



**MANHATTAN
BRIDGE CAPITAL**

**ANNUAL
REPORT**

DECEMBER 31, 2016

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NASDAQ:LOAN



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Dear Valued Shareholders,

2016 was another record year at Manhattan Bridge Capital, Inc. Total revenue increased to over \$4.6 million, net earnings were over \$2.8 million, and net shareholders' equity increased to over \$22.3 million. Through a subsidiary, we have completed a successful publicly traded bond offering trading on the NYSE MKT under the symbol LOAN/26, paying 6% annual interest to bond holders. The successful year allowed us to once again increase the quarterly dividend of our common stock to a record \$0.10 per share.

The continued growth and record breaking pattern come without compromising our strict underwriting standards, and therefore we have demonstrated another year of no defaults. I am not aware of any other hard money lender in America operating since before the 2008 financial crisis that did not experience even one default since inception. Our unprecedented low leverage ratio within our industry makes us less sensitive to increasing interest rates and decreasing real estate prices.

At the moment, we are experiencing weakness in the New York City real estate market. I am not sure if that is a temporary situation or the buds of the next slow down. However, given our strict, responsible and conservative loan underwriting policies, I am confident that we are well-positioned to face both scenarios. In addition, we are well-positioned for continued growth as we have developed strong relationships with many small real estate investors in the New York metropolitan area, as well as increased our customer acquisition efforts.

With the profound political and economic changes around the world, the future of the New York real estate market is uncertain. Foreign investments are still fluctuating, and domestic buyers as well as credit facilities seem to act confused. Our challenge as a short-term responsible real estate lender to professional investors is to control our natural desire to grow and continue practicing our strict discipline. We believe that the fact that we have managed to continue growing in different market conditions and facing different types of challenges is a proof that our model works.

I would like to end this letter with a sense of gratitude and pride to our devoted and dedicated team of employees, legal team and the third party professionals who are working with us and contributing to our success. I would also like to express my appreciation to our shareholders for their trust and belief in us.

Sincerely,

A handwritten signature in black ink, appearing to read 'Assaf Ran', with a stylized flourish extending to the right.

Assaf Ran
CEO and Chairman of the Board

General

We are a New York-based real estate finance company that specializes in originating, servicing and managing a portfolio of first mortgage loans. We offer short-term, secured, non-banking loans (sometimes referred to as “hard money” loans), which we may renew or extend on, before or after their initial term expires, to real estate investors to fund their acquisition, renovation, rehabilitation or improvement of properties located in the New York metropolitan area. We are organized and conduct our operations to qualify as a real estate investment trust for federal income tax purposes (“REIT”). We have qualified for taxation as a REIT beginning with our taxable year ended December 31, 2014.

We are organized as a New York corporation and operated as a fully-taxable C-corporation for federal and state income tax purposes through the end of our 2013 tax year. As a result, we were able to re-invest most of our net after-tax profits back into our business. In 2014, we concluded that it would be in the best interests of our shareholders if we operated as a REIT for U.S. federal income tax purposes. In July 2014, we completed a public offering of 1,754,386 common shares at a price to the public of \$2.85 per share. As a result of that offering, we met all the requirements to qualify as a REIT and elected REIT status starting with that year.

In order to maintain our qualification for taxation as a REIT, we are required to distribute at least 90% of our taxable income to our shareholders each year. To the extent we distribute less than 100% of our taxable income to our shareholders (but more than 90%) we will maintain our qualification for taxation as a REIT but the undistributed portion will be subject to regular corporate income taxes. As a REIT, we may also be subject to federal excise taxes and minimum state taxes. We also intend to operate our business in a manner that will permit us to maintain our exemption from registration under the Investment Company Act of 1940, as amended (the “Investment Company Act”). In addition, in order for us to qualify for taxation as a REIT, not more than 50% in value of our outstanding common shares may be owned, directly or indirectly, by five or fewer individuals (as defined in the Internal Revenue Code of 1986, as amended (the “Code”) to include certain entities) at any time during the last half of each taxable year, and at least 100 persons must beneficially own our stock during at least 335 days of a taxable year of 12 months, or during a proportionate portion of a shorter taxable year. To help ensure that we meet the tests, our restated certificate of incorporation restricts the acquisition and ownership of our capital stock. The ownership limitation is fixed at 4.0% of our outstanding shares of capital stock, by value or number of shares, whichever is more restrictive.

The properties securing the loans are generally classified as residential or commercial real estate and, typically, are not income producing. Each loan is secured by a first mortgage lien on real estate. In addition, each loan is personally guaranteed by the principal(s) of the borrower, which guarantee may be collaterally secured by a pledge of the guarantor’s interest in the borrower. The face amount of the loans we originate historically ranged from \$14,000 to a maximum of \$2 million. Our lending policy limits the maximum amount of any loan to the lower of (i) 9.9% of the aggregate amount of our loan portfolio (not including the loan under consideration) and (ii) \$2 million. Our loans typically have a maximum initial term of 12 months and bear interest at a fixed rate of 12% to 14% per year. In addition, we usually receive origination fees or “points” ranging from 0% to 3% of the original principal amount of the loan as well as other fees relating to underwriting and funding the loan. Interest is always payable monthly, in arrears. In the case of acquisition financing, the principal amount of the loan usually does not exceed 75% of the value of the property (as determined by an independent appraiser) and in the case of construction financing, it is typically up to 80% of construction costs.

Since commencing our business in 2007, we have never foreclosed on a property and none of our loans have ever gone into default, although sometimes we have renewed or extended the term of a loan to enable the borrower to avoid premature sale or refinancing of the property. When we renew or extend a loan we generally receive additional “points” and other fees.

Our executive officers are experienced in hard money lending under various economic and market conditions. Loans are originated, underwritten and structured by our chief executive officer, assisted by our chief financial officer and controller, and then managed and serviced principally by our chief financial officer. A principal source of new transactions has been repeat business from prior customers and their referral of new business. We also receive leads for new business from real estate brokers and mortgage brokers and a limited amount of advertising.

Our primary business objective is to grow our loan portfolio while protecting and preserving capital in a manner that provides for attractive risk-adjusted returns to our shareholders over the long term through dividends. We intend to achieve this objective by continuing to selectively originate, fund loans secured by first mortgages on residential real estate held for investment located in the New York metropolitan area and to carefully manage and service our portfolio in a manner designed

to generate attractive risk-adjusted returns across a variety of market conditions and economic cycles. We believe that current market dynamics specifically the demand/supply imbalance for relatively small real estate loans, presents significant opportunities for us to selectively originate high-quality first mortgage loans on attractive terms and we believe that these market conditions should persist for a number of years. We have built our business on a foundation of intimate knowledge of the New York metropolitan area real estate market combined with a disciplined credit and due diligence culture that is designed to protect and preserve capital. We believe that our flexibility and ability to structure loans that address the needs of our borrowers without compromising our standards on credit risk, our expertise, our intimate knowledge of the New York metropolitan area real estate market and our focus on newly originated first mortgage loans, has defined our success until now and should enable us to continue to achieve our objectives.

The Market Opportunity

Real estate investment is a capital-intensive business that relies heavily on debt capital to acquire, develop, improve, construct, renovate and maintain properties. We believe that the demand for relatively small loans to acquire, renovate or improve residential real estate held in the New York metropolitan market presents a compelling opportunity to generate attractive returns for an established, well-financed, non-bank lender like us. We have competed successfully in this market notwithstanding the fact that many traditional lenders, such as banks and other institutional lenders, also service this market. Our primary competitive advantage is our ability to approve and fund loans quickly and efficiently. In this environment, characterized by a supply-demand imbalance for financing and increasing asset values, we believe we are well positioned to capitalize and profit from these industry trends.

We believe there is a significant market opportunity for a well-capitalized “hard money” real estate finance company to originate attractively priced loans with strong credit fundamentals. Particularly in the New York metropolitan area, where real estate values are relatively stable and substandard properties are being improved, rehabilitated and renovated, we believe there are many opportunities for a “hard money” lender providing capital for these purposes to small scale developers. We further believe that our flexibility to structure loans to suit the particular needs of our borrowers and our ability to close quickly make us an attractive alternative to banks and other large institutional lenders for small real estate developers and investors.

Our Business and Growth Strategies

Our objective is to protect and preserve capital in a manner that provides for attractive risk-adjusted returns to our shareholders over the long term, principally through dividends. We intend to achieve this objective by continuing to focus exclusively on selectively originating, servicing and managing a portfolio of short-term real estate loans secured by first mortgages on real estate located in the New York metropolitan area that are designed to generate attractive risk-adjusted returns across a variety of market conditions and economic cycles. We believe that our ability to react quickly to the needs of borrowers, our flexibility in terms of structuring loans to meet the needs of borrowers, our intimate knowledge of the New York metropolitan area real estate market, our expertise in “hard money” lending and our focus on newly originated first mortgage loans, should enable us to achieve this objective. Nevertheless, we will remain flexible in order to take advantage of other real estate related opportunities that may arise from time to time, whether they relate to the mortgage market or, if we determine that it is in our best interest, to direct or indirect investments in real estate.

Our strategy to achieve our objective includes the following:

- capitalize on opportunities created by the long-term structural changes in the real estate lending market and the continuing demand for liquidity in the real estate market;
- take advantage of the prevailing economic environment as well as economic, political and social trends that may impact real estate lending currently and in the future as well as the outlook for real estate in general and particular asset classes;
- remain flexible in order to capitalize on changing sets of investment opportunities that may be present in the various points of an economic cycle; and
- operate so as to qualify for taxation as a REIT and for an exemption from registration under the Investment Company Act.

In furtherance of these strategies, on February 27, 2015, we obtained a three-year \$14 million revolving line of credit with Webster Business Credit Corporation (“Webster”) to replace our existing \$7.7 million credit facility with Sterling National Bank. Mr. Ran, has personally guaranteed all of our obligations to Webster.

Our Competitive Strengths

We believe our competitive strengths include:

- Experienced management team. Our management team has successfully originated and serviced a portfolio of real estate mortgage loans generating attractive annual returns under varying economic and real estate market conditions. We expect that the experience of our management team will provide us with the ability to effectively deploy our capital in a manner that we believe will provide for attractive risk-adjusted returns but with a focus on capital preservation and protection.
- Long-standing relationships. A significant portion of our business comes from repeat customers with whom we have long-standing relationships. These customers are also a referral source for new borrowers. As long as these customers remain active real estate investors they provide us with an advantage in securing new business and help us maintain a pipeline to attractive new opportunities that may not be available to many of our competitors or to the general market.
- Knowledge of the market. Our intimate knowledge of the New York metropolitan area real estate market enhances our ability to identify attractive opportunities and helps distinguish us from many of our competitors.
- Disciplined lending. We seek to maximize our risk-adjusted returns, and preserve and protect capital, through our disciplined and credit-based approach. We utilize rigorous underwriting and loan closing procedures that include numerous checks and balances to evaluate the risks and merits of each potential transaction. We seek to protect and preserve capital by carefully evaluating the condition of the property, the location of the property, the creditworthiness of the guarantors and the availability of other forms of collateral.
- Vertically-integrated loan origination platform. We manage and control the loan process from origination through closing with our own personnel or independent legal counsel and appraisers, with whom we have long relationships, who together constitute a highly experienced team in credit evaluation, underwriting and loan structuring. We also believe that our procedures and experience allow us to quickly and efficiently execute opportunities we deem desirable.
- Structuring flexibility. As a relatively small, non-bank real estate lender, we can move quickly and have much more flexibility than traditional lenders to structure loans to suit the needs of our clients. Our ability to customize financing structures to meet borrowers’ needs is one of our key business strengths.
- No legacy issues. Unlike many of our competitors, we are not burdened by distressed legacy real estate assets. We do not have a legacy portfolio of lower-return or problem loans that could potentially dilute the attractive returns we believe are available in the current liquidity-challenged environment and/or distract and monopolize our management team’s time and attention. We do not have any adverse credit exposure to, and we do not anticipate that our performance will be negatively impacted by, previously purchased assets.

Our Real Estate Lending Activities

Our real estate lending activities involve originating, funding, servicing and managing short-term loans (i.e.: loans with an initial term of not more than one year), secured by first mortgage liens on real estate property in the New York metropolitan area held for investment or resale. Generally, borrowers use the proceeds from our loans for one of three purposes: (i) to acquire and renovate existing residential (single, one or two family) real estate properties; (ii) to acquire vacant real estate and construct residential real properties; and (iii) to purchase and hold income producing properties. Our mortgage loans are structured to fit the needs and business plans of the borrowers. Revenue is generated primarily from the interest borrowers pay on our loans and, to a lesser extent, loan fee income generated on the origination and extension of loans.

Most of our loans are funded in full at the closing. However, our loan portfolio includes a number of construction loans, which are only partially funded at closing. At December 31, 2015, our unfunded commitment was approximately \$2.16 million. At December 31, 2016, our unfunded commitment was approximately \$4.10 million. Advances under construction loans are funded against requests supported by all required documentation as and when needed to pay contractors and other costs of construction. In the case of construction loans, the borrower will either deliver multiple notes or one global note for the entire commitment. In either case, interest only accrues on the funded portion of the loan.

In general, our strategy is to service and manage the loans we originate until they are paid. However, there have been a few instances where we have either used loans as collateral, or sold participating interests in loans. All of our loans are secured by properties located in the New York metropolitan area, which is where we are based. We have no intention at this time to attempt to expand into any other geographic market. Most of the properties we finance are residential, although on occasion they are classified as commercial. However, in all instances the properties are held only for investment by the borrowers. Most of these properties do not generate any cash flow.

The typical terms of our loans are as follows:

Principal amount - Historically, a minimum of \$14,000 to a maximum of \$2 million. Our lending policy limits the maximum loan amount to the lower of (i) 9.9% of the aggregate amount of our loan portfolio (not including the loan under consideration) and (ii) \$2 million.

Loan-to-Value Ratio - Up to 75%, and/or up to 80% of construction costs.

Interest rate - Most of the loans in our portfolio have a fixed rate of typically 12% to 14%.

Term - Generally, one year with early termination in the event of a sale of the property or a refinancing. We entertain requests for granting extensions under certain conditions.

Prepayments - Borrower may prepay the loan at any time beginning three months after the funding date.

Covenants - To timely pay all interest on the loan and to maintain hazard insurance with respect to the property.

Events of default - Include: (i) failure to make a payment when due; (ii) breach of a covenant.

Payment terms - Interest only is payable monthly in arrears. Principal is due in a “balloon” payment at the maturity date.

Escrow - None.

Reserves - None.

Security - The loan is evidenced by a promissory note, which is secured by a first mortgage lien on the real property owned by the borrower. In addition, each loan is guaranteed by the principals of the borrower, which may be collaterally secured by a pledge of the guarantor’s interest in the borrower.

Fees and Expenses - Borrowers generally pay an origination fee equal to 0% to 3% of the loan amount. If we agree to extend the term of the loan, we usually collect the same origination fee we charged on the initial funding of the loan. In addition, borrowers also pay a processing fee, wire fee, bounced check fee and, in the case of construction loans, check requisition fee for each draw from the loan. Finally, the borrower pays all expenses relating to obtaining the loan including the cost of a property appraisal, the cost of a credit report and all title, recording fees and legal fees.

Operating Data

Our lending activities increased each year since 2007, the first year we started making real estate loans. We believe our business will continue to grow given the strength of the New York real estate market and our reputation among real estate investors as a reliable and reasonable financing source.

Our loan portfolio

The following table highlights certain information regarding our real estate lending activities for the periods indicated:

<u>(\$ in thousands)</u>	<u>Year Ended December 31,</u>	
	<u>2016</u>	<u>2015</u>
Loans originated	\$ 36,657	\$ 21,609
Loans repaid	\$ 32,806	\$ 14,737
Mortgage lending revenues	\$ 4,649	\$ 4,001
Mortgage lending expenses	\$ 789	\$ 694
Number of loans outstanding	97	97
Principal amount of loans earning interest	\$ 34,755	\$ 30,904
Average outstanding loan balance	\$ 358	\$ 319
Percent of loans secured by New York area properties ⁽¹⁾	100.0%	100.0%
Weighted average contractual interest rate	12.5%	12.3%
<u>Weighted average term to maturity (in months) ⁽²⁾</u>	6.73	5.40

(1) Calculated based on the number of loans.

(2) Without giving effect to extension options.

At December 31, 2016 and 2015, no single loan, borrower or group of affiliated borrowers accounted for more than 10% of our loan portfolio.

The following table sets forth information regarding the types of properties securing our mortgage loans outstanding at December 31, 2016 and 2015, and the interest earned in each category (dollars in thousands):

	<u>2016</u>			<u>2015</u>		
	<u>Number of Loans</u>	<u>Interest Earned</u>	<u>Percentage</u>	<u>Number of Loans</u>	<u>Interest Earned</u>	<u>Percentage</u>
Residential	89	\$1,927	91%	93	\$2,289	93%
Commercial	1	26	1%	1	120	5%
Mixed Use	7	163	8%	3	46	2%
Total	97	\$2,116	100%	97	\$2,455	100%

Our Origination Process and Underwriting Criteria

We primarily rely on our relationships with existing and former borrowers, real estate investors, real estate brokers and mortgage brokers to originate loans. Many of our borrowers are “repeat customers.” When underwriting a loan, the primary focus of our analysis is the value of a property and the credit worthiness of the borrower and its principals. Prior to making a final decision on a loan application we conduct extensive due diligence of the borrower and its principals. In terms of the property, we usually require a third party appraisal and a third party assessment report. We also order title, lien and judgment searches. In most cases, we will also make an on-site visit to evaluate not only the property but the neighborhood in which it is located. Finally, we analyze and assess financial and operational data provided by the borrower relating to its operation and maintenance of the property. In terms of the borrower and its principals, we usually obtain third party credit reports from one of the major credit reporting services as well as personal financial information provided by the borrower and its principals. We analyze all this information carefully prior to making a final determination. Ultimately, our decision is based on our conclusions regarding the value of the property, which takes into account factors such as the neighborhood in which the property is located, the current use and potential alternative use of the property, current and potential net income from the property, the local market, sales information of comparable properties, existing zoning regulations, the creditworthiness of the borrower and its principles and their experience in real estate ownership, construction, development and management. In conducting our due diligence we rely, in part, on third party professionals and experts including appraisers, engineers, title insurers and attorneys.

Before a loan commitment is issued, the loan must be reviewed and approved by our chief executive officer. Our loan commitments are generally issued subject to receipt by us of title documentation and title report, in a form satisfactory to us, for the underlying property. We require a personal guarantee from the principal or principals of the borrower.

Our Current Financing Strategies

Our financing strategies are critical to the success and growth of our business. Our financing strategies at this time are limited to equity and debt offerings. Our principal capital raising transactions have consisted of the following:

Credit line. On February 27, 2015, we repaid and terminated the Sterling Credit Line, as described in “Liquidity and Capital Resources” below, and simultaneously entered into a Line of Credit Agreement with Webster pursuant to which we may borrow up to \$14 million during the next three years (the “Webster Credit Line”). The Webster Credit Line provides for an interest rate equal to (i) LIBOR plus 4.75% or (ii) Webster’s base commercial lending rate plus 3.25%, as chosen by us for each drawdown, and expires on February 27, 2018. The credit line is secured by assignment of mortgages and other collateral and is guaranteed by Assaf Ran, our chief executive officer. (See Note 7 to the financial statements included elsewhere in this report.)

Short-term loans. Over the last seven years we have raised approximately \$8.7 million through the sale of short and medium-term promissory notes to private investors. As of April 2016, all of the short-term loans were repaid in full. Senior secured notes having an aggregate principal amount of \$500,000 were repaid in full in 2013.

Public offerings. In July 2014, we sold 1,754,386 common shares in a registered public offering for an aggregate of \$5.0 million, or approximately \$4.3 million after deducting our underwriting discounts and commissions and offering expenses.

On May 29, 2015, we completed another public offering of 1,015,000 common shares. In June 2015, the underwriter partially exercised its over-allotment option for an additional 105,000 common shares. The gross proceeds from the offering, including the partial exercise of the over-allotment option, were approximately \$4.9 million and the net proceeds were approximately \$4.2 million, after deducting our underwriting discounts and commissions and offering expenses.

On April 25, 2016, MBC Funding II Corp., a New York corporation (“MBC Funding II”), our wholly owned subsidiary, completed a firm commitment underwritten public offering of 6% senior secured notes due April 22, 2026 (the “Notes”). We guaranteed MBC Funding II’s obligations under the Notes, which are secured by our pledge of 100% of the outstanding common shares of MBC Funding II we own. The gross proceeds to MBC Funding II from this offering were \$6.0 million, and the net proceeds were approximately \$5.2 million, after deducting the underwriting discounts and commissions and other offering expenses. MBC Funding II utilized the proceeds to purchase a pool of mortgage loans from us, which we in turn used to pay down the Webster Credit Line.

On August 15, 2016, we completed another public offering of 672,269 common shares. In addition, the underwriter fully exercised its over-allotment option for an additional 100,840 common shares. The gross proceeds from the offering, including the exercise of the over-allotment option, were approximately \$4.6 million and the net proceeds were approximately \$4.2 million, after deducting our underwriting discounts and commissions and offering expenses.

The following table shows our sources of capital, including our financing arrangements, and our loan portfolio as of December 31, 2016:

Sources of Capital (\$ in thousands):

Debt:	
Line of credit	\$ 6,483
Senior secured notes (net of deferred financing costs of \$698)	\$ 5,302
Total debt	11,785
Other liabilities	1,235
Capital (equity)	22,314
Total sources of capital	\$ 35,334
Assets:	
Loans:	
Short-term loans	\$ 27,495
Long-term loans	7,260
Total loans	\$ 34,755
Other assets	579
Total assets	\$ 35,334

Competition

The real estate finance market in the New York metropolitan area is highly competitive. We face competition for lending and investment opportunities from a variety of institutional lenders and investors and many other market participants, including specialty finance companies, mortgage/other REITs, commercial banks and thrift institutions, investment banks, insurance companies, hedge funds and other financial institutions as well as private equity funds, family offices and high net worth individuals. Many of these competitors enjoy competitive advantages over us, including greater name recognition, established lending relationships with customers, financial resources, and access to capital.

Notwithstanding the intense competition and some of our competitive disadvantages, we believe we have carved a niche for ourselves among small real estate developers, owners and contractors throughout the New York metropolitan area because of our ability to structure each loan to suit the needs of each individual borrower and our ability to act quickly. In addition, we believe we have developed a reputation among these borrowers as offering reasonable terms and providing outstanding customer service. We believe our future success will depend on our ability to maintain and capitalize on our existing relationships with borrowers and brokers and to expand our borrower base by continuing to offer attractive loan products, remain competitive in pricing and terms, and provide superior service.

Sales and Marketing

We do not engage any third parties for sales and marketing. Rather, we rely on our internal team to generate lending opportunities as well as referrals from existing or former borrowers, brokers and bankers and advertising to generate lending opportunities. A principal source of new transactions has been repeat business from prior customers and their referral of new leads.

Intellectual Property

Our business does not depend on exploiting or leveraging any intellectual property rights. To the extent we own any rights to intellectual property, we rely on a combination of federal, state and common law trademarks, service marks and trade names, copyrights and trade secret protection. We have registered some of our trademarks and service marks in the United States Patent and Trademark Office (USPTO) including “Manhattan Bridge Capital” and “DAG Funding Solutions”.

The protective steps we have taken may not deter misappropriation of our proprietary information. These claims, if meritorious, could require us to license other rights or subject us to damages and, even if not meritorious, could result in the expenditure of significant financial and managerial resources on our part.

Employees

As of December 31, 2016, we employed four employees (three full-time and one part-time). In addition, during 2016 we used outside lawyers and other independent professionals to verify titles and ownership, to file liens and to consummate the transactions. Outside appraisers were used to assist management in evaluating the worth of collateral, when deemed necessary by management. We also used construction inspectors as well as mortgage brokers and deal initiators.

Regulation

Our operations are subject, in certain instances, to supervision and regulation by state and federal governmental authorities and may be subject to various laws and judicial and administrative decisions imposing various requirements and restrictions. In addition, we may rely on exemptions from various requirements of the Securities Act of 1933, as amended (the “Securities Act”), the Exchange Act, the Investment Company Act and ERISA. These exemptions are sometimes highly complex and may in certain circumstances depend on compliance by third-parties who we do not control.

Regulatory Reform

The Dodd-Frank Act, which went into effect on July 21, 2010, was intended to make significant structural reforms to the financial services industry. For example, pursuant to the Dodd-Frank Act, various federal agencies have promulgated, or are in the process of promulgating, regulations with respect to various issues that may affect us. Certain regulations have already been adopted and others remain under consideration by various governmental agencies, in some cases past the deadlines set in the Dodd-Frank Act for adoption. At the present time, we do not believe any regulations adopted under the Dodd-Frank Act apply to us. However, it is possible that regulations that will be adopted in the future will apply to us or that existing regulations will apply to us as our business evolves.

Regulation of Commercial Real Estate Lending Activities

Although most states do not regulate commercial finance, certain states impose limitations on interest rates and other charges and on certain collection practices and creditor remedies, and require licensing of lenders and financiers and adequate disclosure of certain contract terms. We also are required to comply with certain provisions of, among other statutes and regulations, certain provisions of the Equal Credit Opportunity Act that are applicable to commercial loans, The USA PATRIOT Act, regulations promulgated by the Office of Foreign Asset Control and federal and state securities laws and regulations.

Investment Company Act Exemption

Although we reserve the right to modify our business methods at any time, we are not currently required to register as an investment company under the Investment Company Act. However, we cannot assure you that our business strategy will not evolve over time in a manner that could subject us to the registration requirements of the Investment Company Act.

Section 3(a)(1)(A) of the Investment Company Act defines an investment company as any issuer that is or holds itself out as being engaged primarily in the business of investing, reinvesting or trading in securities. Section 3(a)(1)(C) of the Investment Company Act defines an investment company as any issuer that is engaged or proposes to engage in the business of investing, reinvesting, owning, holding or trading in securities and owns or proposes to acquire investment securities having a value exceeding 40% of the value of the issuer's total assets (exclusive of U.S. Government securities and cash items) on an unconsolidated basis, which we refer to as the 40% test. Real estate mortgages are excluded from the term "investment securities."

We rely on the exception set forth in Section 3(c)(5)(C) of the Investment Company Act which excludes from the definition of investment company "[a]ny person who is not engaged in the business of issuing redeemable securities, face-amount certificates of the installment type or periodic payment plan certificates, and who is primarily engaged in one or more of the following businesses... (C) purchasing or otherwise acquiring mortgages and other liens on and interests in real estate." The U.S. Securities and Exchange Commission (the "SEC") generally requires that, for the exception provided by Section 3(c)(5)(C) to be available, at least 55% of an entity's assets be comprised of mortgages and other liens on and interests in real estate, also known as "qualifying interests," and at least another 25% of the entity's assets must be comprised of additional qualifying interests or real estate-type interests (with no more than 20% of the entity's assets comprised of miscellaneous assets). At the present time, we qualify for the exemption under this section and our current intention is to continue to focus on originating short term loans secured by first mortgages on real property. However, if, in the future, we do acquire non-real estate assets without the acquisition of substantial real estate assets, we may qualify as an "investment company" and be required to register as such under the Investment Company Act, which could have a material adverse effect on us.

If we were required to register as an investment company under the Investment Company Act, we would become subject to substantial regulation with respect to our capital structure (including our ability to use leverage), management, operations, transactions with affiliated persons (as defined in the Investment Company Act), portfolio composition, including restrictions with respect to diversification and industry concentration, and other matters.

Qualification for exclusion from the definition of an investment company under the Investment Company Act will limit our ability to make certain investments. In addition, complying with the tests for such exclusion could restrict the time at which we can acquire and sell assets.

Environmental Laws

Our borrowers, who own properties, may be subject to various environmental laws of federal, state and local governments. To the extent that an owner of a property underlying one of our debt instruments becomes liable for removal costs, the ability of the owner to make payments to us may be reduced, which in turn may adversely affect the value of the relevant mortgage asset held by us and our ability to make distributions to our shareholders. To date, our borrowers compliance with existing laws has not had a material adverse effect on our earnings and we do not have reason to believe it will have such an impact in the future. However, we cannot predict the impact of unforeseen environmental contingencies or new or changed laws or regulations on the properties owned by our borrowers.

Properties

Our executive and principal operating office is located in Great Neck, New York. We use this space for all of our operations. This space is occupied under a lease, as amended, that expires September 30, 2021. The current monthly rent is \$3,895, including electricity. We believe this facility is adequate to meet our requirements at our current level of business activity.

The following management's discussion and analysis of financial condition and results of operations should be read in conjunction with our audited consolidated financial statements and notes thereto contained elsewhere in this report. This discussion contains forward-looking statements based on current expectations that involve risks and uncertainties. Actual results and the timing of certain events may differ significantly from those projected in such forward-looking statements.

Overview

Since commencing this business in 2007, we have made over 510 loans and never foreclosed on a property and none of our loans have ever gone into default although sometimes we have renewed or extended our loans to enable the borrower to avoid premature sale or refinancing of the property. When we renew or extend a loan we receive additional "points" and other fees.

Our primary business objective is to grow our loan portfolio while protecting and preserving capital in a manner that provides for attractive risk-adjusted returns to our shareholders over the long term through dividends. We intend to achieve this objective by continuing to selectively originate loans and carefully manage our portfolio of first mortgage real estate loans in a manner designed to generate attractive risk-adjusted returns across a variety of market conditions and economic cycles. We believe that the demand for relatively small loans secured by residential and commercial real estate held for investment in the New York metropolitan market is significant and growing and that traditional lenders, including banks and other financial institutions, that usually address this market are unable to satisfy this demand. This demand/supply imbalance has created an opportunity for non-bank "hard money" real estate lenders like us to selectively originate high-quality first mortgage loans on attractive terms and that this condition should persist for a number of years. We have built our business on a foundation of intimate knowledge of the New York metropolitan area real estate market combined with a disciplined credit and due diligence culture that is designed to protect and preserve capital. We believe that our flexibility in terms of meeting the needs of borrowers without compromising our standards on credit risk, our expertise, our intimate knowledge of the New York metropolitan area real estate market and our focus on newly originated first mortgage loans, has defined our success until now and should enable us to continue to achieve our objectives.

A principal source of new transactions has been repeat business from prior customers and their referral of new business. We also receive leads for new business from banks, brokers and a limited amount of advertising. Finally, our chief executive officer also spends a significant portion of his time on new business development. We rely on our own employees, independent legal counsel, and other independent professionals to verify titles and ownership, to file liens and to consummate the transactions. Outside appraisers are used to assist us in evaluating the worth of collateral, when deemed necessary by management. We also use construction inspectors.

At December 31, 2016, we were committed to an additional \$4,102,500 in construction loans that can be drawn by our borrowers when certain conditions are met.

In July 2014, we completed a public offering of 1,754,386 common shares. The gross proceeds from the offering were \$5.0 million and the net proceeds were approximately \$4.3 million, after deducting our underwriting discounts and commissions and offering expenses. As a result of this offering, we satisfied all of the requirements to be taxed as a REIT and elected to be taxed as a REIT commencing with our taxable year ended December 31, 2014. In order to maintain our qualification for taxation as a REIT and avoid any excise tax on our net taxable income, we are required to distribute each year at least 90% of our taxable income. If we distribute less than 100% of our taxable income (but more than 90%), the undistributed portion will be taxed at the regular corporate income tax rates. As a REIT, we may also be subject to federal excise taxes and minimum state taxes.

On February 27, 2015, we repaid and terminated our Sterling Credit Line, as described in "Liquidity and Capital Resources" below, and replaced it with the Webster Credit Line, as described in "Liquidity and Capital Resources" below, pursuant to which we may borrow up to \$14 million during the next three years. The Webster Credit Line provides for an interest rate of either LIBOR plus 4.75% or Webster's base commercial lending rate plus 3.25%, as chosen by us for each drawdown, and expires on February 27, 2018. In addition, the Webster Credit Line also contains a cross default provision which will deem any default under any indebtedness owed by us or our subsidiary, MBC Funding II, as a default under the credit line. The Webster Credit Line is secured by assignment of mortgages and other collateral and is guaranteed by Assaf Ran, our chief executive officer.

On May 29, 2015, we completed another public offering of 1,015,000 common shares. In June 2015, the underwriter partially exercised its over-allotment option for an additional 105,000 common shares. The gross proceeds from the offering, including the partial exercise of the over-allotment option, were approximately \$4.9 million and the net proceeds were approximately \$4.2 million, after deducting our underwriting discounts and commissions and offering expenses.

On April 25, 2016, MBC Funding II, our wholly owned subsidiary, completed an underwritten public offering of the Notes in the aggregate principal amount of \$6,000,000 under the Indenture, dated April 25, 2016, among MBC Funding II, as the issuer, us, as guarantor, and Worldwide Stock Transfer LLC, as Indenture Trustee (the "Indenture"). The Notes mature on April 22, 2026, unless redeemed earlier, and accrue interest at a rate of 6% per annum commencing on May 16, 2016 and will be payable monthly, in arrears, in cash, on the 15th day of each calendar month, commencing June 2016.

Under the terms of the Indenture, the aggregate outstanding principal balance of the mortgage loans held by MBC Funding II, together with its cash on hand, must always equal at least 120% of the aggregate outstanding principal amount of the Notes at all times. To the extent the aggregate principal amount of the mortgage loans owned by MBC Funding II plus its cash on hand is less than 120% of the aggregate outstanding principal balance of the Notes, MBC Funding II is required to repay, on a monthly basis, the principal amount of the Notes equal to the amount necessary such that, after giving effect to such repayment, the aggregate principal amount of all mortgage loans owned by it plus, its cash on hand at such time is equal to or greater than 120% of the outstanding principal amount of the Notes. For this purpose, each mortgage loan is deemed to have a value equal to its outstanding principal balance, unless the borrower is in default of its obligations.

The Notes are secured by a first priority lien on all of MBC Funding II's assets, including, primarily, mortgage notes, mortgages and other transaction documents entered into in connection with first mortgage loans originated and funded by us, which Funding acquired from MBC pursuant to an asset purchase agreement. MBC Funding II may redeem the Notes, in whole or in part, at any time after April 22, 2019 upon at least 30 days prior written notice to the noteholders. The redemption price will be equal to the outstanding principal amount of the Notes redeemed plus the accrued but unpaid interest thereon up to, but not including, the date of redemption, without penalty or premium; provided that (i) if the Notes are redeemed on or after April 22, 2019 but prior to April 22, 2020, the redemption price will be 103% of the principal amount of the Notes redeemed and (ii) if the Notes are redeemed on or after April 22, 2020 but prior to April 22, 2021, the redemption price will be 101.5% of the principal amount of the Notes redeemed plus, in either case, the accrued but unpaid interest on the Notes redeemed up to, but not including, the date of redemption. Each Noteholder has the right to cause MBC Funding II to redeem his, her, or its Notes on April 22, 2021. The redemption price will be equal to the outstanding principal amount of the Notes redeemed plus the accrued but unpaid interest up to, but not including, the date of redemption, without penalty or premium. In order to exercise this right, the Noteholder must notify MBC Funding II, in writing, no earlier than November 22, 2020 and no later than January 22, 2021. All Notes that are subject to a proper and timely notice will be redeemed on April 22, 2021. Any Noteholder who fails to make a proper and timely election will be deemed to have waived his, her or its right to have his, her or its Notes redeemed prior to the maturity date. In addition, MBC Funding II is obligated to offer to redeem the Notes if there occurs a "change of control" with respect to us or MBC Funding II or if we or MBC Funding II sell any assets unless, in the case of an asset sale, the proceeds are reinvested in the business of the seller. The redemption price in connection with a "change of control" will be 101% of the principal amount of the Notes redeemed plus accrued but unpaid interest thereon up to, but not including, the date of redemption. The redemption price in connection with an asset sale will be the outstanding principal amount of the Notes redeemed plus accrued but unpaid interest thereon up to, but not including, the date of redemption.

We guaranteed MBC Funding II's obligations under the Notes, which are secured by our pledge of 100% of the outstanding common shares of MBC Funding II that we own. The gross proceeds to MBC Funding II from this offering were \$6.0 million, and the net proceeds were approximately \$5.2 million, after deducting the underwriting discounts and commissions and other offering expenses. MBC Funding II utilized the proceeds to purchase a pool of mortgage loans from us, which we in turn used to pay down the Webster Credit Line.

On August 15, 2016, we completed another public offering of 672,269 common shares. In addition, the underwriter fully exercised its over-allotment option for an additional 100,840 common shares. The gross proceeds from the offering, including the exercise of the over-allotment option, were approximately \$4.6 million and the net proceeds were approximately \$4.2 million, after deducting our underwriting discounts and commissions and offering expenses.

To date, we have not experienced any defaults and none of the loans previously made have been non-collectable, although no assurances can be given that existing or future loans may not go into default or prove to be non-collectible in the future.

Critical Accounting Policies and Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make 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 revenues and expenses during the reporting period. Management will base the use of estimates on (a) a preset number of assumptions that consider past experience, (b) future projections, and (c) general financial market conditions. Actual amounts could differ from those estimates.

We recognize revenues in accordance with Accounting Standards Codification ("ASC") 605, Revenue Recognition, which provides guidance on the recognition, presentation and disclosure of revenue in financial statements. ASC 605 outlines the basic criteria that must be met to recognize revenue and provides guidance for disclosure related to revenue recognition policies. In general, we recognize revenue when (i) persuasive evidence of an arrangement exists, (ii) delivery of the product has occurred or services have been rendered, (iii) the sales price charged is fixed or determinable, and (iv) collectability is reasonably assured.

Interest income from commercial loans is recognized, as earned, over the loan period.

Origination fee revenue on commercial loans is amortized over the term of the respective note.

We continually monitor events and changes in circumstances that could indicate that the carrying amounts of long lived assets, including intangible assets and goodwill, may not be recoverable. When such events or changes in circumstances occur, we assess the recoverability of long-lived assets by determining whether the carrying value of such assets will be recovered through undiscounted expected future cash flows. If the total of the undiscounted cash flows is less than the carrying amount of these assets, we recognize an impairment loss based on the excess of the carrying amount over the fair value of the assets.

There are also areas in which in management's judgment in selecting any available alternative would not produce a materially different result. See our audited consolidated financial statements and notes thereto which begin on page F-1 of this Report, which contain accounting policies and other disclosures required by generally accepted accounting principles in the United States of America.

Results of operations

Years ended December 31, 2016 and 2015

Total revenue

Total revenue for the year ended December 31, 2016 was approximately \$4,649,000 compared to approximately \$4,001,000 for the year ended December 31, 2015, an increase of \$648,000, or 16.2%. The increase in revenue represents an increase in lending operations. In 2016, approximately \$3,845,000 of our revenue represents interest income on secured, real estate loans that we offer to small businesses compared to approximately \$3,356,000 in 2015, and approximately \$803,000 represents origination fees on such loans compared to approximately \$645,000 in 2015. The loans are principally secured by collateral consisting of real estate and, generally, accompanied by personal guarantees from the principals of the borrowers.

Interest and amortization of deferred financing costs

Interest and amortization of deferred financing costs for the year ended December 31, 2016 were approximately \$780,000 compared to approximately \$691,000 for the year ended December 31, 2015, an increase of \$89,000 or 12.9%. The increase in interest and amortization of deferred financing costs was primarily attributable to the issuance of senior secured notes (See Note 11 to the financial statements included elsewhere in this report) in order to increase our ability to make loans.

General and administrative expenses

General and administrative expenses for the year ended December 31, 2016 were approximately \$1,006,000 compared to approximately \$1,039,000 for the year ended December 31, 2015, a decrease of \$33,000. The decrease is primarily attributable to decreases in annual bonus to officers and in consulting fees, offset by increases in banking, legal, travel and meal expenses.

Other loss

Other loss for the years ended December 31, 2016 and 2015, was approximately \$15,000 and \$29,000, respectively. A loss of \$15,000 for each of the years ended December 31, 2016 and 2015 results from our write down of the value of our investment in a privately held company. In 2015, there was also an impairment loss of approximately \$14,000 resulting from our termination of the use of computer software. (See Note 5 and Note 6 to the financial statements included elsewhere in this report.)

Net Income

Net income for the year ended December 31, 2016 was approximately \$2,837,000 compared to approximately \$2,238,000 for the year ended December 31, 2015, an increase of \$599,000, or 26.8%. The increase is primarily attributable to the increase in revenue, offset by the increase in interest and amortization of deferred financing costs.

Liquidity and Capital Resources

At December 31, 2016, we had cash and cash equivalents of approximately \$96,000 and working capital of approximately \$20.3 million compared to cash and cash equivalents of approximately \$107,000 and working capital of approximately \$6.8 million at December 31, 2015. The increase in working capital is primarily attributable to an increase of short-term loans receivable, and a pay down of Webster Credit Line with proceeds from the issuance of senior secured notes. At December 31, 2016, our long-term loans receivable represents 20.89% of our loan portfolio, compared to 34.64% at December 31, 2015.

For the years ended December 31, 2016 and 2015, net cash provided by operating activities was approximately \$3.1 million and \$2.1 million, respectively. The increase in net cash provided by operating activities primarily results from increases in net income and in amortization of deferred financing costs, and a decrease in interest receivable on loans.

For the year ended December 31, 2016 net cash used in investing activities was approximately \$3.9 million, compared to approximately \$6.9 million for the year ended December 31, 2015. Net cash used in investing activities for the year ended December 31, 2016, consisted of the issuance of our short term real estate loans in the amount of approximately \$36.7 million and the purchase of fixed assets of approximately \$3,000, offset by collection of our real estate loans in the amount of approximately \$32.8 million. Net cash used in investing activities for the year ended December 31, 2015, consisted of the issuance of our short term real estate loans in the amount of approximately \$21.6 million and the purchase of fixed assets of approximately \$10,000, offset by collection of our real estate loans in the amount of approximately \$14.7 million.

For the year ended December 31, 2016 net cash provided by financing activities was approximately \$792,000, compared to approximately \$4.8 million for the year ended December 31, 2015. Net cash provided by financing activities for the year ended December 31, 2016 reflects the net proceeds from the public bond offering of approximately \$5.3 million, the net proceeds from the public stock offering of approximately \$4.2 million, and the proceeds from the exercise of warrants of approximately \$410,000, offset by the repayment of lines of credit of approximately \$5.3 million, the repayment of short-term loans of approximately \$1.1 million, and the dividend payment of approximately \$2.7 million. Net cash provided by financing activities for the year ended December 31, 2015 reflects the net proceeds from the public stock offering of approximately \$4.2 million, the proceeds from lines of credit of approximately \$4.1 million, and the proceeds from the exercise of stock options and warrants of approximately \$135,000, offset by the dividend payment of approximately \$2.1 million, the repayment of short-term loans of approximately \$1.4 million, and the deferred financing costs in the aggregate of approximately \$172,000 of which approximately \$112,000 was attributable to the Webster Credit Line and approximately \$60,000 was attributable to the proposed public offering of our securities.

On February 27, 2015, we entered into a Credit and Security Agreement with Webster pursuant to which we may borrow up to \$14 million until February 27, 2018 against assignments of mortgages and other collateral. The Webster Credit Line provides for an interest rate of either LIBOR plus 4.75% or the base commercial lending rate of Webster plus 3.25% as chosen by us for each drawdown. The Webster Credit Line contains various covenants and restrictions, including limiting the amount that we can borrow relative to the value of the underlying collateral, maintaining various financial ratios and limitations on the terms of loans we make to our customers. Mr. Ran, has personally guaranteed all of our obligations to Webster.

The Webster Credit Line replaced the \$7.7 million credit facility with Sterling. We paid off the entire balance due to Sterling with proceeds from the Webster Credit Line and terminated the Sterling Credit Line on February 27, 2015. In addition, we utilized the Webster Credit Line to repay in full loans from Mr. Ran in the aggregate amount of \$1,100,000, as well as two short-term loans, outstanding at December 31, 2014, in the aggregate amount of \$1,000,000, bearing interest at the rate of 12% per annum. At December 31, 2016, the outstanding amount under the Webster Credit Line was \$6.48 million. The interest rate on the amount outstanding fluctuates daily. The rate for December 31, 2016 was 5.520%.

Until our initial public offering in 1999, our principal source of funds was cash flow from operations, which funded both our working capital needs and capital expenditures. In May 1999 we completed our initial public offering in which we raised net proceeds of approximately \$6.4 million.

In July 2014, we completed a public offering of 1,754,386 common shares, which raised gross proceeds of \$5.0 million and net proceeds of approximately \$4.3 million, after deducting our underwriting discounts and commissions and offering expenses. As a result of this offering, we satisfied all of the requirements to be taxed as a REIT and elected to be taxed as a REIT commencing with our taxable year ended December 31, 2014.

In order to maintain our qualification for taxation as a REIT and avoid any excise tax on our net taxable income, we are required to distribute each year at least 90% of our taxable income. If we distribute less than 100% of our taxable income (but more than 90%), the undistributed portion will be taxed at the regular corporate income tax rates. As a REIT, we may also be subject to federal excise taxes and minimum state taxes. For the 2016 tax year, our total distributions included non-qualified dividends equal to 100% of our taxable income and a return of capital equal to approximately 1% of our total distributions.

On May 29, 2015, we completed another public offering of 1,015,000 common shares. In June 2015, the underwriter partially exercised its over-allotment option for an additional 105,000 common shares. The gross proceeds from the offering, including the partial exercise of the over-allotment option, were approximately \$4.9 million and the net proceeds were approximately \$4.2 million, after deducting our underwriting discounts and commissions and offering expenses.

On April 25, 2016, MBC Funding II, our wholly owned subsidiary, completed an underwritten public offering of the Notes. We guaranteed MBC Funding II's obligations under the Notes, which are secured by our pledge of 100% of the outstanding common shares of MBC Funding II we own. The gross proceeds to MBC Funding II from this offering were \$6.0 million, and the net proceeds were approximately \$5.2 million, after deducting the underwriting discounts and commissions and other offering expenses. MBC Funding II utilized the proceeds to purchase a pool of mortgage loans from us, which we in turn used to pay down the Webster Credit Line.

On August 15, 2016, we completed another public offering of 672,269 common shares. In addition, the underwriter fully exercised its over-allotment option for an additional 100,840 common shares. The gross proceeds from the offering, including the exercise of the over-allotment option, were approximately \$4.6 million and the net proceeds were approximately \$4.2 million, after deducting our underwriting discounts and commissions and offering expenses.

We anticipate that our current cash balances and the Webster Credit Line, as described above, together with our cash flows from operations will be sufficient to fund our operations for the next 12 months. However, we expect our working capital requirements to increase over the next 12 months as we continue to strive for growth.

Off-Balance Sheet Arrangements

We have not entered into any off-balance sheet transactions, arrangements or other relationships with unconsolidated entities or other persons that are likely to affect liquidity or the availability of our requirements for capital resources.

Contractual Obligations

Contractual Obligations	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 years
Operating Lease Obligations (*)	\$ 231,000	\$ 46,000	\$ 146,000	\$ 39,000	\$ ---
Senior Secured Notes	\$6,000,000	\$ ---	\$ ---	\$ ---	\$6,000,000
Amounts due under Webster Credit Line at December 31, 2016	\$6,482,848	\$ ---	\$6,482,848	\$ ---	\$ ---

(*) Operating lease obligations include utilities payable to the landlord under the lease.

FORWARD-LOOKING STATEMENTS

This Annual Report ("Report") contains forward-looking statements within the meaning of section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Forward-looking statements are typically identified by the words "believe," "expect," "intend," "estimate" and similar expressions. Those statements appear in a number of places in this report and include statements regarding our intent, belief or current expectations or those of our directors or officers with respect to, among other things, trends affecting our financial condition and results of operations and our business and growth strategies. These forward-looking statements are not guarantees of future performance and involve risks and uncertainties. Actual results may differ materially from those projected, expressed or implied in the forward-looking statements as a result of various factors (such factors are referred to herein as "Cautionary Statements"), including but not limited to the following: (i) we have limited operating history as a real estate investment trust; (ii) our loan origination activities, revenues and profits are limited by available funds; (iii) we operate in a highly competitive market and competition may limit our ability to originate loans with favorable interest rates; (iv) our chief executive officer is critical to our business and our future success may depend on our ability to retain him; (v) if we overestimate the yields on our loans or incorrectly value the collateral securing the loan, we may experience losses; (vi) we may be subject to "lender liability" claims; (vii) our loan portfolio is illiquid; (viii) our due diligence may not uncover all of a borrower's liabilities or other risks to its business; (ix) borrower concentration could lead to significant losses; (x) our management has limited experience managing a real estate investment trust; and (xi) we may choose to make distributions in our own stock, in which case you may be required to pay income taxes in excess of the cash dividends you receive. The accompanying information contained in this report, including the information set forth under "Management's Discussion and Analysis of Financial Condition and Results of Operations", identifies important factors that could cause such differences. These forward-looking statements speak only as of the date of this report, and we caution potential investors not to place undue reliance on such statements. We undertake no obligation to update or revise any forward-looking statements. All subsequent written or oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the Cautionary Statements.

Manhattan Bridge Capital, Inc. - Consolidated Balance Sheets

MANHATTAN BRIDGE CAPITAL, INC. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2016 AND 2015

	2016	2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 96,299	\$ 106,836
Short term loans receivable	27,495,500	20,199,000
Interest receivable on loans	346,519	382,572
Other current assets	29,397	32,865
Total current assets	27,967,715	20,721,273
Long term loans receivable	7,259,820	10,705,040
Property and equipment, net	7,980	8,771
Security deposit	6,816	6,816
Investment in privately held company	35,000	50,000
Deferred financing costs	56,193	164,510
Total assets	\$ 35,333,524	\$ 31,656,410
Liabilities and Stockholders' Equity		
Current liabilities:		
Line of credit	\$ 6,482,848	\$ 11,821,099
Short term loans	---	1,095,620
Accounts payable and accrued expenses	105,541	99,643
Deferred origination fees	315,411	279,682
Dividends payable	813,503	617,443
Total current liabilities	7,717,303	13,913,487
Long term liabilities:		
Senior secured notes (net of deferred financing costs of \$697,669)	5,302,331	---
Total liabilities	13,019,634	13,913,487
Commitments and contingencies		
Stockholders' equity:		
Preferred shares - \$.01 par value; 5,000,000 shares authorized; no shares issued	---	---
Common shares - \$.001 par value; 25,000,000 authorized; 8,312,036 and 7,441,039 issued; 8,135,036 and 7,264,039 outstanding	8,312	7,441
Additional paid-in capital	23,134,013	18,500,524
Treasury stock, at cost - 177,000	(369,335)	(369,335)
Accumulated deficit	(459,100)	(395,707)
Total stockholders' equity	22,313,890	17,742,923
Total liabilities and stockholders' equity	\$ 35,333,524	\$ 31,656,410
The accompanying notes are an integral part of these consolidated financial statements.		

MANHATTAN BRIDGE CAPITAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Interest income from loans	\$ 3,845,091	\$ 3,355,920
Origination fees	803,469	644,706
Total Revenue	<u>4,648,560</u>	<u>4,000,626</u>
Operating costs and expenses:		
Interest and amortization of deferred financing costs	780,119	691,392
Referral fees	8,682	2,356
General and administrative expenses	1,005,653	1,038,849
Total operating costs and expenses	<u>1,794,454</u>	<u>1,732,597</u>
Income from operations	<u>2,854,106</u>	<u>2,268,029</u>
Impairment loss on property and equipment (Note 5)	---	(13,863)
Loss on write-down of investment in privately held company (Note 6)	(15,000)	(15,000)
Total other loss	<u>(15,000)</u>	<u>(28,863)</u>
Income before income tax expense	2,839,106	2,239,166
Income tax expense	(2,146)	(1,595)
Net income	<u>\$ 2,836,960</u>	<u>\$ 2,237,571</u>
Basic and diluted net income per common share		
--Basic	<u>\$0.37</u>	<u>\$0.33</u>
--Diluted	<u>\$0.37</u>	<u>\$0.33</u>
Weighted average number of common shares outstanding		
--Basic	<u>7,590,114</u>	<u>6,759,219</u>
--Diluted	<u>7,608,201</u>	<u>6,786,610</u>
The accompanying notes are an integral part of these consolidated financial statements.		

MANHATTAN BRIDGE CAPITAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>Common Stock</u>		<u>Additional Paid-in Capital</u>	<u>Treasury Stock</u>		<u>(Accumulate d Deficit) / Retained Earnings</u>	<u>Totals</u>
	<u>Shares</u>	<u>Amount</u>		<u>Shares</u>	<u>Cost</u>		
Balance, January 1, 2015	6,260,689	\$6,260	\$14,116,183	177,000	\$(369,335)	\$113,346	\$13,866,454
Non cash compensation			13,664				13,664
Exercise of stock options	40,000	40	61,150				61,190
Exercise of warrants	20,350	21	73,449				73,470
Public offering	1,120,000	1,120	4,236,078				4,237,198
Dividends paid						(2,129,181)	(2,129,181)
Dividends declared and payable						(617,443)	(617,443)
Net income for the year ended December 31, 2015						2,237,571	2,237,571
Balance, December 31, 2015	7,441,039	7,441	18,500,524	177,000	(369,335)	(395,707)	17,742,923
Non cash compensation			13,589				13,589
Exercise of warrants	97,888	98	409,687				409,785
Public offerings	773,109	773	4,210,213				4,210,986
Dividends paid						(2,086,850)	(2,086,850)
Dividends declared and payable						(813,503)	(813,503)
Net income for the year ended December 31, 2016						2,836,960	2,836,960
Balance, December 31, 2016	<u>8,312,036</u>	<u>\$8,312</u>	<u>\$23,134,013</u>	<u>177,000</u>	<u>\$(369,335)</u>	<u>\$(459,100)</u>	<u>\$ 22,313,890</u>

The accompanying notes are an integral part of these consolidated financial statements.

MANHATTAN BRIDGE CAPITAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Net income	\$ 2,836,960	\$ 2,237,571
Adjustments to reconcile net income to net cash provided by operating activities -		
Amortization of deferred financing costs	101,351	39,542
Depreciation	3,810	5,714
Non cash compensation expense	13,589	13,664
Impairment loss on property and equipment (Note 5)	---	13,863
Loss on write-down of investment in privately held company (Note 6)	15,000	15,000
Changes in operating assets and liabilities		
Interest receivable on loans	36,053	(168,806)
Other current and non current assets	3,468	(5,871)
Accounts payable and accrued expenses	5,898	(63,979)
Deferred origination fees	35,729	34,906
Net cash provided by operating activities	<u>3,051,858</u>	<u>2,121,604</u>
Cash flows from investing activities:		
Issuance of short term loans	(36,657,000)	(21,609,000)
Collections received from loans	32,805,720	14,737,436
Purchase of fixed assets	(3,019)	(9,260)
Net cash used in investing activities	<u>(3,854,299)</u>	<u>(6,880,824)</u>
Cash flows from financing activities:		
(Repayments of) proceeds from lines of credit, net	(5,338,251)	4,121,099
Repayments of loans, net	(1,095,620)	(1,373,845)
Proceeds from exercise of stock options and warrants	409,785	134,660
Proceeds from public stock offering, net	4,210,986	4,237,198
Proceeds from public bond offering, net	5,309,297	---
Dividends paid	(2,704,293)	(2,129,181)
Deferred financing costs incurred	---	(171,551)
Net cash provided by financing activities	<u>791,904</u>	<u>4,818,380</u>
Net (decrease) increase in cash and cash equivalents	(10,537)	59,160
Cash and cash equivalents, beginning of year	106,836	47,676
Cash and cash equivalents, end of year	<u>\$ 96,299</u>	<u>\$ 106,836</u>
Supplemental Cash Flow Information:		
Taxes paid during the year	<u>\$ 1,948</u>	<u>\$ 56</u>
Interest paid during the year	<u>\$ 691,581</u>	<u>\$ 596,187</u>
Supplement Information – Noncash Information:		
Dividend declared and payable	<u>\$ 813,503</u>	<u>\$ 617,443</u>

The accompanying notes are an integral part of these consolidated financial statements.

Notes to Consolidated Financial Statements

MANHATTAN BRIDGE CAPITAL, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

1. The Company

Manhattan Bridge Capital, Inc. (“MBC”) and its wholly-owned subsidiaries DAG Funding Solutions, Inc. (dissolved in September 2016) (“DAG Funding”) and MBC Funding II Corp. (“MBC Funding” and collectively with MBC and DAG Funding until it was dissolved, the “Company”), offer short-term, secured, non-banking loans (sometimes referred to as “hard money” loans) to real estate investors to fund their acquisition, renovation, rehabilitation or development of residential or commercial properties located in the New York metropolitan area.

2. Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Manhattan Bridge Capital, Inc., and its wholly-owned subsidiaries DAG Funding until its dissolution and MBC Funding. All significant intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make 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 revenues and expenses during the reporting period. Management will base the use of estimates on (a) a preset number of assumptions that consider past experience, (b) future projections, and (c) general financial market conditions. Actual amounts could differ from those estimates.

Cash and Cash Equivalents

For the purposes of the statements of cash flows, the Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents. The Company maintains its cash and cash equivalents with one major financial institution. Accounts at the financial institution are insured by the Federal Deposit Insurance Corporation up to \$250,000.

Credit risks associated with short term commercial loans the Company makes to small businesses and related interest receivable are described in Note 4.

Impairment of long-lived assets

The Company continually monitors events or changes in circumstances that could indicate carrying amounts of long lived assets may not be recoverable. When such events or changes in circumstances occur, the Company assesses the recoverability of long-lived assets by determining whether the carrying value of such assets will be recovered through undiscounted expected future cash flows. If the total of the undiscounted cash flows is less than the carrying amount of these assets, the Company recognizes an impairment loss based on the excess of the carrying amount over the fair value of the assets.

Notes to Consolidated Financial Statements

Income Taxes

The Company follows Accounting Standards Codification (“ASC”) 740-10, “Accounting for Uncertainty in Income Taxes”, which prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken, or expected to be taken, in a tax return. For those benefits to be recognized, a tax position must be more likely than not to be sustained upon examination by taxing authorities. As of December 31, 2016 and 2015, the Company has no material uncertain tax positions to be accounted for in the financials statements. The Company recognizes interest and penalties related to uncertain tax positions, if any, as part of income tax expense.

The Company is organized and conducts its operations to qualify as a real estate investment trust (“REIT”) for federal income tax purposes. The Company elected to be taxed as a REIT commencing with its taxable year ended December 31, 2014. A REIT calculates taxable income similar to other domestic corporations, with the major difference being a REIT is entitled to a deduction for dividends paid. A REIT is generally required to distribute each year at least 90% of its taxable income. If it chooses to retain the remaining 10% of taxable income, it may do so, but it will be subject to a corporate tax on such income. The Company may be subject to federal excise tax and minimum state taxes.

Revenue Recognition

The Company recognizes revenues in accordance with ASC 605, “Revenue Recognition”, which provides guidance on the recognition, presentation and disclosure of revenue in financial statements. ASC 605 outlines the basic criteria that must be met to recognize revenue and provides guidance for disclosure related to revenue recognition policies. In general, the Company recognizes revenue when (i) persuasive evidence of an arrangement exists, (ii) delivery of the product has occurred or services have been rendered, (iii) the sales price charged is fixed or determinable, and (iv) collectability is reasonably assured.

Interest income from commercial loans is recognized, as earned, over the loan period.

Origination fee revenue on commercial loans is amortized over the term of the respective note.

Deferred Financing Costs

The Company presents deferred financing costs, excluding those incurred in connection with its line of credit, in the balance sheet as a direct reduction from the related debt liability rather than an asset, in accordance with Accounting Standards Update (“ASU”) 2015-03, “Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs”. These costs, incurred in connection with the issuance of the Company’s senior secured notes, are being amortized over ten years, using the straight-line method.

Deferred financing costs in connection with the Company’s Webster Credit Line, as discussed in Note 7, are presented as an asset in the balance sheet, in accordance with ASU 2015-15, “Interest – Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated With Line of Credit Arrangements”. These cost are being amortized over three years, using the straight-line method.

Earnings Per Share (“EPS”)

Basic and diluted EPS are calculated in accordance with ASC 260, “Earnings Per Share”. Under ASC 260, basic earnings per share is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted EPS include the potential dilution from the exercise of stock options and warrants for common shares using the treasury stock method.

Notes to Consolidated Financial Statements

The numerator in calculating both basic and diluted EPS for each year is the reported net income. The denominator is based on the following weighted average number of common shares:

	Years ended December 31,	
	2016	2015
Basic weighted average common shares outstanding	7,590,114	6,759,219
Incremental shares for assumed exercise of options	18,087	27,391
Diluted weighted average common shares outstanding	7,608,201	6,786,610

32,944 and 77,778 vested options and warrants were not included in the diluted EPS calculation for the years ended December 31, 2016 and 2015, respectively, because their effect would have been anti-dilutive.

Stock-Based Compensation

The Company measures and recognizes compensation awards for all stock option grants made to employees and directors, based on their fair value in accordance with ASC 718 “Compensation - Stock Compensation”, which establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. A key provision of this statement is to measure the cost of employee services received in exchange for an award of equity instruments (including stock options) based on the grant-date fair value of the award. The cost will be recognized over the service period during which an employee is required to provide service in exchange for the award (i.e., the requisite service period or vesting period). The Company accounts for equity instruments issued to non-employees in accordance with the provisions of ASC 718 and ASC 505-50, “Equity Based Payment to Non-Employees”. All transactions with non-employees in which goods or services are the consideration received for the issuance of equity instruments are accounted for based on the fair value of the consideration received or the fair value of the equity instrument issued, whichever is more appropriately measurable.

Fair Value of Financial Instruments

For cash and cash equivalents, short term loans, the line of credit and accounts payable, as well as interest bearing commercial loans held by the Company, the carrying amount approximates fair value due to the relative short-term nature of such instruments. The Company determines the fair value of its senior secured notes using market prices which currently approximate their carrying amount.

Recent Accounting Pronouncements

In January 2016, the Financial Accounting Standards Board (“FASB”) issued ASU 2016-01, “Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities”. The ASU intends to provide users of financial statements with more useful information on the recognition, measurement, presentation, and disclosure of financial instruments. For public companies, the ASU is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted for certain provisions. The adoption of this guidance is not expected to have a material impact on the Company’s consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, “Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting”. The ASU simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures, statutory tax withholding requirements, and classification in the statement of cash flows. For public companies, the ASU is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. Early adoption is permitted. The adoption of this guidance is not expected to have a material impact on the Company’s consolidated financial statements.

Notes to Consolidated Financial Statements

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments". The ASU requires an organization to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, as well as reasonable and supportable forecasts. For public companies who file with the SEC, the ASU is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. For public companies that are not SEC filers, the ASU is effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments - a consensus of the Emerging Issues Task Force." The ASU is to amend ASC 230 to add or clarify guidance on the classification of certain cash receipts and payments in the statement of cash flows. For public companies, the standard is effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, provided that all of the amendments are adopted in the same period. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash - a consensus of the FASB Emerging Issues Task Force." The ASU requires that restricted cash and restricted cash equivalents be included as components of total cash and cash equivalents as presented on the statement of cash flows. For public companies, the standard is effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

Management does not believe that any other recently issued, but not yet effective, accounting standards if currently adopted would have a material effect on the Company's consolidated financial statements.

3. Cash and Cash Equivalents

Effective January 1, 2008, the Company adopted ASC 820, "Fair Value Measurements", which defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. ASC 820-10 establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

Level 1—Quoted prices in active markets.

Level 2—Observable inputs other than quoted prices in active markets that are either directly or indirectly observable.

Level 3—Unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

Cash equivalents and investment instruments are classified within Level 1 or Level 2 of the fair value hierarchy. The Company's Level 1 investments are valued using quoted market prices in active markets. As of December 31, 2016 and 2015, the Company's Level 1 investments consisted of cash and money market accounts in the amount of approximately \$96,000 and \$107,000, respectively, and were recorded as cash and cash equivalents in the Company's consolidated balance sheets.

4. Commercial Loans

Short Term Loans Receivable

The Company offers short-term secured non-banking loans to real estate investors (also known as hard money) to fund their acquisition and construction of properties located in the New York Metropolitan area. The loans are principally secured by collateral consisting of real estate and, generally, accompanied by personal guarantees from the principals of the borrowers. The loans are generally for a term of one year. The short term loans are initially recorded, and carried thereafter, in the financial statements at cost. Most of the loans provide for receipt of interest only during the term of the loan and a balloon payment at the end of the term.

Notes to Consolidated Financial Statements

For the years ended December 31, 2016 and 2015 the total amounts of \$36,657,000 and \$21,609,000, respectively, have been lent, offset by collections received from borrowers, under the commercial loans in the amount of \$32,805,720 and \$14,737,436, respectively. The face amounts of the loans the Company originates historically have ranged from a minimum of \$14,000 to a maximum of \$2,000,000. The Company's board of directors established a policy limiting the maximum amount of any loan to the lower of (i) 9.9% of the aggregate amount of our loan portfolio (not including the loan under consideration) and (ii) \$2 million. The Company's loans typically have a maximum initial term of 12 months and bear interest at a fixed rate of 12% to 14% per year. In addition, the Company usually receives origination fees, or "points," ranging from 0% to 3% of the original principal amount of the loan as well as other fees relating to underwriting, funding and managing the loan. Interest is always payable monthly, in arrears. In the case of acquisition financing, the principal amount of the loan usually does not exceed 75% of the value of the property (as determined by an independent appraiser), and in the case of construction financing, up to 80% of construction costs.

At December 31, 2016, the Company was committed to an additional \$4,102,500 in construction loans that can be drawn by the borrowers when certain conditions are met.

At December 31, 2016 and 2015, no one entity has loans outstanding representing more than 10% of the total balance of the loans outstanding.

At December 31, 2015, two of the loans in the Company's portfolio were jointly funded by the Company and unrelated entities, for aggregate loans of \$1,835,000. The accompanying balance sheet includes the Company's portion of the loans in the amount of \$1,230,000.

The Company generally grants loans for a term of one year. When a performing loan reaches its maturity and the borrower requests an extension, the Company may extend the term of the loan beyond one year and reclassify it as part of long term loans receivable. Prior to granting an extension of any loan, we reevaluates the underlying collateral.

Long Term Loans Receivable

Long term loans receivable comprise the loans that were extended beyond the original maturity dates, unless it is clear that the loan will be paid back by December 31, 2017. At December 31, 2016, the Company's loan portfolio consisted of \$27,495,500 short term loans receivable and \$7,259,820 long term loans receivable. At December 31, 2015, the Company's loan portfolio consisted of \$20,199,000 short term loans receivable and \$10,705,040 long term loans receivable.

Credit Risk

Credit risk profile based on loan activity as of December 31, 2016 and 2015:

Performing loans	Developers-Residential	Developers-Commercial	Developers-Mixed Used	Total outstanding loans
December 31, 2016	<u>\$ 31,865,320</u>	<u>\$ 500,000</u>	<u>\$2,390,000</u>	<u>\$34,755,320</u>
December 31, 2015	<u>\$ 28,801,540</u>	<u>\$ 1,000,000</u>	<u>\$1,102,500</u>	<u>\$30,904,040</u>

Notes to Consolidated Financial Statements

At December 31, 2016, the Company's long term loans receivable consisted of loans in the amount of \$225,000, \$475,000, \$1,477,320 and \$5,082,500, originally due in 2013, 2014, 2015 and 2016, respectively. At December 31, 2015, the Company's long term loans receivable consisted of loans in the amount of \$179,050, \$100,000, \$225,000, \$2,525,000 and \$7,675,990, originally due in 2009, 2010, 2013, 2014 and 2015, respectively. In all instances the borrowers are currently paying their interest and, generally, the Company receives a fee in connection with the extension of the loans. Accordingly, at December 31, 2016 and 2015, no loan impairments exist and there are no provisions for impairments of loans or recoveries thereof included in operations for the years then ended.

Subsequent to the balance sheet date, \$6,432,000 of the loans receivable at December 31, 2016 were paid off.

5. Impairment Loss on Property and Equipment

During the year ended December 31, 2015, the Company determined to terminate the use of computer software, resulting in an impairment loss in the amount of \$13,863.

6. Investment in Privately Held Company

The Company had an original investment in a privately held Israeli-based company in the amount of \$100,000. The privately held company offers surgeons and radiologists the ability to detect cancer in real time. Due to the fact that the privately held company has experienced delays in executing its business plan, the Company determined to write down the value of its investment to \$65,000 at December 31, 2013. The Company further wrote down the value of its investment to \$50,000 at December 31, 2015 and to \$35,000 at December 31, 2016, resulting in a charge to the statement of operations of \$15,000 for each of the years ended December 31, 2016 and 2015.

7. Loans and Lines of Credit

Short Term Loans

As of April 2016, all of the Company's short-term loans were repaid in full.

Lines of Credit

On February 27, 2015, the Company entered into a Line of Credit Agreement with Webster Business Credit Corporation ("Webster") pursuant to which it may borrow up to \$14 million until February 27, 2018 (the "Webster Credit Line") against assignments of mortgages and other collateral. The Webster Credit Line provides for an interest rate of either LIBOR plus 4.75% or the base commercial lending rate of Webster plus 3.25% as chosen by the Company for each drawdown. The Webster Credit Line contains various covenants and restrictions including, among other covenants and restrictions, limiting the amount that the Company can borrow relative to the value of the underlying collateral, maintaining various financial ratios and limitations on the terms of loans the Company makes to its customers, limiting the Company's ability to pay dividends under certain circumstances, and limiting the Company's ability to repurchase its common shares, sell assets, engage in mergers or consolidations, grant liens, and enter into transactions with affiliates. In addition, the Webster Credit Line also contains a cross default provision which will deem any default under any indebtedness owed by us or our subsidiary, MBC Funding II, as a default under the credit line. Mr. Assaf Ran, the Company's President and Chief Executive Officer, has personally guaranteed all of the Company's obligations to Webster. Total costs to establish the Webster Credit Line were approximately \$144,000. These costs are being amortized over three years, using the straight-line method. The amortization costs for the years ended December 31, 2016 and 2015 were \$48,165 and \$39,542, respectively.

The Webster Credit Line replaced the \$7.7 million credit facility (the "Sterling Credit Line") with Sterling National Bank ("Sterling"). The Company paid off the entire balance due to Sterling with proceeds from the Webster Credit Line and terminated the Sterling Credit Line on February 27, 2015. In addition, the Company utilized the Webster Credit Line to repay in full loans from Mr. Ran in the aggregate amount of \$1,100,000, as well as two short-term loans, outstanding at December 31, 2014, in the aggregate amount of \$1,000,000, which bore interest at the rate of 12% per annum. At December 31, 2016, the outstanding amount under the Webster Credit Line was \$6,482,848. The interest rate on the amount outstanding fluctuates daily. The rate for December 31, 2016 was 5.520%.

8. Senior Secured Notes

On April 25, 2016, in an initial public offering, MBC Funding issued 6% senior secured notes, due April 22, 2026 (the “Notes”) in the aggregate principal amount of \$6,000,000 under the Indenture, dated April 25, 2016, among MBC Funding, as Issuer, the Company, as Guarantor, and Worldwide Stock Transfer LLC, as Indenture Trustee (the “Indenture”). The Notes, having a principal amount of \$1,000 each, are listed on the NYSE MKT and trade under the symbol “LOAN/26”. Interest accrues on the Notes commencing on May 16, 2016. The accrued interest is payable monthly in cash, in arrears, on the 15th day of each calendar month commencing June 2016.

Under the terms of the Indenture, the aggregate outstanding principal balance of the mortgage loans held by MBC Funding (see Note 12), together with MBC Funding’s cash on hand, must always equal at least 120% of the aggregate outstanding principal amount of the Notes at all times. To the extent the aggregate principal amount of the mortgage loans owned by MBC Funding plus MBC Funding’s cash on hand is less than 120% of the aggregate outstanding principal balance of the Notes, MBC Funding is required to repay, on a monthly basis, the principal amount of the Notes equal to the amount necessary such that, after giving effect to such repayment, the aggregate principal amount of all mortgage loans owned by MBC Funding plus, MBC Funding’s cash on hand at such time is equal to or greater than 120% of the outstanding principal amount of the Notes. For this purpose, each mortgage loan is deemed to have a value equal to its outstanding principal balance, unless the borrower is in default of its obligations.

MBC Funding may redeem the Notes, in whole or in part, at any time after April 22, 2019 upon at least 30 days prior written notice to the Noteholders. The redemption price will be equal to the outstanding principal amount of the Notes redeemed plus the accrued but unpaid interest thereon up to, but not including, the date of redemption, without penalty or premium; provided that (i) if the Notes are redeemed on or after April 22, 2019 but prior to April 22, 2020, the redemption price will be 103% of the principal amount of the Notes redeemed and (ii) if the Notes are redeemed on or after April 22, 2020 but prior to April 22, 2021, the redemption price will be 101.5% of the principal amount of the Notes redeemed plus, in either case, the accrued but unpaid interest on the Notes redeemed up to, but not including, the date of redemption.

Each Noteholder has the right to cause MBC Funding to redeem his, her, or its Notes on April 22, 2021. The redemption price will be equal to the outstanding principal amount of the Notes redeemed plus the accrued but unpaid interest up to, but not including, the date of redemption, without penalty or premium. In order to exercise this right, the Noteholder must notify MBC Funding, in writing, no earlier than November 22, 2020 and no later than January 22, 2021. All Notes that are subject to a properly and timely notice will be redeemed on April 22, 2021. Any Noteholder who fails to make a proper and timely election will be deemed to have waived his, her or its right to have his, her or its Notes redeemed prior to the maturity date.

MBC Funding is obligated to offer to redeem the Notes if there occurs a “change of control” with respect to MBC Funding or the Company or if MBC Funding or the Company sell any assets unless, in the case of an asset sale, the proceeds are reinvested in the business of the seller. The redemption price in connection with a “change of control” will be 101% of the principal amount of the Notes redeemed plus accrued but unpaid interest thereon up to, but not including, the date of redemption. The redemption price in connection with an asset sale will be the outstanding principal amount of the Notes redeemed plus accrued but unpaid interest thereon up to, but not including, the date of redemption.

Notes to Consolidated Financial Statements

9. Income Taxes

Income tax expense consists of the following:

	2016	2015
Current Taxes:		
Federal (refund)	\$ ---	\$ (1,137)
State	2,146	2,732
Income tax expense	\$ 2,146	\$ 1,595

10. Simple IRA Plan

On October 26, 2000, the board of directors approved a Simple IRA Plan (the "IRA Plan") for the purpose of attracting and retaining valuable executives. The IRA Plan allows for participation by up to 100 eligible employees of the Company. Under the IRA Plan, eligible employees may contribute a portion of their pre-tax yearly salary, up to the maximum contribution limit for Simple IRA Plans (\$12,500 for 2016) as set forth under the Internal Revenue Code of 1986, as amended, with the Company matching on a dollar-for-dollar basis up to 3% of the employees' annual pre-tax compensation. These thresholds are subject to change under notice by the trustee for the IRA Plan. The Company is not responsible for any other costs under the IRA Plan. For the years ended December 31, 2016 and 2015 the Company contributed \$11,430 and \$10,500, respectively, as matching contributions to the IRA Plan.

11. Stock-Based Compensation

On June 23, 2009, the Company adopted the 2009 Stock Option Plan (the "Plan") and replaced the 1999 Stock Option Plan as amended (the "Prior Plan"), which expired in May of 2009. All options granted under the Prior Plan were expired, exercised or cancelled.

The purpose of the Plan is to align the interests of officers, other key employees, consultants and non-employee directors of the Company and its subsidiary with those of the stockholders of the Company, to afford an incentive to such officers, employees, consultants and directors to continue as such, to increase their efforts on behalf of the Company and to promote the success of the Company's business. The availability of additional shares will enhance the Company's ability to achieve these goals. The basis of participation in the Plan is discretionary grants by the board of directors. The board of directors may at any time, and from time to time, suspend or terminate the Plan in whole or in part or amend it from time to time.

A maximum of 400,000 common shares were reserved for the grant of awards under the Plan, subject to adjustment as provided in Section 9 of the Plan. As of December 31, 2016, an aggregate of 376,000 options were granted under the Plan of which 231,000 options were cancelled or expired, and 255,000 are available for future grants under the Plan.

The exercise price of options granted under the Plan may not be less than the fair market value on the date of grant. Stock options under the Plan may be awarded to officers, key employees, consultants and non-employee directors of the Company. Generally, options outstanding vest over periods not exceeding four years and are exercisable for up to five years from the grant date.

Stock based compensation expense recognized under ASC 718 for the years ended December 31, 2016 and 2015 was \$13,589 and \$13,664, respectively.

The share based compensation expense for each of the years ended December 31, 2016 and 2015 includes \$13,065 of amortization of the fair value of 1,000,000 restricted shares granted to the Company's Chief Executive Officer on September 9, 2011 of \$195,968, after adjusting for the effect on the fair value of the stock options related to this transaction. The fair value will be amortized over 15 years.

Notes to Consolidated Financial Statements

The following summarizes stock option activity for the years ended December 31, 2016 and 2015:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at January 1, 2015	<u>82,000</u>	<u>\$1.68</u>	<u>2.68</u>	<u>\$ 59,115</u>
Exercised in 2015	(40,000)	1.53		
Expired in 2015	(7,000)	1.34		
Outstanding at December 31, 2015	<u>35,000</u>	<u>\$1.92</u>	<u>2.35</u>	<u>\$ 24,876</u>
Expired in 2015	(7,000)	1.21		
Outstanding at December 31, 2016	<u>28,000</u>	<u>\$2.10</u>	<u>1.75</u>	<u>\$ 19,851</u>

There was no grant of options during the years ended December 31, 2016 and 2015. All outstanding options at December 31, 2016 and 2015 are vested and exercisable. The fair value of options granted, if any, is estimated on the date of grant using the Black-Scholes option-pricing model utilizing weighted average assumptions for (1) expected life; (2) annual dividend yield; (3) expected volatility; (4) risk free interest rate.

The following table summarizes information about stock options outstanding at December 31, 2016:

Range of Exercise Prices	Stock Option Outstanding		
	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)
\$ 1.01- \$ 2.00	14,000	\$ 1.28	1.00
\$ 2.01- \$ 3.00	<u>14,000</u>	<u>2.92</u>	<u>2.50</u>
	<u>28,000</u>	<u>\$ 2.10</u>	<u>1.75</u>

On July 31, 2014, in connection with the Company's public offering in July 2014, the Company issued warrants to purchase up to 87,719 common shares, with an exercise price of \$3.5625 per common share, to the representative of the underwriters of the offering (the "July 2014 Rep Warrants"). These warrants are exercisable at any time, and from time to time, in whole or in part, commencing on July 28, 2015 and expire on July 28, 2019. The fair value of these warrants, using the Black-Scholes option pricing model, on the date of issuance was \$42,224. At December 31, 2016, July 2014 Rep Warrants to purchase up to 4,000 common shares were outstanding.

On May 29, 2015, in connection with the Company's public offering in May 2015, the Company issued warrants to purchase up to 50,750 common shares, with an exercise price of \$5.4875 per common share, to the representative of the underwriters of the offering (the "May 2015 Rep Warrants"). These warrants are exercisable at any time, and from time to time, in whole or in part, commencing on May 22, 2016 and expire on May 22, 2020. The fair value of these warrants, using the Black-Scholes option pricing model, on the date of issuance was \$54,928. At December 31, 2016, May 2015 Rep Warrants to purchase up to 19,031 common shares were outstanding.

On August 15, 2016, in connection with the Shelf Takedown (defined below), the Company issued warrants to purchase up to 33,612 common shares, with an exercise price of \$7.4375 per common share, to the representative of the underwriters of the offering (the "August 2016 Rep Warrants"). The warrants are exercisable at any time, and from time to time, in whole or in part, commencing on August 9, 2017 and expire on August 9, 2021. The fair value of these warrants, using the Black-Scholes option pricing model, on the date of issuance was \$47,020. At December 31, 2016, all of the August 2016 Rep Warrants were outstanding.

Notes to Consolidated Financial Statements

12. Public Offerings

On May 29, 2015, the Company completed a public offering of 1,015,000 common shares at a price to the public of \$4.39 per share. The gross proceeds raised by the Company from the offering were approximately \$4,460,000, before deducting underwriting discounts and commissions and other offering expenses. The Company also granted the underwriter a 45-day option to purchase up to 152,250 additional common shares to cover over-allotments, if any. In June 2015, the underwriter partially exercised its over-allotment option for an additional 105,000 common shares. The gross proceeds raised by the Company from the sale of the over-allotment option shares were approximately \$460,000, resulting in total gross proceeds from the offering of approximately \$4,920,000. The remaining over-allotment option of 47,250 shares expired unexercised in July 2015. The total net proceeds from the offering, including the sale of the over-allotment option shares, were approximately \$4,240,000, after deducting underwriting discounts and commissions and offering expenses payable by us.

On April 25, 2016, MBC Funding completed a firm commitment underwritten public offering of 6% senior secured notes due April 22, 2026. The Company guaranteed MBC Funding's obligations under the Notes, which are secured by a pledge by the Company of 100% of the outstanding common shares of MBC Funding it owns. The gross proceeds to MBC Funding II from this offering were \$6,000,000, and the net proceeds were approximately \$5,200,000, after deducting the underwriting discounts and commissions and other offering expenses. MBC Funding utilized the proceeds to purchase a pool of mortgage loans from MBC, which the Company in turn used to pay down the Webster Credit Line (see Note 7). In connection with the initial public offering of MBC Funding, our CEO purchased approximately \$594,000 of the senior secured Notes and our CFO purchased approximately \$38,000 of the senior secured Notes. Subsequent to the offering, our CFO purchased an additional \$57,000 on the senior secured Notes, \$12,000 of which were acquired subsequent to December 31, 2016.

On August 15, 2016, the Company completed another public offering of 672,269 common shares at an offering price of \$5.95 per share (the "Shelf Takedown"). The gross proceeds raised by the Company from the Shelf Takedown were approximately \$4,600,000 (including approximately \$600,000 from the sale of 100,840 additional common shares upon the exercise of the over-allotment option by the underwriter) before deducting underwriting discounts and commissions and other offering expenses. The total net proceeds from the Shelf Takedown were approximately \$4,200,000.

13. Commitments and Contingencies

Operating Leases

On June 9, 2011, the Company entered into a new lease agreement (the "Lease") to relocate its corporate headquarters to 60 Cutter Mill Road, Great Neck, New York. The Lease was for a term of five years and two months commencing June 2011 and ending August 2016. The rent increased annually during the term and ranged from approximately \$2,800 per month during the first year to approximately \$3,200 per month during the fifth year.

On July 21, 2016, the Company amended the Lease (the "Lease Amendment") to extend the term of the Lease for an additional five years, through September 30, 2021. Among other things, the Lease Amendment provides for gradual annual rent increases from approximately \$3,500 per month during the first year to \$3,900 per month during the fifth year of the extension term.

At December 31, 2016, approximate future minimum rental payments, including utilities, are as follows: Rent expense,

2017.....	\$ 46,000
2018.....	47,000
2019.....	49,000
2020.....	50,000
2021.....	39,000
Total.....	<u>231,000</u>

Notes to Consolidated Financial Statements

Rent expense, including utilities, in the years 2016 and 2015 was approximately \$45,000 and \$42,000, respectively.

Employment Agreements

In March 1999, we entered into an employment agreement with Mr. Ran, pursuant to which: (i) Mr. Ran's employment term renews automatically on June 30th of each year for successive one-year periods unless either party gives to the other written notice at least 180 days prior to June 30th of its intention to terminate the agreement; (ii) Mr. Ran receives an annual base salary of \$225,000 and annual bonuses as determined by the Compensation Committee of the board of directors, in its sole and absolute discretion, and is eligible to participate in all executive benefit plans established and maintained by us; and (iii) Mr. Ran agreed to a one-year non-competition period following the termination of his employment.

On June 30, 2016, the Compensation Committee approved an increase of Mr. Ran's annual base salary from \$225,000 to \$275,000. Mr. Ran's annual base compensation for the years 2016 and 2015 were \$250,000 and \$225,000, respectively. In 2015, the Compensation Committee also approved a special bonus of \$30,000 for establishing the Webster Credit Line and an annual bonus of \$65,000 to Mr. Ran.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
Manhattan Bridge Capital, Inc.

We have audited the accompanying consolidated balance sheets of Manhattan Bridge Capital, Inc. and Subsidiaries as of December 31, 2016 and 2015, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for the years then ended. Manhattan Bridge Capital, Inc.'s management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Manhattan Bridge Capital, Inc. and Subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Handwritten signature in cursive script that reads "Hoberman & Lesser, LLP".

Hoberman & Lesser, CPA's, LLP

New York, New York
March 14, 2017

Corporate Information

EXECUTIVE OFFICERS

Assaf Ran
Chief Executive Officer and President

Vanessa Kao
Chief Financial Officer, Vice President, Treasurer and Secretary

BOARD OF DIRECTORS

Assaf Ran, *Chairman of the Board*

Michael J. Jackson (1)(2)(3)

Eran Goldshmit (1)(2)(3)

Lyron Bentovim (1)

- (1) Member of the Audit Committee.
- (2) Member of the Compensation Committee.
- (3) Member of the Corporate Governance and Nominating Committee.

SHAREOWNER SERVICES

Questions about stock-related matters may be directed to our transfer agent:

ASTfinancial
6201 15th Avenue
Brooklyn, NY 11219
Phone: 800-937-5449
Email: info@astfinancial.com

COUNSEL

Zysman, Aharoni, Gayer and Sullivan & Worcester LLP
1633 Broadway, 32nd Floor
New York, NY 10019

INDEPENDENT PUBLIC ACCOUNTANTS

Hoberman & Lesser, LLP
252 West 37th Street, Suite 600
New York, NY 10018

OTHER INFORMATION

A copy of the Company's annual report on Form 10-K, for the year ended December 31, 2016, filed with the Securities and Exchange Commission may be obtained without charge by any shareholder by sending a written request to:

Manhattan Bridge Capital Inc.
Investor Relations Department
60 Cutter Mill Road, Suite 205
Great Neck, NY 11021
(516) 444-3400
or at www.manhattanbridgecapital.com

Additional information can be received by contacting our investor relations department at the telephone number above.

STOCK MARKET INFORMATION

(a) The high and low sales prices for our common stock as reported by the NASDAQ Capital Market as well as cash dividends declared for the quarterly periods indicated were as follows:

2015	Common Stock		Cash dividends declared
	High	Low	
First Quarter	\$4.44	\$3.28	\$0.080
Second Quarter	\$4.78	\$3.87	\$0.080
Third Quarter	\$4.64	\$2.98	\$0.080
Fourth Quarter	\$4.60	\$4.00	\$0.085
2016			
First Quarter	\$4.47	\$3.80	\$0.085
Second Quarter	\$5.40	\$4.11	\$0.090
Third Quarter	\$7.48	\$5.21	\$0.100
Fourth Quarter	\$7.60	\$5.30	\$0.100
2017			
First Quarter	\$7.65	\$5.10	\$0.100

(b) Holders

As of May 12, 2017, the number of registered holders of our common shares was 16 and the estimated number of beneficial owners of our common shares was approximately 4,000. ASTfinancial serves as transfer agent for our common shares.

(c) Dividends

We elected to be taxed as a REIT commencing with our year ended December 31, 2014. From and after the effective date of our REIT election, we intend to pay regular quarterly distributions to holders of our common shares in an amount not less than 90% of our REIT taxable income (determined before the deduction for dividends paid and excluding any net capital gains). As a REIT, our distributions generally will be taxable as ordinary income to our shareholders, although we may designate a portion of the distributions as qualified dividend income or capital gain or a portion of the distributions may constitute a return of capital. For tax reporting purposes, taxable income dividends/distributions and non-taxable return of capital distributions may result and will be reported as such to US individual taxpayers on Form 1099 DIV.



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BRIDGE CAPITAL**

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