1,156,250	$ 12	$ 63,791	$ 1,251	$ (957)	$ 64,154

See accompanying notes to the Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,	
	2015	2014
	(in thousands)	
Cash flows from operating activities:		
Net income	$ 2,534	$ 1,844
Adjustments to reconcile net income to net cash from operating activities		
Provision for loan losses	867	243
Depreciation and amortization	1,021	1,029
Amortization and accretion	762	770
Share based compensation expense	44	51
Net securities losses (gains)	71	(27)
Increase in accrued interest receivable	(401)	(74)
(Increase) decrease in other assets	(178)	483
Increase in accrued and other liabilities	1,767	1,241
(Increase) decrease deferred income tax	(245)	281
Net cash provided by operating activities	6,242	5,841
Cash flows from investing activities:		
Purchases of securities available for sale	(85,748)	-
Sales of securities available for sale	18,920	39,585
Calls/redemptions of securities available for sale	14,307	17,836
Purchase of securities held to maturity	-	(100)
Maturities, calls and principal payments of securities held to maturity	-	400
Purchase of securities, restricted	(11,526)	(14,746)
Sales of securities, restricted	11,776	14,234
Net increase in loans	(82,180)	(85,215)
Purchase of banking premises and equipment, net of disposals	(1,719)	(275)
Net cash used by investing activities	(136,170)	(28,281)
Cash flows from financing activities:		
Net increase in deposits	122,908	4,194
(Decrease) increase in short-term borrowings	(20,041)	11,605
Net proceeds from issuance of subordinated debentures	14,697	-
Net proceeds from issuance of stock	-	18,660
Net cash provided by financing activities	117,564	34,459
(Decrease) increase in cash and cash equivalents	(12,364)	12,019
Cash and cash equivalents beginning of period	17,985	5,966
Cash and cash equivalents end of period	$ 5,621	$ 17,985
Supplemental information-cash flows:		
Cash paid for:		
Interest	$ 1,664	$ 1,685
Income taxes	$ 1,845	$ 1,630

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. and its wholly-owned subsidiary Empire National Bank. Throughout these notes, "Corporation" refers to Empire Bancorp, Inc. and its consolidated subsidiary, except as the context otherwise requires, and "Bank" refers only to Empire National Bank.

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 Empire Bancorp and the Bank is located at 1707 Veterans Highway, 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 short-term 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") and the Federal Reserve Bank of New York. The FHLB 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. The stock of both entities is 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 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.

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.

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. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable incurred losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

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 - multi-family loans, commercial real estate mortgages, commercial and industrial loans, one-to-four family loans, real estate – construction loans, home equity lines of credit, lease financing, 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 mandatory convertible preferred stock formerly 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

Stock based compensation awards are recorded in accordance with FASB ASC No. 718 and 505, "*Accounting for Stock-Based Compensation*" which requires companies to record compensation cost for stock options and stock awards granted to employees in return for employee service. The cost is measured at the fair value of the options and awards when granted, and this cost is expensed over the employee service period, which is normally the vesting period of the options and awards.

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

ASU 2015-03, Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs

In April 2015, the FASB amended existing guidance related to the presentation of debt issuance costs. It requires entities to present debt issuance costs related to a recognized debt liability as a direct deduction from the carrying amount of that debt liability. The guidance does not address presentation or subsequent measurement of debt issuance costs related to the line-of-credit arrangements. The Corporation early adopted ASU 2015-03 at December 31, 2015. The adoption of this standard did not have a material effect on the Corporation's operating results.

ASU 2014-12, Compensation – Stock Compensation (718) - Accounting for Share-Based Payments When the Terms of an Award Provide that a Performance Target Could Be Achieved After the Requisite Service Period.

In June 2014, the FASB amended existing guidance related to the accounting for share-based payments when the terms of an award provide that a performance target could be achieved after the requisite service period. These amendments require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. A reporting entity should apply existing guidance in Topic 718, Compensation – Stock Compensation, as it relates to awards with performance conditions that affect vesting to account for such awards. The total amount of compensation cost recognized during and after the requisite service period should reflect the number of awards that are expected to vest and should be adjusted to reflect those awards that ultimately vest. The requisite service period ends when the employee can cease rendering service and still be eligible to vet in the award if the performance target is achieved. The adoption of this standard is not expected to have a material effect on the Corporation's operating results; Empire Bancorp, Inc. 2015 Omnibus Stock and Incentive Plan and the Empire National Bank 2008 Stock Incentive Plan do not have a performance target that has to be achieved.

o) Subsequent Events

The Corporation has evaluated subsequent events for recognition and disclosure through March 31, 2016, 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, 2015 and 2014 and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive income (loss):

	December 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(in thousands)			
Available for sale:				
Mortgage-backed securities-residential	$ 81,239	$ 377	$ (1,198)	$ 80,418
U.S. government agency securities	71,252	77	(704)	$ 70,625
Total available for sale securities	$ 152,491	$ 454	$ (1,902)	$ 151,043

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

Securities with unrealized losses at December 31, 2015 and 2014 aggregated by category and length of time that individual securities have been in a continuous unrealized loss position are as follows:

	December 31, 2015											
	Less than 12 months				Greater than 12 months				Total			
	Fair Value		Unrealized Losses		Fair Value		Unrealized Losses		Fair Value		Unrealized Losses	
	(in thousands)											
Mortgage-backed securities-residential	$	21,867	$	(305)	$	19,886	$	(893)	$	41,753	$	(1,198)
U.S government agency securities		64,957		(704)		-		-		64,957		(704)
Total	$	86,824	$	(1,009)	$	19,886	$	(893)	$	106,710	$	(1,902)

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

At December 31, 2015, 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, 2015.

The fair value of debt securities and carrying amount, if different, at December 31, 2015 by contractual maturity were as follows. Securities not due at a single maturity date, solely mortgage-backed securities, are shown separately.

	December 31, 2015			
	Available for Sale			
	Amortized Cost		Fair Value	
	(in thousands)			
Due in one year or less	$	-	$	-
Due from one to five years		60,296		59,695
Due from five to ten years		10,956		10,930
Due after ten years		-		-
Mortgage-backed securities-residential		81,239		80,418
Total	$	152,491	$	151,043

Proceeds from sales and calls of securities available for sale were $33.2 million and $57.4 million for the years ended December 31, 2015 and 2014, respectively. There were no gross gains realized on the sale of securities during 2015 as compared to gross gains of $460 thousand in 2014. There were gross losses on the sale of securities in 2015 and 2014 of $71thousand and $433 thousand, respectively.

At December 31, 2015, investment securities with a carrying value of $66.5 million were pledged as collateral to secure public and bankruptcy deposits of $36.0 million and $30.5 million, respectively.

3. LOANS

The following table sets forth the major classifications of loans:

	December 31, 2015	December 31, 2014
	(in thousands)	
Commercial real estate-multi family	$ 187,380	$ 149,105
Commercial real estate mortgages	121,202	130,369
Commercial and industrial loans	70,325	50,955
One-to-four family loans	54,082	26,499
Real estate - construction loans	19,997	14,124
Home equity lines of credit	4,155	4,028
Lease financing	2,463	3,232
Installment/consumer loans	965	549
Total	$ 460,569	$ 378,861
Net deferred loan costs and fees	1,211	791
Allowance	(5,268)	(4,453)
Net loans	$ 456,512	$ 375,199

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;
- Historical loss experience of the Corporation;
- 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;
- Comparison of the Corporation’s performance versus that of its peer group; and

- Delinquency trends for peer banks.

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, 2015 and 2014:

2015	Commercial real estate-multi family	Commercial real estate mortgages	Commercial and industrial loans	One-to-four family	Real estate-construction loans	Home equity lines of credit	Lease financing	Installment/ consumer loans	Unallocated	Total
					(in thousands)					
Beginning balance	$ 1,471	$ 1,513	$ 1,156	$ 186	$ 106	$ 8	$ 12	$ 1	$ -	$ 4,453
Provision for loan losses	381	(131)	232	193	44	2	28	1	117	867
Charge-offs	-	(98)	-	-	-	-	(32)	-	-	(130)
Recoveries	-	5	58	-	-	-	15	-	-	78
Net charge-offs/recoveries	-	(93)	58	-	-	-	(17)	-	-	(52)
Ending balance	$ 1,852	$ 1,289	$ 1,446	$ 379	$ 150	$ 10	$ 23	$ 2	$ 117	$ 5,268
Ending balance: individually evaluated for impairment	$ -	$ -	$ 127	$ -	$ -	$ -	$ -	$ -	$ -	$ 127
Ending balance: collectively evaluated for impairment	$ 1,852	$ 1,289	$ 1,319	$ 379	$ 150	$ 10	$ 23	$ 2	$ 117	$ 5,141
Loans	$ 187,380	$ 121,202	$ 70,325	$ 54,082	$ 19,997	$ 4,155	$ 2,463	$ 965	$ -	$ 460,569
Ending balance: individually evaluated for impairment	$ 2,215	$ 878	$ 1,810	$ -	$ -	$ -	$ -	$ -	$ -	$ 4,903
Ending balance: collectively evaluated for impairment	$ 185,165	$ 120,324	$ 68,515	$ 54,082	$ 19,997	$ 4,155	$ 2,463	$ 965	$ -	$ 455,666

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

Troubled Debt Restructurings

As of December 31, 2015 and 2014, the Corporation had a recorded investment in troubled debt restructurings of $2.8 million and $3.0 million, respectively. The Corporation had allocated $127 thousand and $197 thousand of specific allowances for those loans at December 31, 2015 and 2014, respectively, 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, 2015, are on accrual status.

There were no troubled debt restructured loans identified during the years ending December 31, 2015 and 2014. 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 Bank'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, 2015 and 2014:

	2015		2014	
	Nonaccrual	Loan Past Due Over 90 Days still Accruing	Nonaccrual	Loan Past Due Over 90 Days still Accruing
	(in thousands)			
Commercial real estate- multi-family	$ -	$ -	$ -	$ -
Commercial real estate mortgages	-	-	413	-
Commercial and industrial loans	548	100	749	-
One-to-four family	-	-	-	-
Real estate - construction loans	-	-	-	-
Home equity lines of credit	-	-	-	-
Lease financing	-	-	-	-
Installment/consumer loans	-	-	-	-
Total	$ 548	$ 100	$ 1,162	$ -

At December 31, 2015, the Corporation had one loan on nonaccrual status, which had an outstanding balance of $548 thousand and a specific reserve of $127 thousand. At December 31, 2014, this same loan had a balance of $749 thousand with a specific reserve of $197 thousand.

At December 31, 2014, the Corporation had a commercial real estate mortgage on nonaccrual status, 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 an additional loss in excess of the amount of the specific reserve at December 31, 2014.

The amounts of foregone interest on nonaccrual loans for the years ended December 31, 2015 and 2014 were $195 thousand and $146 thousand, respectively.

The Corporation continued accruing interest on one real estate line of credit with an outstanding balance of $100 thousand at December 31, 2015, which was 90 days or more past due on its contractual maturity date. This loan continued to make monthly interest payments consistent with the initial contractual payment schedule. This loan is well secured and is expected to be refinanced, and, therefore, remained on accrual status and was deemed a performing asset at the date indicated above. There were no loans past due 30-89 days at December 31, 2015. One loan totaling $237 thousand was past due greater than thirty days at December 31, 2014.

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, 2015 and 2014. Classified loans included loans in risk categories of Pass, Special Mention, Substandard, Doubtful and Loss.

	December 31, 2015				
	Pass	Special Mention	Sub-standard	Doubtful	Loss
	(in thousands)				
Commercial real estate - multi-family	$ 187,380	$ -	$ -	$ -	$ -
Commercial real estate mortgages	117,944	469	2,789	-	-
Commercial and industrial loans	67,390	686	2,249	-	-
One-to-four family	54,082	-	-	-	-
Real estate - construction loans	19,997	-	-	-	-
Home equity lines of credit	4,155	-	-	-	-
Lease financing	2,463	-	-	-	-
Installment/consumer loans	965	-	-	-	-
	$ 454,376	$ 1,155	$ 5,038	$ -	$ -

	December 31, 2014				
	Pass	Special Mention	Sub-standard	Doubtful	Loss
	(in thousands)				
Commercial real estate - multi-family	$ 149,105	$ -	$ -	$ -	$ -
Commercial real estate mortgages	123,850	3,226	3,293	-	-
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	$ -	$ -

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 2015. The balance of related party loans for the years ended December 31, 2015 and December 31, 2014 were $5.9 million and $7.4 million, respectively. There were no loans to directors or executive officers that were nonaccrual at December 31, 2015.

Loans to principal officers, directors, and their affiliates during 2015 were as follows:

	2015
	(in thousands)
Beginning Balance:	$ 7,399
New loans	-
Advances on existing lines	1,331
Paydowns	(2,808)
Ending Balance	$ 5,922

4. PREMISES AND EQUIPMENT

Premises and equipment consisted of:

	December 31,	
	2015	2014
	(in thousands)	
Furniture and fixtures	$ 6,154	$ 6,119
Leasehold improvements	7,045	6,072
	13,199	12,191
Less: accumulated depreciation and amortization	(6,512)	(6,202)
	$ 6,687	$ 5,989

Depreciation and amortization expense was $1.0 million for both 2015 and 2014.

5. DEPOSITS

Time Deposits

The following table sets forth the remaining maturities of the Corporation's time deposits at December 31, 2015:

	Less than $100,000	$100,000 or Greater	Total
		(in thousands)	
2016	$ 5,591	$ 20,590	$ 26,181
2017	3,069	9,726	12,795
2018	771	549	1,320
2019	345	250	595
2020	663	249	912
Thereafter	-	395	395
	$ 10,439	$ 31,759	$ 42,198

The total amounts of time deposits that meet or exceed the FDIC insurance limit of $250,000 at December 31, 2015 and 2014 were $6.7 million and $10.7 million, respectively. The total amounts of brokered deposits at December 31, 2015 and 2014 were $0.3 million and $13.1 million, respectively. Deposits from principal officers, directors, and their affiliates at year-end 2015 and 2014 were $17.5 million and $12.3 million, respectively.

6. SHORT-TERM BORROWINGS

At December 31, 2015, the Corporation had $26.1 million of short-term borrowings outstanding with the Federal Home Loan Bank ("FHLB") at a rate of 0.52% with a maturity date of January 4, 2016. FHLB advances were collateralized by a blanket lien on commercial mortgages with a lendable value of $234.1 million at December 31, 2015 and $201.8 million at December 31, 2014.

During 2015, the Bank maintained an overnight line of credit with the FHLB. 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, 2015.

At December 31, 2015, the Bank had aggregate lines of credit of $23.0 million with unaffiliated correspondent banks to provide short-term credit for liquidity requirements. Of these aggregate lines of credit, $19.0 million were available on an unsecured basis. As of December 31, 2015, the Bank had no such borrowings outstanding.

7. SUBORDINATED DEBENTURES

In December 2015, the Corporation issued $15.3 million in aggregate principal amount of fixed and fixed-to-floating rate subordinated debentures ("Notes"). Notes of $7.5 million have a stated maturity of December 17, 2025 and bear interest at a fixed annual rate of 7.375% per year, from and including December 17, 2015 up to but excluding December 17, 2025. The fixed rate Notes are subject to redemption beginning on December 17, 2020 at an amount equal to 103% of the principal amount outstanding, plus accrued and unpaid interest, with the redemption premium decreasing by 50 basis points on each subsequent anniversary. The remaining $7.75 million of the Notes have a stated maturity of December 17, 2025 and bear interest at a rate of 6.50% per year, from and including December 17, 2015 up to but excluding December 20, 2020. From and including December 20, 2020 to the maturity date or early redemption date, the interest rate will reset quarterly to an annual interest rate equal to the then-current three-month LIBOR plus 488 basis points. The fixed-to-floating Notes are subject to redemption beginning on December 17, 2020 at par. The fixed and fixed-to-floating Notes are subject to redemption under certain limited circumstances at par prior to December 17, 2020. The Notes were structured to qualify as Tier 2 capital under Federal Reserve regulations.

The Corporation early adopted ASU 2015-03, Simplifying Presentation of Debt Issuance Costs. The Notes are recorded net of unamortized issuance costs of $553 thousand at December 31, 2015.

8. INCOME TAXES

Income tax expense (benefit) was as follows:

	For the years ended December 31, 2015	2014
	(in thousands)	
Current:		
Federal	$ 1,666	$ 1,331
State and local	-	372
	1,666	1,703
Deferred:		
Federal	(245)	(90)
State and local	(264)	(15)
	(509)	(105)
Change in valuation allowance	264	386
Total	$ 1,421	$ 1,984

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, 2015		2014	
	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	$ 1,344	34 %	$ 1,301	34 %
State and local tax, net of federal	(264)	(5)	230	6
Incentive stock options	15	-	18	-
Other	62	2	49	2
Valuation allowance	264	5	386	10
Provision for income taxes	$ 1,421	36 %	$ 1,984	52 %

Deferred tax assets and liabilities are comprised of the following:

	For the year ended December 31, 2015	2014
	(in thousands)	
Deferred tax assets:		
Allowance for loan losses	$ 2,075	$ 1,616
Organizational and start-up costs	506	544
Nonqualified stock options	243	229
Deferred rent expense	726	630
Nonaccrual loan interest income	83	58
Other	280	68
Net unrealized loss on available for sale securities	491	74
	4,404	3,219
Deferred tax liabilities:		
Net deferred loan costs	(504)	(314)
Depreciation	(210)	(174)
Other	(69)	(36)
	(783)	(524)
Valuation allowance	(650)	(386)
Net deferred tax asset	$ 2,971	$ 2,309

During 2014, New York State enacted significant changes to its corporate tax code by merging the bank code into general corporate tax law. As a result of the enacted changes, the Corporation expects for the foreseeable future that it will no longer incur a State income tax liability absent the presence of nonrecurring gains or a significant change in the nature of its operations. While it is anticipated this will result in a lower effective tax rate for the Corporation on a going forward basis, the enacted changes required the Corporation to record a full valuation allowance in 2014 against the $386 thousand of net deferred tax assets related to New York State. During 2015, the Corporation's operations in New York City became subject to New York City taxes. As the Corporation does not expect to incur New York City income taxes in the foreseeable future, a valuation allowance of $264 thousand on net deferred tax assets related to New York City was recorded in 2015.

At December 31, 2015 and December 31, 2014, 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 2012 through 2014 remain open to examination by the Internal Revenue Service and 2013 through 2014 by 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.

9. 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. In September 2015, following the effectiveness of an amendment to the Corporation's certificate of incorporation authorizing a class of nonvoting common stock, all shares of Series A preferred stock were converted on a one-for-one basis to shares to nonvoting common stock.

The nonvoting common 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 nonvoting common 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. Holders of nonvoting common stock have no voting rights, except as required by law.

10. 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, 2015, the savings plan did not allow for investment in the common stock of the Corporation. During the years ended December 31, 2015 and 2014, the Corporation recorded compensation expense related to the plan of approximately $237 thousand and $180 thousand, respectively.

Equity Incentive Plan

The Corporation maintains the Empire National Bank 2008 Stock Incentive Plan ("2008 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. This plan provides for the issuance of "incentive stock options" and "nonqualified stock options" to certain qualified individuals. 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. 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 first five 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. During the years ended December 31, 2015 and 2014, the Corporation did not grant any stock options.

In 2015, the Empire Bancorp, Inc. 2015 Omnibus Stock and Incentive Plan ("2015 Plan") was adopted, effective May 21, 2015. The plan provides for the issuance of stock options, restricted stock, restricted stock units, stock appreciation rights and other cash and equity-based awards to qualified persons. As of December 31, 2015, no awards had been issued under the 2015 Plan. Upon the effectiveness of the 2015 Plan, no further awards were issued under the 2008 Plan.

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, 2015 follows:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
Outstanding, beginning of year	466,000	$ 10.00	
Granted	-	-	
Exercised	-	-	
Forfeited	22,000	$ 10.00	
Outstanding, end of year	444,000	$ 10.00	2.72 years
Exercisable, end of year	422,000	$ 10.00	2.53 years
Vested or expected to vest	444,000	$ 10.00	2.72 years

	Number of Shares	Price
Range of exercise prices	444,000	$ 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 $44 thousand and $51 thousand for the years ended December 31, 2015 and 2014, respectively. As of December 31, 2015, there were $58 thousand of total unrecognized compensation costs related to nonvested stock options granted under the Plan.

11. WARRANTS

At December 31, 2015, 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 five years from the grant date. At December 31, 2015 the issued and outstanding warrants have an aggregate intrinsic value of $131 thousand.

Earnings Per Share

The following is a reconciliation of earnings per share for December 31, 2015 and 2014.

	For the years ended December 31,	
	2015	2014
	(in thousands, except per share data)	
Net income	$ 2,534	$ 1,844
Common equivalent shares:		
Weighted average common shares outstanding	6,101	4,428
Weighted average common equivalent shares for dilutive effects of Series A Convertible Preferred Stock	779	41
Weighted average common and common equivalent shares	6,880	4,469
Basic earnings per share	$ 0.42	$ 0.42
Diluted earnings per share	$ 0.37	$ 0.41

There are 444,000 options and 594,376 warrants outstanding at December 31, 2015 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, 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, 2015
	(in thousands)
2016	$ 974
2017	1,004
2018	1,018
2019	1,047
2020	1,052
Thereafter	11,811

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, 2015 and 2014 approximated $990 thousand and $761 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,			
	2015		2014	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
	(in thousands)			
Standby letters of credit	$ 1,303	$ 172	$ 1,273	$ 172
Commercial letters of credit	-	-	-	-
Unused loan commitments	150	61,390	281	59,594
Commitments to make loans	-	8,749	-	15,374
Total commitments outstanding	$ 1,453	$ 70,311	$ 1,554	$ 75,140

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 within 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, 2015 using:			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
	(in thousands)			
Assets:				
Mortgage-backed securities-residential	$ -	$ 80,418	$ -	$ 80,418
U.S government agency securities	-	70,625	-	70,625
Total	$ -	$ 151,043	$ -	$ 151,043

	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)	Total
	(in thousands)			
Assets:				
Mortgage-backed securities-residential	$ -	$ 76,146	$ -	$ 76,146
U.S government agency securities	-	24,471	-	24,471
Total	$ -	$ 100,617	$ -	$ 100,617

At December 31, 2015 and 2014, there were no impaired loans carried at fair value.

As of December 31, 2015 and 2014, the carrying amounts and estimated fair values of financial instruments, not previously presented, were as follows:

	Level of Fair Value Hierarchy	December 31, 2015	
		Carrying Amount	Fair Value
		(in thousands)	
Financial assets:			
Cash and cash equivalents	Level 1	$ 5,621	$ 5,621
Securities, restricted	Level 1	3,712	n/a
Loans	Level 3	461,780	456,887
Accrued interest receivable:			
Investment securities	Level 2	479	479
Loans	Level 3	1,416	1,416
Financial liabilities:			
Demand, savings, N.O.W. and money market deposits	Level 1	$ 475,835	$ 475,835
Certificates of deposits of $100,000 or more and other time deposits	Level 2	42,198	42,052
Short-term borrowings	Level 1	26,064	26,064
Subordinated debentures	Level 3	14,697	14,697
Accrued interest payable:			
Demand, savings, N.O.W. and money market deposits	Level 1	8	8
Certificates of deposits of $100,000 or more and other time deposits	Level 2	79	79
Subordinated debentures	Level 3	44	44

	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:			
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

The carrying amounts of cash and cash equivalents approximate fair values and are classified as Level 1. 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. The estimated fair value of subordinated debt is derived using discounted cash flow methodology based on a spread to the London Interbank Offered Rate ("LIBOR") curve at the time of issuance and assuming the debt was issued at PAR resulting in Level 3 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

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, common equity tier 1 risk-based capital ratio, and of tier 1 capital to average assets, as those terms are defined in applicable OCC regulations.

Banks and bank holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III rules) became effective for the Bank on January 1, 2015 with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. Capital amounts and ratios for December 31, 2014 are calculated using Basel I rules. Management believes as of December 31, 2015, the Bank met all capital adequacy requirements to which they are subject.

As of December 31, 2015 and 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, tier 1 common equity risk-based and tier 1 leverage capital ratios as set forth in the table below.

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

As of December 31,	**2015**					
	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)			
Tier 1 leverage capital ratio	$ 74,670	12.22 %	$ 24,444	>4.00 %	$ 30,556	> 5.00 %
Common equity tier 1 risk-based capital ratio	74,670	16.83 %	19,969	>4.50 %	28,845	> 6.50 %
Tier 1 risk-based capital ratio	74,670	16.83 %	26,626	>6.00 %	35,501	> 8.00 %
Total risk-based capital ratio	79,938	18.01 %	35,501	>8.00 %	44,376	>10.00 %
	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)			
Tier 1 leverage ratio	$ 61,996	12.65 %	$ 19,608	>4.00 %	$ 24,510	> 5.00 %
Tier 1 risk-based capital ratio	61,996	16.02 %	15,479	>4.00 %	23,219	> 6.00 %
Total risk-based capital ratio	66,449	17.17 %	30,959	>8.00 %	38,699	>10.00 %

15. PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION

Condensed parent company only financial information of Empire Bancorp, Inc. is shown below. The parent company has no significant operating activities.

CONDENSED STATEMENTS OF CONDITION

	At December 31,	
	2015	**2014**
	(in thousands)	
ASSETS		
Cash	$ 5,222	$ 590
Investment in the Bank	73,714	61,884
Other assets	28	98
Total Assets	$ 78,964	$ 62,572
LIABILITIES AND STOCKHOLDERS' EQUITY		
Subordinated debentures, net	14,697	-
Accrued interest payable	44	-
Other liabilities	69	151
Total Liabilities	14,810	151
Total Stockholders' Equity	64,154	62,421
Total Liabilities and Stockholders' Equity	$ 78,964	$ 62,572

CONDENSED STATEMENTS OF OPERATIONS

	Year Ended December 31,	
	2015	2014
	(in thousands)	
Interest expense	$ 46	$ -
Other expense	99	65
Loss before income taxes and equity in undistributed earnings of the Bank	(145)	(65)
Income tax benefit	49	26
Loss before equity in undistributed earnings of the Bank	(96)	(39)
Equity in undistributed earnings of the Bank	2,630	1,883
Net income	$ 2,534	$ 1,844

CONDENSED STATEMENTS OF CASH FLOWS

	Year Ended December 31,	
	2015	2014
	(in thousands)	
Operating activities:		
Net income	$ 2,534	$ 1,844
Adjustments to reconcile net cash (used by) provided by operating activities:		
Equity in undistributed earnings of the Bank	(2,630)	(1,883)
Decrease (increase) in other assets	69	(98)
Increase in accrued interest payable	44	-
(Decrease) increase in other liabilities	(82)	151
Net cash (used by) provided by operating activities	(65)	14
Investing activities:		
Investments in the Bank	(10,000)	(18,160)
Net cash used by investing activities	(10,000)	(18,160)
Financing activities:		
Net proceeds from issuance of stock	-	18,660
Net proceeds from issuance of subordinated debentures	14,697	-
Net cash provided by financing activities	14,697	18,660
Increase in cash and cash equivalents	4,632	514
Cash and cash equivalents at beginning of year	590	76
Cash and cash equivalents at end of year	$ 5,222	$ 590

Crowe Horwath.

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, 2015 and 2014, 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, 2015 and 2014, 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 31, 2016

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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, municipalities, real estate investors, and consumers. The bank has four full-service banking offices located in Islandia, Shirley, Port Jefferson Station and Mineola, New York, and a loan and deposit production office located in Manhattan, New York. 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.

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

INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS

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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 D. Caffrey, Jr.
Organizer & Vice Chairman of the Board
Owner, Castle Financial Advisors, LLC & Castle Asset Management, LLC

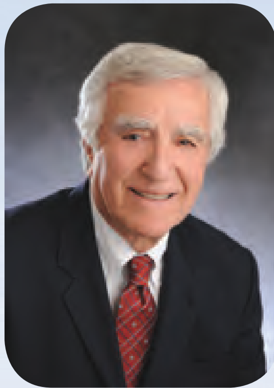
John P. Bracken, Esq.
Organizer & Director
Managing Partner, Bracken Margolin Besunder, LLP, Retired

Francis F. Boulton
Organizer & Director
CEO, Long Island Ducks Professional Baseball Club, 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, Jr.
Director
Owner & President
Falese Investments, LLC

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

Mukeshkumar Patel
Organizer & Director
Managing Member PSA Realty
Corp. DBA La Quinta Hotels &
Priya Hospitality LLC

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 D. Caffrey, Jr.
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

Michael P. Locorriere
Executive Vice President & Director of Municipal Banking

Susanne Pheffer
Executive Vice President, Chief Technology Officer
& Security Officer

John Pinna
Executive Vice President & Chief Information Officer

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

Diane L. Murray, CPA
Senior Vice President & Chief Risk Officer

Raffaella Palazzo
Senior Vice President & Deputy Chief Credit Officer

Matthew Ruppert
Senior Vice President & Deputy Chief Credit Officer

Robert S. Schepis
Senior Vice President & Chief Lending Officer

SENIOR VICE PRESIDENTS

Mario Colon
Commercial Loan Officer

Craig Goldstein
Commercial Loan Officer

Joseph H. Grunwald
Commercial Loan Officer

Dorothy Overton
Branch Manager, *Islandia*

VICE PRESIDENTS

Richard Corrado
Senior Credit Analyst

Frank DeRosa
Commercial Loan Officer

Danielle DiGrazia
Operations Officer

William T. Franz
Director of Marketing & Investor Relations

Catherine Giamundo, CPA
Controller

Erik Griemsmann
IT Manager

William Guiducci
Branch Manager, *Shirley*

Edy Meyer
Branch Manager, *Port Jefferson Station*

Steven Post
Electronic Banking Manager

Jane Reid
Human Resources

Neil Roberts
Senior Credit Analyst

Marguerite Smith
BSA & Compliance Officer

John Solensky
Commercial Loan Officer

EXECUTIVE OFFICERS Standing, Left to Right: Douglas C. Manditch, Janet T. Verneuille, Michael P. Locorriere, Susanne Pheffer, Thomas M. Buonaiuto, Robert S. Schepis, Matthew Ruppert Sitting, Left to Right: John Pinna, Diane L. Murray, Raffaella Palazzo

ASSISTANT VICE PRESIDENTS

Krista M. Braccia
Branch Manager, *Mineola*

Linda Carman
Electronic Banking

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

Miranda M. D´Angelis
Assistant Controller

Margaret Downing
Assistant Branch Manager, *Shirley*

Gregory Durso
Sr. Credit Analyst

Nancy Leonard
Deposit Operations

Yi Lu
Loan Administration

Deborah McCullough
Assistant Branch Manager, *Mineola*

Jessica M. Michalski
Staff Accountant

Janet Weissman
Assistant Branch Manager, *Islandia*

MANAGERS
ASSISTANT BRANCH MANAGERS

Suzanne Fox
Assistant Branch Manager, *Islandia*

Dorothy Lamboy
Assistant Branch Manager, *Shirley*

Theresa Naumann
Assistant Branch Manager, *Shirley*

Sueann Rando
Assistant Branch Manager, *Port Jefferson Station*

Michael Wilk
Assistant Branch Manager, *Islandia*

PRIVATE BANKING

Paul Gendreau
Private Banking Officer

ISLANDIA

Headquarters

1707 Veterans Highway
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

MANHATTAN

Loan and Deposit Production Office

A new Private Banking Office
is planned for 2016

631-348-4444

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.

Association for Children with Down Syndrome

Advancement for Commerce Industry and Technology

ADDAPT

AHRC Suffolk

ALS Ride for Life

American Cancer Society

American Kidney Foundation

American Heart Association

Ancient Order of Hibernians

Angela's House

Arthritis Foundation - LI Chapter

Association for A Better Long Island

Babylon High School Cheerleading

Boy Scouts of America

Central Islip / Hauppauge Ambulance

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

Community Housing Improvement Program

Community Family Literacy Project

Community Mainstreaming Associates

Cooley's Anemia Foundation, Inc.

Crohn's & Colitis Foundation of America

Developmental Disabilities Institute

Doc Fallot Scholarship Fund

East End Arts

Eden II and Genesis Foundation

Energeia Partnership at Molloy College

Erika Josephson Foundation

Father John Papallo Lodge

Federation of Organizations

Friends and Family of Chris Barnes

Fuoco Memorial Golf Festival

Garden City Chamber of Commerce Inc

Girl Scouts of Suffolk County

Greater River Fire Department Anniversary Fund

Half Hollow Hills HS East

Hauppauge Industrial Association

Hauppauge Public Schools

Heckscher Museum

Hope House Ministries

Huntington Township

Interfaith Nutrition Network

Island Harvest

Islip Arts Council

JTM Foundation

Kara's Hope Foundation, Inc.

Kelly Memorial Charitable Fund

Kiwanis Club of the Mastics

Lions Club of Medford - N. Patchogue

Long Island Council on Alcoholism and Drug Dependence

Long Island Against Domestic Violence

Long Island Association

Long Island Builders Institute, Inc.

Long Island Center

Long Island Childrens Museum

Long Island Head Start

Long Island Imagine Awards

Long Island Metropolitan Lacrosse Foundation

Long Island Museum of American Art, History and Carriages

LOVE146

Lustgraten Foundation

Marine Corp Veterans

Marcum Workplace Challenge

Mastic Fire Department

Maureen's Haven

Mercy Haven Inc.

Metropolitan Mortgage Officers Society

Middle Country Library Foundation

Miller Place Athletic Booster Club

Miller Place Lacrosse

Morgan Center

Museum of American Armor

Nassau Suffolk Chapter of America

New Ground, Inc.

Never Alone Never Afraid

Noyac Civic Council

NSLIJ Southside Hospital

NYS Monument Builders Association

Our Lady Queen Of Apostles

Pal-O-Mine Equestrian, Inc.

Port Jefferson Village

Public Library Directors Association

Resurrection Lutheran Church, Garden City

The Richard J. O'Brien Foundation

Rotary Club of the Patchogue

Rotary Club of the Ronkonkomas

SCOPE Education Services

Shanti Fund

Sisters of Mercy

St. Jude RC Church Golf Committee

St. Charles Hospital Foundation

St. Louis De Monfort Church

Splashes of Hope

Staller Center

Stony Brook Foundation

Suffolk County Community College

Suffolk Sports Hall of Fame

Taylor's Hope Foundation

Telecare

The Paul Conroy Foundation

Theodore Roosevelt Association

Three Village Kiwanis / SEPTA

Townwide Fund of Huntington, Inc

United Cerebral Palsy of Suffolk

United Veterans Beacon House

United Way of Long Island

Viscardi Center

Ward Melville Heritage Organization

William Floyd Alumni Association

William Floyd Community Summit

William Floyd Scholarship Fund

Wounded Warrior Project

YMCA of Long Island, Inc.

HEADQUARTERS

1707 Veterans Highway
Islandia, NY 11749

631-348-4444

empirenb.com

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