M N P

merchants' national properties, inc.
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May 3, 2017

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To our Stockholders:

The annual meeting of Merchants' National Properties, Inc. ("MNP") will be held at the offices of Dechert LLP at 1095 Avenue of the Americas (a/k/a 3 Bryant Park) 28th floor, New York, NY 10036, at 12:30 P.M. on Friday, June 2, 2017, for the purpose of:

1. Electing eight directors to serve a one year term;
2. Appointment of Friedman LLP, as our independent public accounting firm for 2017
3. Reviewing the affairs of the Company; and
4. Transact such other business as may properly come before the meeting.

Copies of MNP's Consolidated 2016 Financial Statements as well as the President and Chairman's Report to the Shareholders, giving a detailed overview of the Company and its major investments are attached herewith.

FOR THOSE OF YOU WHO WILL BE UNABLE TO ATTEND IN PERSON:

YOU HAVE THE OPTION OF ATTENDING THE MEETING VIA CONFERENCE CALL BY DIALING IN 1-866-214-4423 FOLLOWED BY THE ACCESS CODE 8724689.

PROXY FORM FOR THE ELECTION OF THE DIRECTORS IS ATTACHED HEREWITH. KINDLY RETURN YOUR SIGNED PROXY AT THE EARLIEST, BUT NO LATER THAN JUNE 1, 2017.

Sincerely,

James Better, Chairman of the Board
Merchants' National Properties, Inc.

Note: If you are planning to attend the meeting in person, please let us know by May 31, 2017, so your name could be provided to the security desk and building pass be printed prior to your arrival. This will save you a lot of waiting time when you arrive at the venue. Thank you.

PROXY STATEMENT

The board has nominated the following 8 individuals to serve a one year term as Directors on the Board of MNP:

James M. Better, 55 - Mr. Better has been a director since 2002 and has served as Chairman since May 2010 and as a Member of the Dollar Land Board of Managers since 2010. He is an Operating Partner of Kohlberg & Company, LLC, a private equity investment firm and the Chairman and Chief Executive Officer of Nellson Nutraceuticals, LLC, a Kohlberg portfolio company. Previously, Mr. Better was a Managing Director of Celerant Consulting, an operationally focused consultancy, and a General Partner of Capricorn Holdings, LLC, a private equity investment firm. Mr. Better is a graduate of Williams College and Stanford University's Graduate School of Business.

William J Blake, 58 –Mr. Blake has over 30 years of experience in finance including commercial lending, loan workout, commercial real estate acquisition and government service. Mr. Blake's real estate experience includes 25 years of commercial real estate lending, portfolio management, appraisal and acquisitions. Mr. Blake currently works as Vice President at U.S. Trust/Bank of America N.A. He previously worked for the FDIC Division of Resolutions and Receiverships during the recent banking crisis, closing failed banks and running banks in FDIC receivership. He has also worked for the Bank of Boston Connecticut, Barclays, Aetna and UBS Realty Investors. Mr. Blake's holds an undergraduate degree from the University of Connecticut, School of Business Administration, and a master's degree from the University of Florida, College of Business Administration, where he majored in Real Estate Analysis.

Leonard Gruenberg, Jr., 74 – Mr. Gruenberg has been a director since 2006. He was a Managing Director of JP Morgan Securities and attended the University of Arizona.

Mark Magowan, 62 – Mr. Magowan has been a director since 2004. He is President of The Vendome Press, a graduate of Harvard College and Oxford University. Mr. Magowan is the President of the Magowan Family Foundation and the Hellen Plummer Foundation.

Paul Schosberg, 79 – Mr. Schosberg has been a director since 2007. Mr. Schosberg served as a director of Western Community Bancshares, Inc. from 2000 to 2014. He is the former Chairman of New York State Housing Finance Agency. He is a graduate of Middlebury College. He was president and CEO of the New York League of Financial Institutions and America's Community Bankers. In the 1960s and 1970s he was chief of staff to two U.S. Representatives from New York.

Claire M. Solot, 50 - Ms. Solot has been a director since November 2016. She is the Managing Director of the Bigglesworth Family Foundation, Co-Founder of the Bay Area Legal Services Funders Network (LSFN) and CEO of Convoanthropy, a philanthropy consulting firm. She is a member of the Board of Directors of several non-profit boards, including: The Marcled Foundation, Northern California Grantmakers FPE and The Urban School of San Francisco. In 2017, she was appointed to the Leaders Council of the Legal Services Corporation. Ms. Solot received her BA from Mills College and her JD and MSOD from the University of San Francisco.

James A. Stern, 66 – Mr. Stern has been a director since 2012. He is the Chairman of the Cypress Group, LLC with $3.5 billion under management and previously Member of Dollar Land Associates, LLC Board of Managers. Formerly, a managing director of Lehman Bros. Mr. Stern is a graduate of Tufts University and the Harvard Business School. Mr. Stern was the Chairman of the Board of Trustees of Tufts University from 2003 to 2013.

John Usdan, 59 – Mr. Usdan has been a director since 1998. Mr. Usdan is the president of Midwood Investment & Development Corporation, and developer/owner of 3 million feet of commercial properties. He is a director of the Ascena Group (formerly Dress Barn) and a graduate and former Trustee of Wesleyan University and current chair of Wesleyan's capital campaign.

Our Executive Officers

Jagdish Shah, 61 – Treasurer and Chief Financial Officer. Mr. Shah has worked for Marx Realty and Improvement Co., Inc. both as an outside accountant and an officer for over 25 years. Prior to joining Marx as Controller in 1991, Mr. Shah worked for six years as a public accountant for Frank and Zimmerman. In 2007, he was appointed Chief Financial Officer at Marx. Mr. Shah is a member of AICPA and New York State Society of CPAs. He has been a certified public accountant since 1987 and a chartered accountant since 1978. Mr. Shah received his B.S. with a major in accounting from Maharaja Sayajirao University of Baroda, India in 1975.

Directors will be elected by a plurality of the votes cast by stockholders in person or by proxy. Votes that are withheld in the election of directors, and broker non-votes will have no effect on the election.

Stockholders are entitled to cumulative voting in the election of directors. Under cumulative voting, each stockholder is entitled to that number of votes equal to the number of directors to be elected, multiplied by the number of shares owned, and the stockholder may cast votes for one nominee or distribute them in any manner chosen among any number of the nominees.

If you wish to vote for only 1 nominee, then cross out the names of the other 7. If you wish to split your vote between 2 nominees, then cross out the names of the other 6. To vote for 3, cross out the names of the other 5. To vote for 4, cross out the names of the other 4. To vote for 5, cross out the names of the other 3. To vote for 6, cross out the names of the other 2 and to vote for 7, cross out the remaining name.

James Magowan - MNP has agreed that following the meeting it will expand its Board to nine members and elect James Magowan to fill the resulting vacancy.

MNP By-laws require that we receive other nominations for election to the Board by April 19, 2017, so, under the By-laws, no additional nominations can be made at the meeting.

Please return your proxy as quickly as possible but no later than June 1, 2017.

MERCHANTS' NATIONAL PROPERTIES, INC.

DIRECTORS AND MANAGEMENT

The following table shows the ownership of MNP common stock as of May 3, 2017, by any person acting as MNP's Chief Executive Officer during fiscal year 2016, any person acting as MNP's Chief Financial Officer during fiscal 2016, other executive officers during fiscal 2016 who are considered to be named executive officers and MNP's directors and executive officers as a group.

Name	Number of Shares Beneficially Owned	Percentage of Outstanding Shares
James Better	6,662 (a)	7.16%
William Blake	0	*
Claude T Chandonnet	(e)	
Leonard S. Gruenberg, Jr.	7,744 (b)	8.32%
Mark Magowan	2,159	2.32%
Paul Schosberg	341 (c)	*
Jagdish Shah	11	*
Claire M Solot	1,609 (d)	1.73%
James A. Stern	1,195	1.28%
John Usdan	6	*
Directors and Executive Officers as a group (9 persons)	19,727	21.20%

(a) Includes 1,440 shares owned by his spouse and 5,103 shares owned by his children. Mr. Better disclaims beneficial ownership of his spouse's shares.
(b) Includes 7,444 shares owned by his spouse. Mr. Gruenberg disclaims beneficial ownership of these shares.
(c) Includes 331 shares owned by his spouse. Mr. Schosberg disclaims beneficial ownership of these shares.
(d) Includes 732 shares owned by her children.
(e) Mr. Chandonnet resigned from his position as the CEO eff. Nov. 2, 2016.
* Represents less than 1% of the outstanding common stock.

MERCHANTS' NATIONAL PROPERTIES, INC.

SECURITY OWNERSHIP OF CERTAIN PERSONS

Principal Beneficial Owners

Listed below are the only individuals and entities known by MNP to own more than 5% of the outstanding common stock of the Company as of May 3, 2017:

Name	Number of Shares Owned	Percentage of Shares Owned
Mary Lynn Bianco	**10,592 (a)**	**11.32%**
Jennifer Gruenberg	**7,744 (b)**	**8.32%**
Leonard Marx, Jr.	**9,216 (c)**	**9.90%**
Charles E. Merrill, Jr.	**10,902**	**11.71%**

(a) Includes 58 shares owned by her spouse's estate. Mrs. Bianco disclaims beneficial ownership of these shares.

(b) Includes 300 shares owned by her spouse. Mrs. Gruenberg disclaims beneficial ownership of these shares.

(c) Includes 3,247 shares owned by his spouse.

MERCHANTS' NATIONAL PROPERTIES, INC.

DIRECTOR COMPENSATION

The following table sets forth information regarding the compensation paid to each non-employee director during fiscal 2016. Any director who is an employee of MNP is not compensated for Board service.

During 2016, the Board met five times in person, for which Directors received a fee of $3,000 per meeting. No additional fee was paid to Directors for meetings held via telephone conference call.

Name	Fees	Other Compensation (1)
James Better		$62,000
Claude Chandonnet	$6,000	
Leonard S. Gruenberg, Jr.	$15,000	
Mark Magowan	$12,000	
Paul Schosberg	$15,000	
Claire M Solot	$3,000	
Edwin L. Solot, Jr.	$9,000	
James A. Stern	$12,000	
John Usdan	$12,000	

(1) Represents Chairman's annual retainer of $60,000 paid in four quarterly installments of $15,000 each and $2,000 for representing MNP on the Dollar Land Board of Managers and attending meetings held in 2016.

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May 3, 2017

To our Shareholders:

Merchants' National Properties, Inc. ("MNP") had another year of solid performance in 2016, with several new leases signed and projects completed. Notable achievements include:

- The signing of additional leases at Cross County Shopping Center ("CCSC") in Yonkers with prominent retailers like Starbucks, Ulta Beauty and Verizon (expansion) totaling about 15,000 square feet. The new leases broaden the variety of offerings at the Center and bring the occupancy rate to over 98.5%.
- Completion of the façade renovation work on the 12,000 square feet building #2 in the middle of the Southgate Shopping Center in Orlando, FL which is now occupied by two tenants. Plans to renovate the façade of the existing 75,000 square feet building #1 were revised and are being used by the leasing team for marketing purposes. Actual work will take place upon signing of new leases. Auto Zone, which built a 15,000 square feet expansion adjacent to their existing 25,000 square feet store, opened for business in June 2016.
- Completion of a 45,000 square foot building at Expressway Plaza Shopping Center in Farmingville, NY, managed by Midwood Corporation. This building has been leased to LA Fitness. Another 7,000 square foot pad building, which has been leased to two other tenants, is under construction with a scheduled completion date of September 2017.
- Completion of the 10,500 square foot two-story mixed-use project along East Putnam Avenue in Old Greenwich, CT. At year-end 2016, both retail spaces had been leased with one tenant opening for business in March 2017 and another expected to open in May 2017. Two of the four residential units have been leased as well.
- Completion of the approximately 7,000 square feet Quick Check convenience store/gas station in Bethpage, NY with a projected opening in May 2017.
- Completion of the approximately 3,400 square feet DiBella's Submarine Sandwich shop pad building in Ithaca, NY, which opened for business in February 2017.
- The simultaneous signing of an early lease termination agreement with SB Capital (JC Penney) and a new lease at higher rent with Floor & Décor for the 96,000 square feet retail store in Louisville, KY with a projected opening in September 2017.
- The sale on April 10, 2017, of Knights Road Shopping Center in Philadelphia, PA, owned by Knights Road Shopping Center LP for $17.2 million.
- The sale of College Station Shopping Center in Athens, GA for $10.25 million in June 2016 and the acquisition of two commercial condominium units at 819 7th Street NW, Washington, DC, both

occupied by Nando's Restaurant Group and a development site at 3939 Butler Street, Pittsburgh, PA presently occupied by Rite Aid and two other tenants. Both acquisitions were made under a 1031-Exchange using the Athens proceeds and a $5 million first mortgage on the DC property.

- The sale of Nod Brook Mall in Avon, CT for $29.2 million in March 2016 and the acquisition of the retail condominium units at 85 North 3rd Street, Williamsburg, Brooklyn, NY for $41.75 million in August 2016 using the Avon proceeds (net of mortgage) and a $20 million first mortgage on the Brooklyn property.
- The sale of Glastonbury Blvd. restaurant building in Glastonbury, CT for $2.4 million in September 2016.

Financial Highlights:

The table below provides a side-by-side comparison of MNP's 2015-16 Consolidated Income Statement "As Audited" in accordance with GAAP (Generally Accepted Accounting Principles) and "As Grossed-up" which provides more transparency to MNP's share of the underlying assets' revenue and expenses which flow up to MNP from various real estate investments.

MNP & SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME

	YEAR ENDING 12/31/2016		YEAR ENDING 12/31/2015	
	AS AUDITED	AS GROSSED-UP	AS AUDITED	AS GROSSED-
RENTAL & OTHER INCOME	7,034,130	42,672,167	5,745,536	42,701,464
EQUITY IN EARNINGS OF REAL ESTATE VENTURES	17,634,669		16,169,579	
INVESTMENT INCOME	988,263	1,072,607	759,988	830,051
EXPENSES	6,385,502	19,643,337	5,765,399	18,730,319
EBITDA	**19,271,560**	**24,101,437**	**16,909,704**	**24,801,196**
NON-RECURRING GAINS (LOSS)	**1,311,776**	**10,147,257**	**216,300**	**5,654,562**
FINANCING EXPENSE	829,037	5,944,846	449,424	5,561,615
TAXES (STATE & FEDERAL)	6,868,996	7,749,172	5,854,063	6,788,924
DEPRECIATION/AMORTIZATION	629,419	8,298,792	289,523	7,572,225
SUBTOTAL	**8,327,452**	**21,992,810**	**6,593,010**	**19,922,764**
NET INCOME	**12,255,884**	**12,255,884**	**10,532,994**	**10,532,994**

Beyond the income statement, it is worth noting that:

Included in 2016 "Equity in earnings of real estate ventures" of $17,634,669 is an $8,331,173 gain on sale of the Athens, GA, Avon, CT and Glastonbury, CT properties. Excluding the impact of this non-recurring item from the Net Income, the 2016 Basic and diluted earnings per share was $73.63 compared to $81.97 in 2015.

Dividends in 2015 and 2016 totaled $35 per share. On April 30, 2017, the MNP Board approved payment of a $10 per share dividend for the first half of 2017 to shareholders of record as of May 8, 2017. Checks are being mailed simultaneously with this letter.

Stockholders' equity increased by $9.5 million with a corresponding increase in book value per share to $1,672 at the end of 2016 from $1,570 at the end of 2015.

Property Management/Asset Management - Marx Realty & Improvement Co., Inc.:

Since 2007, one of the main focuses of Marx Realty has been to sell assets showing little or no rental income growth in noncore markets in which we believe the upside potential is limited in comparison to the investment required and, in certain situations, to reinvest the proceeds from these sales into assets in core urban, high barrier to entry markets with more attractive long-term appreciation potential. Five such assets were sold in 2016 for a total of $49.6 million. In addition, one more property was sold in April 2017 for $17.2. Portfolio wide, between 2007 and 2016, assets totaling $116 million were sold and assets totaling $103 million were purchased. As in the past, so long as most, if not all, of the owners of any given property agree, in case of a sale in excess of $2 million, we will continue to roll over the proceeds in to tax-deferred exchanges for other assets in one of the following core markets - New York City, Long Island, Connecticut, Maryland, North Virginia, Washington, DC, Southern Florida, Boston, MA and New Jersey.

In 2016, the portfolio was made up of 69 properties. While Marx Realty oversees all of the properties in the portfolio, Cross County Shopping Center is managed on a day-to-day basis by The Macerich Company, the 201 East 57th Street retail building a/k/a "The M&B Building" and the 708 Third Avenue office building a/k/a "The Commerce Building", are managed by CBRE, Inc. and 12 jointly owned properties are being managed by Midwood Investment and Development.

For 2016, the entire portfolio generated rental revenues of $136.1 million, representing a 1% increase over $134.8 million in 2015 and a 48% increase over the $92.9 million in 2008 when we began the portfolio-wide rehabilitation program. Rental revenues within the Marx managed portfolio increased 3.4% to $33.4 million vs. $32.1 million in the prior year. Primary contributors to the portfolio-wide increase in revenues, besides Cross County Shopping Center, were 201 East 57th Street and 708 Third Avenue, all NYC buildings.

Gains at these and other properties were offset by vacancies in 430 Park Avenue, the retail buildings in White Plains, NY and Queens Boulevard, NY as well as a vacancy in one of the pad buildings at the shopping center in Bellflower, CA.

Leasing:

Over the course of 2016, Marx Realty oversaw the signing of 13 new leases (excluding leases for Midwood Management joint venture properties as well as leases for Cross County Shopping Center). The leases were for approximately 63,500 square feet of space and approximately $2.5 million in annual rental income. In addition to the new leases, 10 lease renewals/short-term leases were signed for approximately 15,400 square feet of space and $580,000 in annual rental income.

Acquisitions and Redevelopment:

Acquisitions:

As we implement our strategy of relocating our assets from weaker non-growth markets to stronger urban markets with rental rate growth and appreciation potential, the focus remains on pursuing 1031-Exchange transactions.

As mentioned earlier, the College Station Shopping Center in Athens, GA was sold for $10.2 million and two commercial condominium units on 7th Street in Washington, DC and a development site in Pittsburgh, PA were purchased for a combined purchase price of approximately $15 million. Both of these locations were purchased with 1031-Exchange proceeds from the Athens, GA sale and a $5 million mortgage on the DC property.

Similarly, the Nod Brook Mall in Avon, CT was sold for $29 million and retail condominium units were purchased on North 3rd Street in Williamsburg, Brooklyn for $41.1 million with the CT sales proceeds (net of mortgage) and a new $20 million first mortgage on the Brooklyn property.

Development/Redevelopment & Entitlements:

Amongst the projects completed over the past twelve (12) months were:

- The mixed-use project at 1381 East Putnam Avenue in Greenwich, CT.
- The 45,000 square foot pad building in the Expressway Plaza Shopping Center in Farmingville, NY
- The 3,400 square foot DiBella's Sub Sandwich pad building in Ithaca Shopping Plaza, NY
- The 7,000 square foot Quick Check convenience store/gas station in Bethpage, NY

In terms of redevelopment/renovation, projects completed over the past twelve (12) months were:

- The 12,000 square foot two-tenant retail building (#2) at the Southgate Shopping Center in Orlando, FL

Projects which are currently under development/renovation or planning stages are:

- The façade renovation work on the 75,000 square foot building (#1) at Southgate Shopping Center in Orlando, FL
- The façade renovation work on the 23,000 square foot vacant building in State College, PA
- The gut renovation of two upper level vacant floors in downtown Atlanta, GA
- The façade renovation work on the vacant retail space at 98 Greenwich, CT property
- The 7,000 square foot retail building at Expressway Plaza Shopping Center in Farmingville, NY

As to Washington Street, Boston, given the political climate and prolonged uncertain political environment, we have changed our development plans and now we intend to pursue an as of right development that will include retail and potentially a hotel. Given the significant retail and hotel demand we hope to announce an anchor tenant before year end and start construction in 2018.

Review of Core Properties:

MNP has varying interest in 48 properties in 14 states and District of Columbia. The following 6 real estate holdings represent approximately 80% of MNP's direct and indirect gross income.

Cross County Shopping Center – Yonkers, NY (MNP – 37.62% Interest) – Competition continues to grow and develop in the Cross County Shopping Center trade area. At Ridge Hill, located 3 miles north of Cross County, a first-to-market Lowe's Home Improvement store will open in 2017 along with a new restaurant. At Bay Plaza, located 5 miles south in the Bronx, an Off Saks Fifth Avenue will open in 2017 in the former Barnes & Noble space. At The Westchester, a Simon mall, 15 minutes north of Cross County, a new food court concept, Savor Westchester will open with 6 new Manhattan restaurants in mid-2017. Despite this, year over year Cross County ended 2016 with a 2.24% increase to $809 psf in overall sales and continues to thrive, bringing in new retailers, events and amenities with future redevelopment and expansion still under consideration. Some of the key retailers showing double digit gains in sales were Adidas, Aeropostale, AX Armani Exchange, Children's Place, Footaction, Vans, and GameStop.

708 Third Avenue – New York, NY (MNP – 35.71% Interest) - On the development front, planning for big projects i.e. sprinkler system and backbone installation, hotel counter measures, cooling tower replacement and turnstiles in the lobby is moving forward, with some of the work scheduled to commence later this year. Sprinkler installation work is approximately 63% complete with the remaining scheduled to be finished by 2019. Work to counter the effects of the hotel development to the north of 708 Third Avenue started at the end of 2015 and continues to be addressed as new leases are signed for the affected spaces. Balcony roof replacement work is now almost complete, other than the last two remaining roofs, which will be replaced as the adjacent suites come up for new lease or renewals later this year. The cooling tower replacement work, originally planned for 2016, is now scheduled for the fall of 2017. In spite of a positive operating cash flow, the magnitude of capital needs from the ongoing development projects has continued to require the infusion of additional capital from the ownership. Over the past year, new leases for spaces measuring approximately 38,000 SF have been executed and negotiations are underway to lease another 9,000 SF of vacancies. Presently the building has a vacancy of 12%.

430 Park Avenue, New York, NY – (MNP – 8.22% Interest) - This property consists of the entire western block front of Park Avenue between East 55th and 56th Streets. The property is improved with a sixteen story class-A building and retail space on the ground floor. The building contains 287,000 SF of rentable space including 10,400 SF of ground floor retail space, the south half of which is leased to TD Ameritrade while the northern half remains available. At the end of February 2017, Boston Consulting Group, which occupied over 96,000 SF of office space moved out when their lease expired. In view of the current 42% vacancy, the ownership has initiated a new marketing and leasing program and retained JLL as our agent. To date, we have executed leases for approximately 30,000 SF. Our prebuilt program has been very well received and the traffic has been good. The master partnership has a leasehold interest in the property. The landlord has an option to terminate the lease on March 31, 2027.

545 Madison Avenue, New York, NY – (MNP - 23.33% Interest) - The 17-story office building with ground floor retail had been net leased to LCOR. LCOR, having totally repositioned the asset, sold the ground lease to Thor Equities in the fourth quarter of 2013 for a reported $55 million. Thor has continued to make timely payments in accordance with the terms of the ground lease.

605 West 181st Street, New York, NY – (MNP – 100% Interest) – In November 2016, America's Kids, our Tenant who occupies 100% of this three-story building plus basement retail building, requested a rent concession because of declining revenues. After some negotiations, MNP finally agreed to grant the concession in exchange for an early lease termination right upon 60-day notice. The Tenant's lease expires in 2024. The property is encumbered with a commercial loan, which carries interest at a 3.04% rate and has a maturity date of April 2018.

201 East 57th Street, New York, NY – (MNP – 23.33% Interest) – This 4-story show-room building, with TD Bank on the ground floor and Design Within Reach occupying the entire second and third floors plus part of the ground floor and majority of the lower level, was completed in 2013 and fully leased and occupied by 2014. The property is encumbered with a 10-year self-amortizing commercial $13 million loan with an interest rate of 3.07%. Worldwide Holdings, which occupied the entire fourth floor space, requested an early lease termination which ownership agreed to for an upfront lump sum payment. The lease was originally scheduled to expire in February 2018. It is our plan to start marketing the space immediately.

A complete list of the company's properties is provided below:

Property	Building Type	Land (Acres) - Approx.	Building (square ft) - Approx.	MNP Interest [1]	Occupancy %	# of In-place Tenants	Primary Tenants
ALABAMA							
1301 N MEMORIAL PKWY, HUNTSVILLE	RETAIL/BILLBOARD SIGN	1.4	10,832	53.4%	100%	1	Bridgestone
CALIFORNIA							
17220-230 S. LAKEWOOD, BELLFLOWER	SHOPPING CENTER	11.1	131,584	17.2%	93%	4	Kimco Realty, Denny's, Granny's Donuts
CONNECTICUT							
1381 EAST PUTNAM AVENUE, GREENWICH	MIXED-USE 4	0.7	9,600	92.8%	87%	2	Mixed-Use Building
99 GREENWICH AVENUE, GREENWICH 2	RETAIL	0.3	10,695	16.9%	100%	1	CVS
98,102, 108 GREENWICH AVENUE	MIXED-USE	0.3	18,181	57.9%	81%	6	Lacoste, Karp Reilly, Altus Power
DISTRICT OF COLUMBIA							
2200 P STREET NW, DC	RETAIL/GAS STATION	0.4	2,100	100.0%	0%	1	Vacant
819 7TH ST., NW, WASHINGTON, DC	RETAIL/OFFICE		7,857	45.3%	100%	2	Nando's Restaurant Group
FLORIDA							
4601-4675 S. ORANGE, ORLANDO	SHOPPING CENTER	15.7	144,813	23.3%	69%	6	Auto Zone, Arron Rents, ALDI, Good 2 Go, Beauty Exch
1677 & 1681 LENOX, MIAMI BCH	RESTAURANT	0.4	13,506	49.0%	100%	1	Yard House
GEORGIA							
207-211 PEACHTREE STREET, ATLANTA	1-4 STORY+1-1 STORY BLDG	0.4	41,249	17.7%	58%	2	Hooters, Red Phone Booth
KANSAS							
520 EAST 5TH ST, TOPEKA	1 STORY INDUSTRIAL	0.3	7,732	94.6%	100%	1	Heumann Dental Lab

[1] Includes interest owned indirectly through MNP's 23.3333% ownership in Joseph E. Marx Co., Inc.
[2] Managed by Midwood Management
[3] Managed by Macerich
[4] Under Development
[5] Ground Leased
[6] Leasehold Interest
[7] Under contract for sale

Property	Building Type	Land (Acres) - Approx.	Building (square ft) - Approx.	MNP Interest [1]	Occupancy %	# of In-place Tenants	Primary Tenants
KENTUCKY							
3430 PRESTON HWY, LOUISVILLE	STRIP, PAD & OUTDOOR SIGN	5.3	137,944	49.3%	100%	3	Floor & Decor, American Signature, Taco Bell
MASSACHUSETTS							
349-365 WASHINGTON STREET, BOSTON 2	4 BUILDING ASSEMBLAGE MIXED USE	0.5	68,405	25.0%	33%	13	Payless, Cingular, Bromfield Pen Shop
BROMFIELD & BOSWARTH ST, BOSTON 2	3 BUILDING ASSEMBLAGE MIXED USE	0.1	33,262	29.7%	97%	17	Marliave Restaurant, Torrit School, Breather
NEW JERSEY							
460 WEST ROUTE 70, MARLTON	RETAIL	1.4	9,000	34.9%	100%	1	Enterprise Car Rental
240 WEST PWY, PEQUANNOCK	WAREHOUSE	6.9	127,800	22.6%	100%	1	Strong Man Builiding Products
1218 HOOPER AVE (& BEY AVE)	RETAIL + VACANT LAND	27.2	-	30.1%	100%	3	Target, Chilli's, Exxon
1232 HOOPER, TOMS RIVER	SHOPPING CENTER	14.1	79,186	11.5%	91%	9	Kids R Us, Petsmart, Modern Woman, DXL, Tuesday Morning
3607 BERGENLINE, UNION CITY	RETAIL	0.3	37,647	100.0%	71%	1	ABC Bargain Stores
2125 FLETCHER AVENUE, FORT LEE 2	RETAIL	2.1	32,725	30.0%	100%	1	Metropolital Plant Exchange
NEW YORK							
KNOLLS COOP SOCIETY, BRONX	RESIDENTIAL 5			100.0%	100%	1	Knolls Cooperative Section No. 1
3965 HEMPSTEAD BLVD., BETHPAGE	RETAIL/GAS STATION 4	1.3	6,929	95.7%	100%	1	Quick Check Corp.
89-17/23 QUEENS BLVD., ELMHURST	RETAIL	0.3	8,625	12.7%	100%	3	JP Morgan Chase, Subway, TWI, Shophot
222 ELMIRA RD, ITHACA	SHOPPING CENTER	6.9	43,117	21.0%	100%	14	Northside Liquor, 5 Guys, Taco Bell, DiBellas
201 EAST 57TH STREET, NYC	4 SHOW ROOM	0.2	29,617	23.3%	100%	4	TD Bank, Design Within Reach, Snow Plow
532 MADISON AVENUE, NYC	RETAIL/OFFICE 4	0.04	14,529	10.4%	100%	1	Stahl Midtown Properties
545 MADISON AVENUE, NYC	RETAIL/OFFICE 4	0.2	139,537	23.3%	100%	1	Thor 545 Madison LLC
605-9 WEST 181st STREET, NYC	RETAIL	0.2	23,897	100.0%	100%	1	Youngworld Stores
712 THIRD AVENUE, NYC	RETAIL/OFFICE BUILDING	0.1	9,869	17.9%	100%	3	Wendy's, Dunkin Donuts, Haufbrau
140 7TH AVE S PARCEL, NYC	21sf LAND PARCEL			100.0%	100%	1	Ark Seventh Ave South
3639 MERRICK RD. SEAFORD	FREESTANDING BUILDING	0.3	4,620	22.7%	100%	1	Funstuff
2800 HYLAN BLVD. STATEN ISLAND	BANK BUILDING & FAST FOOD RESTAUI	1.3	7,147	0.7%	100%	2	Burger King, Bank of America
79-83 MAMARONECK AVE. W.PLAINS	1 STORY + PARTIAL BSMT	0.1	4,398	94.6%	24%	1	Salon
708 THIRD AVENUE, NYC	RETAIL/OFFICE BUILDING	0.4	413,808	35.7%	88%	82	ANA, Benenson, DJE Cap, UNOPS, Int'l FCStone, LPQ
CROSS COUNTY SHOPPING CTR. 3	SHOPPING CENTER	71.3	1,148,718	37.6%	99%	100	Macy's, Sears, Stop&Shop, XXI, Zara, H&M, Hyatt
92 PRINCE STREET, NEW YORK 2	RETAIL	0.1	5,200	19.7%	100%	1	Nespresso
85 NORTH 3RD ST. WILLIAMSBURGH, BKLYN	RETAIL		26,856	40.6%	55%	12	B'klyn Denim, Ralph Lauren, Crème Design, Mossaico
478 W. BROADWAY, NEW YORK 2	RETAIL	-	2,900	19.7%	100%	-	Avenso Photo Art
430 PARK AVENEUE, NEW YORK 2	OFFICE BUILDING 5	0.3	293,939	8.2%	58%	16	TD Amer, Withers, TIAA, Wainright, Unicredito Italiano
4231 BELL BLVD, NEW YORK 2	SHOPPING CENTER	0.4	9,842	32.0%	100%	3	Bank of America, Thai Y2K, Dog Daycare
2320 OCEAN AVENUE, FARMINGVILLE 2	SHOPPING CENTER	40.6	291,847	12.3%	97%	22	K-Mart, Stop&Shop, JP Morgan, TGIF, BK, GNC, LA Fitness
PENNSYLVANIA							
3939 BUTLER ST., PITTSBURGH, PA	RETAIL		40,524	45.3%	100%	3	Rite-Aid, WT Legget Co.
TEXAS							
3803 SOUTH COOPER STREET, ARLINGTON 2	SHOPPING CENTER 7	5.1	55,005	18.1%	100%	4	Freed's Furniture, Pet Supplies Plus
VIRGINIA							
7717 RICHMOND HWY, ALEXANDRIA	VACANT LAND	0.1	-	42.6%	0%	-	Vacant, available for lease
7704 RICHMOND HWY, ALEXANDRIA	SHOPPING CENTER	2.8	13,330	42.6%	100%	6	Verizon, Vitamin Shoppe, Pollo Campero
7508 RICHMOND HWY, ALEXANDRIA	RETAIL	1.1	7,920	7.9%	100%	2	Sherwin Williams, End of the Roll
5025 WELLINGTON RD, GAINESVILLE	FREESTANDING BUILDING	0.7	2,126	49.0%	100%	1	Chipotle
WEST VIRGINIA							
525 FIRST AVE, S. CHARLESTON	2 STORY INDUSTRIAL/OFFICE	0.5	14,433	100.0%	100%	1	Sentage Corp. Dental Lab

1 Includes interest owned indirectly through MNP's 23.3333% ownership in Joseph E. Marx Co., Inc.
2 Managed by Midwood Management
3 Managed by Macerich
4 Under Development
5 Ground Leased
6 Leasehold Interest
7 Under contract for sale

More detailed information on MNP's various real estate holdings and investments can be found on the Marx website (http://www.marxrealty.com). Shareholders, without a username and password, may write to Pattie.j@marxrealty.com to request a username and password.

Securities Portfolio:

The MNP portfolio of marketable securities was valued at $37.8 million as of December 31, 2016 with a cost basis of $2.1 million. For the year, the portfolio increased by $3 million or 8.62% in market value compared to a 9.5% total return in the S&P 500 index.

Bank Line of Credit:

In January 2015, MNP signed a $25 million Term Note ("Note") with Capital One Bank, $20 million of which is secured by a pledge of MNP's portfolio of marketable securities and carries interest at LIBOR plus 1.35%; the remaining $5 million is an unsecured line which carries interest at LIBOR plus 3%. While the $20 million secured expires in February 2018, the $5 million unsecured line expires in June 2017.

Under the terms of the secured line, if the value of portfolio declines so that the value of the Note is greater than 70% of liquid assets, MNP shall supply additional liquid assets or risk the sale of some or all of the securities with attendant tax consequences. In June 2016, MNP borrowed $10.5 million to close on the 819 7th Street NW, Washington, DC property under a reverse 1031-exchange and another $1.5 million in August to fund the capital needs of the 85 North 3rd Street, Brooklyn property. Between September and November 2016, $10 million of the total $12 million borrowing was paid off, leaving $2 million of outstanding balance at the end of 2016.

Executive Compensation and Mr. Chandonnet's Employment Agreement and Resignation:

In May of 2013, MNP entered into a five-year employment contract renewal with Mr. Chandonnet with a termination date of May 24, 2018. Under this contract extension, in addition to the base salary, Mr. Chandonnet was entitled to five annual awards of no less than 160 Shares of the Company's common stock to commence in May of 2014, and each consecutive May thereafter. In 2016, under the second year of his new agreement, Mr. Chandonnet received a salary of $445,000, a cash bonus of $200,000 and 100 shares of MNP stock.

In October 2016, Mr. Chandonnet tendered his resignation to be effective November 3, 2016. In its November 4, 2016 meeting, the Board thanked Mr. Chandonnet for his 9.5 years of service to MNP and the entire Marx group of entities as well as for serving on the Board of Cross County Shopping Center. At the same time, the Board approved purchase of the 420 MNP shares awarded to Mr. Chandonnet at the price of $1,991 per share, based on the agreed upon formula to determine such purchase price as per the terms of his 2013 employment contract.

Consulting Project:

The Board has been mindful of suggestions on the part of shareholders that steps be taken to increase the value of their shares. The interests in properties held by MNP are frequently minority interests: and there are significant tax implications of any actions that could be taken. Further complicating our considerations are the uncertainties revolving around proposed changes in the tax laws that could have significant implications. The Board has engaged an independent financial advisor to analyze alternatives, under the supervision of a Board Committee, and to report back so that any decisions we take and any recommendations that we may make will be the result of a careful, informed and deliberative process. We do not expect to be in a position to report the results of this effort at the annual meeting, but we will be able to give you a more complete sense of the process that has been conducted.

Board Attendance and Compensation Practices:

Non-Executive Board Members (excluding the Chairman) received $3,000 for attending each scheduled meeting. In 2016, MNP's board met in person five times and the total board compensation was $146,000. In addition to the five in-person meetings, the board spent (collectively) many hours in attendance at meetings, teleconferences, interviews, site visits, negotiations, on-site events and promotions, etc. Of the $146,000 paid in 2016, Mr. Better received $60,000 as the Chairman of the board plus a $2,000 supplementary honorarium for his services as MNP's second representative on the Dollar Land Board of Managers.

Respectfully submitted,

Jagdish K Shah
Treasurer and Chief Financial Officer

James M. Better
Chairman

MERCHANTS' NATIONAL PROPERTIES, INC.
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

AND

INDEPENDENT AUDITORS' REPORT

FRIEDMAN LLP®

ACCOUNTANTS AND ADVISORS

MERCHANTS' NATIONAL PROPERTIES, INC. AND SUBSIDIARIES

TABLE OF CONTENTS

	Page
Independent Auditors' Report	1
Consolidated Financial Statements	
Balance Sheets	3
Statements of Income	4
Statements of Comprehensive Income	5
Statements of Changes in Equity	6
Statements of Cash Flows	7
Notes to Consolidated Financial Statements	8

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Merchants' National Properties, Inc.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Merchants' National Properties, Inc. and Subsidiaries (collectively, the "Company"), which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of one of the equity method investees discussed in Note 7 to the consolidated financial statements. The Company's investment in this real estate venture approximates 14% and 15% of consolidated total assets at December 31, 2016 and 2015, respectively, and the equity in earnings of such investee approximates 21% and 24%, respectively, of consolidated total income for the years then ended. The financial statements of this investee were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for such investee, is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

(Continued)

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

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

Opinion

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Merchants' National Properties, Inc. and Subsidiaries as of December 31, 2016 and 2015, and the consolidated results of their operations and their consolidated cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Friedman LLP

April 28, 2017

MERCHANTS' NATIONAL PROPERTIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31, 2016	December 31, 2015
ASSETS		
Rental properties, net	$ 44,142,785	$ 43,633,506
Marketable securities available-for-sale	37,787,706	34,787,077
Investments in real estate ventures	113,042,902	100,029,584
Intangibles available for sale	749,036	817,451
Cash and cash equivalents	12,662,600	12,559,379
Restricted cash	1,059,422	560,061
Receivables		
Loans receivable, real estate ventures	2,573,220	-
Distributions from affiliated real estate ventures	1,203,945	1,287,935
Employees	379,772	1,039,297
Related parties	1,436,268	1,414,721
State tax credit refunds	1,141,712	2,197,795
Other	290,766	141,118
Tenant security deposits in escrow	198,960	183,223
Prepaid expenses and other assets	701,128	812,607
Prepaid income taxes	763,820	1,274,981
Deferred tax assets	747,059	413,957
	$ 218,881,101	$ 201,152,692
LIABILITIES AND EQUITY		
Liabilities		
Accounts payable and accrued expenses	$ 888,093	$ 1,828,827
Accrued rent and lease deposits	390,611	375,018
Mortgages payable, less unamortized debt issuance costs of $138,775 and $168,890	20,758,137	18,685,624
Line of credit	2,000,000	-
Income taxes payable	298,671	
Deferred tax liabilities	30,954,723	26,350,513
	55,290,235	47,239,982
Commitments and contingencies		
Equity		
Common stock, $1 par value; 187,000 shares authorized, 105,199 shares issued, (shares outstanding, 93,064 in 2016 and 93,384 in 2015)	105,199	105,199
Additional paid-in capital	1,146,317	1,050,417
Accumulated other comprehensive income	22,868,610	21,677,920
Retained earnings	144,948,272	135,963,316
Unearned compensation (-0-shares in 2016 and 480 shares in 2015)	-	(501,600)
Treasury stock, at cost (12,135 shares in 2016 and 11,815 shares in 2015)	(13,048,118)	(11,814,798)
Total Merchants' National Properties, Inc. stockholders' equity	156,020,280	146,480,454
Noncontrolling interest	7,570,586	7,432,256
	163,590,866	153,912,710
	$ 218,881,101	$ 201,152,692

See notes to consolidated financial statements.

MERCHANTS' NATIONAL PROPERTIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31,	
	2016	2015
Revenues		
Rental income	$ 4,219,163	$ 3,152,053
Management fee	1,155,138	1,169,896
Leasing commission	515,788	563,427
Other revenue	1,144,041	860,160
	7,034,130	5,745,536
Less - Direct operating expenses		
Real estate taxes	755,807	690,975
Depreciation and amortization	629,419	289,523
Other operating expenses	694,008	221,714
Financing expenses	746,390	445,604
Total direct operating expenses	2,825,624	1,647,816
Net revenues from rentals and other income	4,208,506	4,097,720
Equity in earnings of real estate ventures *	17,634,669	16,169,579
Gain on sale of rental property	-	216,300
Investment income	988,263	759,988
Gain on sale of marketable securities	1,311,776	-
Total income	24,143,214	21,243,587
General and administrative expenses and other costs		
Financing expenses	82,647	3,820
Professional fees	644,100	269,827
Salaries and other general expenses	3,995,477	4,005,756
Acquisition costs	-	892,187
	4,722,224	5,171,590
Income before income taxes	19,420,990	16,071,997
Income taxes	6,868,996	5,854,063
Net income	12,551,994	10,217,934
Noncontrolling interest in (income) loss of consolidated subsidiaries	(296,110)	315,060
Net income attributable to Merchants' National Properties, Inc.	$ 12,255,884	$ 10,532,994
Basic and diluted earnings per share	$ 131.32	$ 112.90
Weighted average number of common shares outstanding		
Basic and diluted	93,325	93,297

* Includes equity in earnings from gain on sale of property held by real estate venture of $8,331,173 and $5,429,724 in 2016 and 2015, respectively.

See notes to consolidated financial statements.

MERCHANTS' NATIONAL PROPERTIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31, 2016	2015
Net income	$12,551,994	$10,217,934
Other comprehensive income (loss)		
Unrealized gain (loss) on marketable securities arising during the year, net of deferred tax (benefit) of $1,098,643 and $(37,234)	1,954,409	(70,264)
Reclassification adjustment for gains realized in net income, net of deferred tax of $428,880	(762,454)	-
	1,191,955	(70,264)
Comprehensive income	13,743,949	10,147,670
Comprehensive (income) loss attributable to noncontrolling interest	(297,375)	319,130
Comprehensive income attributable to Merchants' National Properties, Inc.	$13,446,574	$10,466,800

See notes to consolidated financial statements.

MERCHANTS' NATIONAL PROPERTIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Merchants' National Properties, Inc.										
	Common Stock		Additional Paid-In	Accumulated Other Comprehensive	Retained	Unearned Compensation		Treasury Stock		Noncontrolling	Total
	Shares	Amount	Capital	Income	Earnings	Shares	Amount	Shares	Amount	Interest	Equity
Balance, January 1, 2015	105,199	$ 105,199	$ 942,417	$ 21,744,114	$ 128,697,150	640	$ (668,800)	11,335	$ (11,814,798)	$ 1,823,971	$ 140,829,253
Stock-based compensation	-	-	108,000	-	-	(160)	167,200	-	-	-	275,200
Net income	-	-	-	-	10,532,994	-	-	-	-	(315,060)	10,217,934
Dividends paid	-	-	-	-	(3,266,828)	-	-	-	-	(95,273)	(3,362,101)
Recognition of noncontrolling interest due											-
to acquisition of University	-	-	-	-	-	-	-	-	-	6,022,688	6,022,688
Other comprehensive income, net of tax	-	-	-	(66,194)	-	-	-	-	-	(4,070)	(70,264)
Balance, December 31, 2015	105,199	105,199	1,050,417	21,677,920	135,963,316	480	(501,600)	11,335	(11,814,798)	7,432,256	153,912,710
Stock-based compensation - award	-	-	95,900	-	-	(100)	104,500	-	-	-	200,400
Stock-based compensation - reversed	-	-	-	-	-	(380)	397,100	380	(397,100)	-	-
Purchase of treasury stock	-	-	-	-	-	-	-	420	(836,220)	-	(836,220)
Net income	-	-	-	-	12,255,884	-	-	-	-	296,110	12,551,994
Dividends paid	-	-	-	-	(3,270,928)	-	-	-	-	(159,045)	(3,429,973)
Other comprehensive income, net of tax	-	-	-	1,190,690	-	-	-	-	-	1,265	1,191,955
Balance, December 31, 2016	105,199	$ 105,199	$ 1,146,317	$ 22,868,610	$ 144,948,272	-0-	$ -0-	12,135	$ (13,048,118)	$ 7,570,586	$ 163,590,866

See notes to consolidated financial statements.

MERCHANTS' NATIONAL PROPERTIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2016	2015
Cash flows from operating activities		
Net income	$ 12,551,994	$ 10,217,934
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	629,419	289,523
Amortization of debt issuance costs included in interest expense	68,278	57,802
Provision for deferred taxes	3,601,345	2,748,776
Unrealized loss on intangible asset available for sale	68,415	
Equity in earnings of real estate ventures	(17,634,669)	(16,169,579)
Distributions from investments in real estate ventures	8,901,025	8,087,374
Stock-based compensation	200,400	275,200
Gain on sale of rental property	-	(216,300)
Gain on sale of marketable securities	(1,311,776)	-
Changes in assets and liabilities		
Receivables - affiliated real estate ventures	83,990	(19,688)
Receivables - employees	659,525	(712,790)
Receivables - related parties	(21,547)	92,359
Receivables - refundable taxes	1,056,083	(331,144)
Receivables - other	(149,648)	198,856
Tenant security deposits in escrow	(15,737)	(92,740)
Prepaid expenses and other assets	111,479	(440,303)
Accounts payable and accrued expenses	(940,734)	1,469,763
Prepaid income taxes	511,161	1,309,796
Income taxes payable	298,671	-
Prepaid rent and lease deposits	15,593	92,686
Net cash provided by operating activities	8,683,267	6,857,525
Cash flows from investing activities		
Restricted cash	(499,361)	(560,061)
Contributions to investments in real estate ventures	(4,279,674)	(1,801,628)
Net cash acquired with acquisition of additional interest in investee	-	13,148,850
Acquisition of Greenwich Property	-	(21,450,000)
Purchase of rental property	(1,138,698)	(2,547,506)
Proceeds from sale of rental property	-	418,739
Proceeds from sale of marketable securities	1,324,769	-
Purchase of marketable securities	(1,151,904)	-
Purchase of intangible asset	-	(4,620)
Proceeds from repayment of mortgage receivable	-	2,545,888
Advances to loans receivable, real estate ventures	(2,573,220)	-
Net cash used in investing activities	(8,318,088)	(10,250,338)
Cash flows from financing activities		
Purchase of treasury stock	(836,220)	-
Payment of dividends	(3,270,928)	(3,266,828)
Payment of dividends to noncontrolling interests	(159,045)	(95,273)
Net proceeds from line of credit	2,000,000	-
Principal payment of mortgage	(634,958)	(441,697)
Repayment of construction loan	(3,965,429)	-
Proceeds from construction loan	2,142,784	626,548
Proceeds from mortgage payable	4,500,000	9,000,000
Debt issuance costs	(38,162)	(66,914)
Net cash provided by (used in) financing activities	(261,958)	5,755,836
Net increase in cash and cash equivalents	103,221	2,363,023
Cash and cash equivalents, beginning of year	12,559,379	10,196,356
Cash and cash equivalents, end of year	$ 12,662,600	$ 12,559,379
Supplemental cash flow disclosures		
Interest paid (includes capitalized interest of $79,749 in 2016 and $12,557 in 2015)	$ 53,265	$ 398,748
Income taxes paid - net of refunds	1,347,855	1,216,569
Noncash investing and financing activities		
Recognition of unearned compensation	104,500	167,200
Additions to rental properties included in accounts payable and accrued expenses	-	1,196,097

See notes to consolidated financial statements.

MERCHANTS' NATIONAL PROPERTIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 - ORGANIZATION

Merchants' National Properties, Inc. ("Merchants"), Guest Realty Company ("Guest"), Marx Realty & Improvement Co. Inc. ("Marx"), Maryland Stores Corporation ("Maryland"), Rier Realty Co., Inc. ("Rier"), East Putnam Ave. I, LLC ("Putnam"), The M&B Building Owners II, LLC ("Bethpage"), Brahmin Realty Associates, LLC ("Brahmin), Madison Syndicate ("Madison"), University Plaza Joint Venture ("University"), and 98, 102, 108 Greenwich Avenue I LLC ("Greenwich") own, manage, develop and lease various commercial real estate properties and invest in real estate ventures in the United States. Guest, Marx, Maryland and Rier ("Acquired Entities") were acquired in the transaction discussed below.

On November 21, 2006, Merchants acquired certain shares of stock and partnership interests in the Acquired Entities and other joint venture interests from the estate of Merchants' former stockholder (the "Seller") for a total cost of $41,661,149 in cash. There were no significant liabilities assumed upon acquisition. The purchase price was allocated to the real estate and partnership interests based on their fair values. No goodwill or intangible assets were recorded.

On November 8, 2012, Putnam was formed to acquire property which is being developed into a commercial and residential project. Merchants owns 92.75% of Putnam.

On July 16, 2013, Bethpage was formed to acquire land for the purpose of net leasing or developing it into a commercial project. Merchants owns 95.70% of Bethpage.

In October 2014, Brahmin was formed to acquire a 50% tenancy-in-common interest in three real properties. Merchants owns 59.40% of Brahmin.

On September 11, 2015, Merchants acquired an additional 8.05% interest in the members' equity of University, which resulted in 57.88% interest in the members' equity of University (see Note 4).

2 - CHANGE IN ACCOUNTING PRINCIPLES

In 2016, the Company adopted the requirements of Accounting Standards Update 2015-03 ("ASU 2015-03"), Simplifying the Presentation of Debt Issuance Costs, for the presentation of debt issuance costs. Deferred financing costs are now reported on the consolidated balance sheet as a direct reduction of the carrying amount of the related debt. Previously, such costs were shown as a deferred asset on the balance sheet. ASU 2015-03 requires that the amortization of deferred financing costs be presented as a component of interest expense on the statement of income rather than as amortization of deferred financing costs. Adoption of ASU 2015-03 had no effect on previously reported net income or equity.

3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of Merchants and its subsidiaries; Guest, a 100% owned subsidiary; Maryland, an 80% owned subsidiary; Marx, a 100% owned subsidiary; Rier, a 94.64% owned subsidiary; Putnam, a 92.75% owned limited liability company; Madison, a 52.93% owned partnership; Bethpage, a 95.70% owned limited liability company; Brahmin, a 59.40% owned limited liability company; University, a 57.88% owned partnership at December 31, 2015; and Greenwich, a wholly owned subsidiary of University (collectively, the "Company"). All significant intercompany accounts and transactions have been eliminated in consolidation.

Noncontrolling Interests

Accounting principles generally accepted in the United States of America ("GAAP") require that noncontrolling interests in subsidiaries and affiliates be reported in the equity section of a company's balance sheet. In addition, the amounts attributable to the net income and other comprehensive income of these subsidiaries and affiliates are reported separately in the consolidated statements of income, comprehensive income and changes in equity for all periods presented.

Use of Estimates

Management uses estimates and assumptions in preparing consolidated financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and reported revenues and expenses. The most significant estimates and assumptions relate to depreciable lives, impairment of long-lived assets and the recovery of receivables. Actual results could differ from those estimates.

Rental Properties, Net

Real estate is recorded at cost. Maintenance and repairs are charged to operations at the time the expenditures are made, whereas betterments and improvements are capitalized. Upon sale or other disposition of real estate, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in operations.

Marketable Securities Available for Sale

Marketable securities consist of equity securities that are classified as available-for-sale, and are carried in the accompanying consolidated financial statements at fair value. Realized gains and losses are included in net income based on the specific identification method; unrealized holding gains and losses are included in other comprehensive income or loss.

3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in Real Estate Ventures

Investments in unconsolidated affiliated companies, in which the Company has a less than 50% interest and significant influence, but not control, are accounted for using the equity method. Distributions declared but not paid are recorded as receivables from affiliated real estate ventures. On a periodic basis, management assesses whether there are any indicators that the carrying value of the Company's investments in real estate ventures may be impaired. An investment is impaired only if management's estimate of the fair value of the investment is less than the carrying value of the investment, and such decline in value is deemed to be other than temporary. To the extent impairment has occurred, the loss shall be measured as the excess of the carrying amount of the investment over the fair value of the investment. The Company's estimates of fair value for each investment are based on a number of assumptions that are subject to economic and market uncertainties, including, among others, demand for space, competition for tenants, changes in market rental rates, and operating costs. As these factors are difficult to predict and are subject to future events that may alter management's assumptions, the fair values estimated by management in its impairment analyses may not be realized. As of December 31, 2016 and 2015, management has determined that no impairment of the recoverability of the carrying amount of its investments has occurred.

Intangibles Available for Sale

Intangibles consist of a liquor license that is not amortized as it has an indefinite life. The Company reviews intangible assets with indefinite lives for impairment annually or more frequently if impairment indicators arise. As permitted under GAAP, the Company took a qualitative approach in determining whether it was more likely than not that the intangible asset was impaired. To the extent the qualitative factors indicate that there is more than a 50% likelihood that the intangible asset is impaired or when the qualitative approach is not used, the Company performs a quantitative impairment test. The quantitative impairment test consists of a comparison of the fair value of the asset with its carrying amount. If the carrying amount of the intangible asset exceeds its fair value, the Company recognizes an impairment loss in an amount equal to that excess. In 2016, the Company classified the liquor license as available for sale and expensed $68,415, the amount in excess of net realizable value, to salaries and other general expenses.

Long-Lived Assets

The Company reviews the carrying values of its long-lived assets, such as rental properties, whenever events or changes in circumstances indicate that the carrying values may no longer be appropriate. Recoverability of carrying values is assessed by estimating future net cash flows from the assets. Based on management's evaluations, no impairment charges were deemed necessary at December 31, 2016 and 2015. Impairment assessment inherently involves judgment

3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-Lived Assets (Continued)
as to assumptions about expected future cash flows and the impact of market conditions on those assumptions. Future events and changing market conditions may impact management's assumptions as to rental rates, costs, holding periods or other factors that may result in changes in the Company's estimates of future cash flows. Although management believes the assumptions used in testing for impairment are reasonable, changes in any one of the assumptions could produce a significantly different result.

Cash and Cash Equivalents
The Company considers cash and cash equivalents to include cash on hand, cash in banks, and short-term investments in institutional money market funds with initial maturities of three months or less. Cash balances in banks in the United States are insured by the Federal Deposit Insurance Corporation subject to certain limitations. Cash balances in institutional money market funds are insured by the Securities Investor Protection Corporation subject to certain limitations.

Restricted Cash
Restricted cash represents funds held in escrow for tenant and capital improvements and leasing commissions as required by the lender and funds held by the Company.

Debt Issuance Costs
Debt issuance costs represent costs incurred in connection with obtaining debt financing. These costs are being amortized on the straight-line basis over the term of the related loan, which approximates the effective interest method. For the years ended December 31, 2016 and 2015, amortization of deferred financing costs was $68,278 and $57,802, respectively.

Income Taxes
The Company files a combined income tax return for New York State and New York City except for Madison, Putnam, Bethpage, Brahmin and University. Merchants and Marx file a consolidated federal income tax return and separate income tax returns for all states except New York. Guest, Maryland and Rier file separate federal income tax returns and for all states except New York. Madison, Putnam, Bethpage, Brahmin and University file separate federal and state income tax returns. Greenwich is a disregarded entity for income tax purposes; accordingly its results are included in the income tax return of University.

The Company applies the provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 740, "Income Taxes". The Company files income tax returns in the U.S. federal jurisdiction and in various states.

3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes (Continued)
The Company does not have any uncertain tax positions. As a result, there are no unrecognized tax benefits in the accompanying consolidated balance sheets. If the Company were to incur any interest and penalties in connection with income tax deficiencies, the Company would classify interest in the "interest expense" category and classify penalties in the "non-interest expense" category within the consolidated statements of income.

Deferred Income Taxes
The Company uses the asset and liability method of accounting for income taxes in accordance with ASC Topic 740. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities.

Rental Revenue
The Company recognizes rental revenue as earned. All leases between the Company and the tenants of the properties are considered to be operating leases. Receivables from tenants are stated at the amount management expects to collect. Account balances are written off after all means of collection have been exhausted and the potential for recovery is considered remote. Accounts are considered past due or delinquent based on contractual terms and how recently payments have been received. No allowance against tenant receivables is considered necessary at the balance sheet dates.

Sales of Real Estate
The Company accounts for sales of real estate under the full accrual method, whereby gain is not recognized until the collectability of the sales price is reasonably assured and the earnings process is virtually complete. When a sale does not meet such requirements, gain is deferred until the requirements for income recognition are met.

Depreciation
Properties are stated at cost. Depreciation of rental properties is computed using the straight-line method over the estimated useful lives of the assets.

Earnings Per Share
The Company computes basic earnings per share by dividing net income attributable to Merchants by the weighted average number of shares outstanding for the year. Diluted earnings per share are calculated utilizing the weighted average number of common shares outstanding adjusted for the effect of any common stock equivalents.

3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Comprehensive Income

Comprehensive income consists of two components, consolidated net income and other comprehensive income (loss). Other comprehensive income (loss) refers to revenue, expenses, gains and losses that, under GAAP, are recorded as an element of equity but are excluded from consolidated net income.

Fair Value Measurements

The Company follows the provisions of ASC Topic 820, "Fair Value Measurements and Disclosures", which establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2: Quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active and model-derived valuations whose inputs or significant value drivers are observable.

Level 3: Unobservable inputs are used when little or no market data is available.

The Company holds an investment in over-the-counter ("OTC") derivative contracts. Such OTC derivative contracts include forward, swap and cap contracts related to interest rates.

Depending on the product and the terms of the transaction, the fair value of OTC derivative products can be modeled using a series of techniques, such as the Black-Scholes options-pricing model, and simulation models or a combination thereof. The Company utilizes valuations obtained from the counterparty, the lender, with expertise in valuing such interest rate derivatives. No credit valuation adjustments are made in determining the fair value. As the valuation inputs are unobservable, the valuation is classified as a Level 3 in the fair value hierarchy. As of December 31, 2016 and 2015, the Company did not record the fair value of the interest rate swap agreement as it was not material to its consolidated financial statements.

Fair Value of Financial Instruments

ASC Topic 825, "Disclosures about Fair Value of Financial Instruments", as amended, requires certain entities to disclose the fair values of specified financial instruments for which it is practicable to estimate those values. The carrying values of cash and cash equivalents, restricted cash, receivables, and accounts payable and accrued expenses approximate their fair values due

3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value of Financial Instruments (Continued)

to their short-term nature. The fair value of marketable securities is measured on a recurring basis using Level 1 inputs (see Note 6). It was not practicable to reasonably estimate the fair value of the loans receivable from real estate ventures, line of credit and mortgage payable as there are no quoted market prices of similar products and management has not developed a valuation model necessary to make such estimates.

Derivative Instruments

In accordance with GAAP, the Company recognizes derivatives as either assets or liabilities in the consolidated balance sheet and measures those instruments at fair value. Changes in fair value will affect either accumulated other comprehensive income or loss, which is a component of equity, if the derivative qualifies as a hedge and is effective, or net income or loss, if the derivative does not qualify as a hedge or if the hedge is ineffective.

The Company has a receive-variable (LIBOR plus 1.625%), pay-fixed (3.9%) interest rate swap agreement related to its variable rate loan (see Note 10). The interest rate swap agreement is effective as of October 1, 2015, matures on October 1, 2025, and has an original notional amount of $9,000,000 with a notional amount of $8,748,910 and $8,964,838 at December 31, 2016 and 2015, respectively. The notional amount is reduced based on the terms of the agreement. The interest rate swap agreement is intended to hedge the Company's exposure to possible increases in interest rates and the resulting increase in cash outflows.

The interest rate swap was not designated as a cash flow hedge and, accordingly, changes in fair value are recognized in earnings. As of December 31, 2016 and 2015, the Company did not record the fair value of the interest rate swap agreement as it was not material to its consolidated financial statements.

Stock-Based Compensation

The Company follows the provisions of ASC Topic 718, "Compensation - Stock Compensation", which requires compensation costs related to stock-based payment transactions to be measured and recorded at the fair value of the equity instrument issued. The fair value of the Company's stock awards is determined based on Level 1 inputs (see Note 14).

Business Combinations

The Company accounts for acquisitions under the acquisition method of accounting in accordance with ASC Topic 805, "Business Combinations." Under the acquisition method, direct costs of the acquisition are expensed as they are incurred, and identifiable assets acquired and the liabilities assumed are measured at their fair values at the date of acquisition. The excess of the purchase price over the estimated fair values of the net assets acquired represents goodwill.

3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business Combinations (Continued)
In accordance with ASC 805, the Company also accounts for the acquisition of operating properties under the acquisition method of accounting, which requires the allocation of the purchase price between tangible and intangible assets and liabilities acquired based on their estimated fair values. In addition, direct costs of the acquisition are expensed as they are incurred.

The fair value of acquired tangible assets includes land at its appraised values and buildings as if they were vacant. The Company assesses and considers fair values based on estimated cash flow projections that utilize appropriate discount and/or capitalization rates, as well as available market information. Estimates of future cash flows are based on a number of factors, including historical operating results, known and anticipated trends and market and economic conditions.

In allocating the fair value of the identified intangible assets and liabilities of the acquired properties, below-market in-place lease values are recorded as liabilities based on the discounted difference between the in-place rent and the Company's estimate of current market rents. Other intangible assets acquired include the value of in-place leases that are based on the Company's evaluation of specific characteristics of each tenant's lease.

Risks and Uncertainties
The Company is subject to risks incident to the ownership, development and management of real estate. These include the risks normally associated with the changes in the general economic climate, trends in the real estate industry, availability of land for development, changes in tax laws and interest rates, availability of financing, and the potential liability under environmental and other laws.

The Company's investments include marketable equity securities. Due to the risks associated with equity securities, it is at least reasonably possible that changes in market conditions in the near term could materially affect the value of investments reported in the consolidated financial statements.

Subsequent Events
These consolidated financial statements were approved by management and available for issuance on April 28, 2017. Management has evaluated subsequent events through this date.

4 - BUSINESS COMBINATION

On September 11, 2015, Merchants acquired a controlling interest in University, as further discussed in Note 1. As a result of the acquisition, Merchants owns the mixed use (retail and office) building, located at 98 Greenwich Avenue, 102 Greenwich Avenue and 108 Greenwich Avenue, Greenwich, Connecticut (the "Greenwich Property"). The Greenwich Property was acquired on September 11, 2015 for a total purchase price of $21,450,000, settled in cash and proceeds from a mortgage payable.

The following table summarizes the consideration paid for University and the fair value amounts of the assets acquired and liabilities assumed recognized at the acquisition date, as well as the fair value at the acquisition date of the noncontrolling interest in University.

At September 11, 2015:

Consideration		
Cash	$	1,151,150
Fair value of Merchants' equity interest in University held before the business combination		7,126,162
Total fair value of consideration transferred	$	8,277,312
Acquisition-related costs for the year ended December 31, 2015	$	-0-

Recognized amounts of identifiable assets acquired and liabilities assumed:

Cash	$	14,300,000
Total identifiable net assets		14,300,000
Noncontrolling interest		6,022,688
Net asset acquired	$	8,277,312

The following table summarizes the consideration paid for the acquisition of the Greenwich Property and the fair values of the assets acquired and liabilities assumed at the acquisition date. The fair values of the intangible assets and liabilities related to in-place leases were not significant and, therefore, not recognized in the Company's consolidated financial statements.

4 - BUSINESS COMBINATION (Continued)

At September 11, 2015:

Consideration	
Cash	$ 12,450,000
Fair value of mortgage payable	9,000,000
Total fair value of consideration transferred	$ 21,450,000
Acquisition-related costs for the year ended December 31, 2015	$ 892,187

Recognized amounts of identifiable assets acquired and liabilities assumed:

Land	$ 7,468,500
Building	13,981,500
Total identifiable net assets	$ 21,450,000

5 - RENTAL PROPERTIES, NET

Rental properties consist of the following:

	December 31,	
	2016	2015
Land	$ 20,094,019	$ 19,656,500
Buildings and improvements	26,261,289	21,293,474
Furniture and fixtures	1,002,848	637,768
Equipment	79,124	79,124
Construction in progress	-	4,631,717
	47,437,280	46,298,583
Less - Accumulated depreciation	3,294,495	2,665,077
	$ 44,142,785	$ 43,633,506

6 - MARKETABLE SECURITIES

Cost and fair value data for common stock classified as available-for-sale securities are as follows:

	December 31, 2016	December 31, 2015
Cost	$ 2,113,886	$ 974,993
Fair value	37,787,706	34,787,077
Net unrealized gain	$ 35,673,820	$ 33,812,084

During the year ended December 31, 2016, the Company realized gross gains from sales of marketable securities of $1,311,776. Proceeds from sales of marketable securities with a cost basis of $12,993 were $1,324,769 in 2016. The Company used the sales proceeds to acquire new securities.

7 - INVESTMENTS IN REAL ESTATE VENTURES

The Company holds investments in various joint ventures. Changes in the Company's investments in joint ventures for the years ended December 31, 2016 and 2015 are as follows:

	2016	2015
Balance, beginning of year	$ 100,029,584	$ 97,271,913
Contributions	4,279,674	1,801,628
Distributions	(8,901,025)	(8,087,374)
Transfer due to acquisition of controlling interest (see Note 4)	-	(7,126,162)
Income from investments	17,634,669	16,169,579
Net investments, end of year	$ 113,042,902	$ 100,029,584

7 - INVESTMENTS IN REAL ESTATE VENTURES (Continued)

The following information summarizes the total assets, liabilities, revenues and expenses of the investees in the aggregate prior to allocating the Company's share indicated by the percentages listed on the following page:

	December 31,	
	2016	2015
Assets	$ 554,979,157	$ 502,556,958
Liabilities	322,535,353	286,196,771
Equity	$ 232,443,804	$ 216,360,187
Rental and other revenues	$ 129,217,072	$ 134,308,588
Net gain on disposal of rental property	28,736,595	10,895,767
Total income	157,953,667	145,204,355
Direct operating expenses	51,940,060	51,852,890
Financing expenses	14,288,253	14,219,861
Depreciation expense	24,072,101	22,814,847
Income taxes	3,772,292	4,002,883
Net income	$ 63,880,961	$ 52,313,874

7 - INVESTMENTS IN REAL ESTATE VENTURES (Continued)

Investments in real estate ventures consist of the following at December 31:

	% of Ownership*	
Investee	2016	2015
430 Park Avenue Syndicate **	7.0828%	7.0828%
532 Madison Syndicate	10.4099	10.4099
708 Third Avenue Holdings, LLC ***	35.7135	35.7135
Arlington Joint Venture	18.0625	18.0625
Athens Joint Venture	45.3332	29.1667
Avon Joint Venture	40.5938	32.3021
Bell Blvd. Partners	32.0000	32.0000
BSC Empire	37.6214	37.6214
Belle Haven Realty LLC	42.5700	42.5700
Bellflower Joint Venture	17.1667	17.1667
Bey Lea Joint Venture **	9.0050	9.0050
Boston Syndicate	25.0000	25.0000
Dollar Land Associates LLC	37.6214	37.6214
East Rutherford Joint Venture	0.7500	0.7500
Farmingville Associates **	10.5598	10.5598
Fort Lee Joint Venture	30.0000	30.0000
Glastonbury Syndicate	0.0000	23.6667
Ithaca Joint Venture	21.0000	21.0000
Joseph E. Marx Co. Inc.	23.3330	23.3333
Knights Road Shopping Center LP **	10.9999	10.9999
LM of Greenwich	16.9125	16.9125
Louisville Syndicate	49.3097	49.3097
Marlton Joint Venture	34.9167	34.9167
Newbury Street Partners **	18.7084	18.7084
Ocean County Ventures **	30.0981	30.0981
Orange Syndicate **	48.5607	48.5607
Pequannock Joint Venture LLC	22.5953	22.5953
Peters Land Syndicate	17.7241	16.9000
Queens Blvd. Joint Venture	12.6867	12.6867
Seaford Joint Venture	22.6781	22.6781

* % of Company's beneficial interest in the underlying asset.
** Excludes indirect interest through Joseph E. Marx Co. Inc.
*** Represents 35.7135% of 708 Third Avenue building and 17.85675% of 712 Third Avenue building.

8 - LOANS RECEIVABLE

Loans receivable from two real estate venture affiliates are due on demand and bear interest at 5.0%. For the year ended December 31, 2016, accrued interest of $73,220 is included in the receivable balance. Management believes that these loans are fully collectible, and no allowance for loan loss is required at December 31, 2016.

9 - LINES OF CREDIT

Merchants has a $25,000,000 credit facility. At December 31, 2016, the facility included a secured line of credit up to $20,000,000 and an unsecured line up to $5,000,000. The secured line is subject to a borrowing base of 70% of the fair value of Merchants' marketable securities and 100% of the value of cash and cash equivalents. Interest on secured borrowings is LIBOR plus 1.35%. The secured line expires on February 1, 2018.

The unsecured line, which requires interest at LIBOR plus 3%, expires on June 1, 2017.

The facility is subject to certain covenants which the Company has met at December 31, 2016. As of December 31, 2016, the Company had $2,000,000 outstanding under the secured line of credit. As of December 31, 2016 and 2015, there were no borrowings under its unsecured line of credit.

The facility allows Merchants to request that the bank issue standby letters of credit on its behalf.

As December 31, 2015, the Company had a standby line of credit of approximately $478,000 (see Note 16).

Interest expense was $77,778 for the year ended December 31, 2016. There was no interest expense in 2015.

10 - MORTGAGES PAYABLE

In April 2009, the Company obtained a $6,500,000 mortgage payable, secured by a first mortgage lien on the property located at 605-609 West 181st Street, New York, New York. The mortgage required monthly payments of $41,084 based on a 30-year amortization, including interest at 6.5% a year through April 30, 2014. In July 2013, the terms were modified on the outstanding mortgage balance of $6,155,902. The modified mortgage requires monthly payments of $42,762 based on a 15-year amortization, including interest at 3.04%, and matures on April 1, 2018. Interest expense was $160,238 and $170,489 for the years ended December 31, 2016 and 2015, respectively. The mortgage payable balance at December 31, 2016 and 2015 was $4,993,120 and $5,346,021, respectively.

10 - MORTGAGES PAYABLE (Continued)

In October 2014, Brahmin obtained three mortgages totaling $2,790,000, which collectively are secured by a first mortgage lien on the properties located at 10-14 Bosworth Street, 41 Bromfield Street and 45 Bromfield Street, Boston, Massachusetts. The mortgages require monthly payments in the aggregate of $15,211 based on a 25-year adjustable interest rate, with interest to adjust every 10 years through November 2030. The initial interest rate during the first ten years is fixed at 4.25%. The Company is a limited guarantor of this loan. Interest expense was $116,399 and $118,642 for the years ended December 31, 2016 and 2015, respectively. The mortgage payable balances at December 31, 2016 and 2015 were $2,654,882 and $2,721,010, respectively.

On April 3, 2015, Putnam obtained a construction loan in the amount of $4,000,000 for the development of its property, with an option to convert it to a permanent facility at the earlier of the issuance of a certificate of occupancy after closing. The loan bears interest at the Wall Street Journal Prime Rate plus a margin of 0.123% on the outstanding balance. The mortgage balance as of December 31, 2015 was $1,822,645. On December 29, 2016, the outstanding construction loan in the amount of $3,965,429 was converted into a permanent mortgage of $4,500,000, maturing on January 1, 2024. The mortgage requires monthly payments in the aggregate of $21,484, including principal and interest based on a 30-year amortization schedule. The interest rate during the term of the note is 4%. For the years ended December 31, 2016 and 2015, total interest paid was $130,384 and $12,557, respectively, of which $79,749 and $12,557, respectively, was capitalized and included in the development costs of the property. The loan is subject to a debt service ratio of 1.25, which shall be tested annually commencing on December 31, 2017.

On September 11, 2015, Greenwich obtained a loan in the amount of $9,000,000. The loan requires monthly payments of approximately $19,000, including interest equal to LIBOR plus 1.625%, and has a maturity date of September 11, 2025. Merchants is the guarantor of this loan. The Company has entered into a receive-variable (LIBOR plus 1.625%), pay-fixed (3.9%) interest rate swap agreement related to its variable rate loan (see Note 3). The loan can be prepaid in whole or in part from time to time without penalty. The loan is subject to a debt service ratio. If the debt service ratio falls below 1.30, Greenwich is required to provide cash collateral or an unconditional standby letter of credit. For the years ended December 31, 2016 and 2015, interest expense was $350,840 and $98,671, respectively. The mortgage payable balance at December 31, 2016 and 2015 was $8,748,910 and $8,964,838, respectively.

10 - MORTGAGES PAYABLE (Continued)

Future minimum payments are as follows:

Year Ending December 31,		
2017	$	845,061
2018		875,117
2019		900,036
2020		923,970
2021		951,568
Thereafter		16,401,160
		20,896,912
Less - Unamortized debt issuance costs		138,775
	$	20,758,137

11 - LEASE ARRANGEMENTS

Building space is leased under noncancelable operating leases. Certain tenant leases provide for the payment of minimum rentals plus a percentage of the tenant's sales in excess of stipulated amounts. Minimum rental revenues under existing noncancelable leases as of December 31, 2016 are approximately as follows:

Year Ending December 31,		
2017	$	5,180,000
2018		4,749,000
2019		4,619,000
2020		3,673,000
2021		3,554,000
Thereafter		16,687,000
	$	38,462,000

Common area maintenance and real estate tax escalation charges included in rental income were $482,852 and $311,832 for the years ended December 31, 2016 and 2015, respectively.

12 - INCOME TAXES

The Company's effective tax rate differs from the statutory tax rate due to state credits, as discussed below.

The Company's income tax provision (benefit) consists of the following:

	Year Ended December 31,	
	2016	2015
Current		
Federal	$ 3,058,439	$ 3,209,352
State	1,350,923	1,009,104
New York State Empire Zone and Qualified Empire Zone Enterprise Credit *	(1,141,711)	(1,113,169)
	3,267,651	3,105,287
Deferred		
Federal	2,605,530	1,964,528
State	995,815	784,248
	3,601,345	2,748,776
Income taxes per consolidated statements of income	$ 6,868,996	$ 5,854,063
Deferred tax effect of other comprehensive Income	$ (669,763)	$ (37,234)

*Dollar Land Associates LLC ("Dollar Land") is the owner of Cross County Shopping Center in Yonkers, New York and one of the entities listed in Note 6. Dollar Land applied for and was accepted into the New York State Empire Zone program, which entitled its members to obtain a Qualified Empire Zone Enterprise ("QEZE") credit against their New York State income taxes based on property tax payments made under the Payment-in-Lieu-of-Taxes ("PILOT") program. In April 2009, the State of New York issued QEZE Certification, allowing the Dollar Land members to claim a refundable tax credit equal to 75% of the PILOT amount for ten years through 2018. Merchants' share of the QEZE credit for 2016 and 2015 was $1,141,711 and $1,113,169, respectively.

12 - INCOME TAXES (Continued)

Components of deferred tax assets and liabilities are as follows:

	December 31,			
	2016		2015	
	Components	Tax Effect	Components	Tax Effect
Deferred tax assets				
Allowance for doubtful accounts	$ 449,744	$ 191,376	$ 377,859	$ 158,868
Prepaid rent	269,268	114,412	317,606	133,300
Other	1,062,509	441,271	321,456	121,789
	1,781,521	747,059	1,016,921	413,957
Deferred tax liabilities				
Unrealized gain on marketable securities	35,733,669	12,866,444	33,874,413	12,196,674
Depreciation and amortization	6,819,956	1,350,728	8,448,159	2,267,563
Deferred gain on disposal of rental Property	17,500,627	7,436,015	9,169,454	3,848,420
Deferred revenue*	13,472,944	5,728,109	12,395,574	5,205,878
Tangible property regulation	6,155,151	2,619,940	5,700,099	2,396,946
Other	2,241,093	953,487	1,033,546	435,032
	81,923,440	30,954,723	70,621,245	26,350,513
Net deferred tax liability	$ 80,141,919	$ 30,207,664	$ 69,604,324	$ 25,936,556

*Includes revenue from straight-lining of rents pursuant to ASC Topic 840, "Leases", for various properties. For the years ended December 31, 2016 and 2015, deferred revenue of $2,327,711 and $2,102,097, respectively, applies to Dollar Land Associates LLC. For the years ended December 31, 2016 and 2015, deferred revenue of $9,322,629 and $8,935,626, respectively, applies to Joseph E. Marx Co. Inc.

Components of deferred tax assets and liabilities include book to tax differences arising from investments in real estate ventures.

13 - RELATED PARTY TRANSACTIONS

The Company manages various properties and several entities through which investments in real estate ventures are held. Management fees, leasing commissions, supervisory and other miscellaneous fees earned from related parties for the years ended December 31, 2016 and 2015 were $2,062,601 and $1,619,693, respectively.

The amount due from related parties for management fees, leasing commissions, supervisory fees and other charges at December 31, 2016 and 2015 was $1,436,268 and $1,414,721, respectively. These amounts are noninterest-bearing and due on demand.

13 - RELATED PARTY TRANSACTIONS (Continued)

Loans to employees for the purchase of membership interests in certain subsidiaries totaling $379,772 and $1,039,297 at December 31, 2016 and 2015, respectively, are included in receivables from employees on the accompanying consolidated balance sheets. The loans bear interest at 6%, and any unpaid balance, including accrued interest, is due within 12 months of termination of employment with the Company. The loans to employees are collateralized by the employees' respective ownership interest in these subsidiaries.

14 - STOCK-BASED COMPENSATION

The chief executive officer ("CEO") of the Company, as part of his employment agreement further discussed in Note 16, was eligible to receive five annual retention awards of no less than 160 shares of the Company's common stock, on each May 24 through 2018. The employment agreement was terminated in November 2016 upon the CEO's resignation. The CEO received 100 shares and 160 shares of the Company's stock in 2016 and 2015, respectively. The Company repurchased 420 shares held by the CEO for a total consideration of $836,220.

In 2009 and 2013, the Company reissued shares of treasury stock to be used as incentive awards for the CEO. Since the Company's stock is not actively traded, management estimated the fair value of stock awards granted in 2016 and 2015 to be $2,004 and $1,720 per share, respectively, based on the weighted average market price over a period of time. Stock-based compensation totaled $200,400 and $275,200 during 2016 and 2015, respectively.

The balance of the reissued shares of treasury stock was recorded as unearned compensation in the equity section of the Company's consolidated balance sheets until the shares were granted. In connection with the resignation of the CEO in 2016, the balance of the unearned compensation was reclassed to treasury stock.

15 - RETIREMENT PLAN

The Company makes matching contributions to a retirement plan equivalent to 50% of participants' contributions, not to exceed 2% of such employees' base compensation, or the Internal Revenue Code imposed maximum of $5,300 per year. The Company's matching contributions for the years ended December 31, 2016 and 2015 were $28,814 and $32,789, respectively.

16 - COMMITMENTS AND CONTINGENCIES

Guarantees and Indemnification

The Company has signed limited suretyship and guarantee agreements with the mortgagees of three investees which own rental real properties securing mortgages totaling $22,600,000 at December 31, 2016 and with two investees totaling $7,600,000 at December 31, 2015. In addition, the Company has provided indemnification for any environmental issues to the lenders of these investees. In 2017, one of the property held by an investee was sold and the mortgage of $3,500,000 was repaid.

Lease

The Company leases office space from 708 Third Avenue Holdings, LLC, in which it has an investment. The lease expires on June 30, 2028. Minimum rental expense under this lease as of December 31, 2016 is as follows:

Year Ending December 31,	
2017	$ 191,393
2018	191,393
2019	203,921
2020	204,746
2021	204,746
Thereafter	1,512,648
	$ 2,508,847

Employment Agreement

The Company had a five-year employment agreement with its CEO ending in May 2018, which was terminated in November 2016 upon the CEO's resignation. Pursuant to the agreement the Company agreed to pay a base annual salary of $475,000, with an annual consumer price index increase capped at 3% per year, and a guaranteed minimum bonus of $163,000. The CEO was also entitled to receive restricted shares of the Company's stock, as discussed in Note 14. During 2016, the Company paid a base salary of approximately $445,000 and a bonus of $483,000 pursuant to the employment agreement. During 2015, the Company paid a base salary of approximately $499,700 and a bonus of $300,000 pursuant to the employment agreement.

16 - COMMITMENTS AND CONTINGENCIES (Continued)

Employment Agreement (Continued)
In addition, when the Company enters into new investments, as defined in the employment agreement, the CEO was required to make a personal investment at the level of 5% of the Company's investment. The funds for the CEO's personal investments would be loaned by the Company on a non-recourse basis, with interest at 6% a year, using the acquired equity as collateral. In 2016, all loans receivable from the CEO were paid off upon his resignation.

Capital Calls and Investment Funding
In the normal course of business, the Company may be required to fund capital calls from its investees.

Tax Examinations
Merchants is currently undergoing an Internal Revenue Service audit for 2014. The outcome of the examination has yet to be determined.

Litigation
In the normal course of business, the Company is a party to various legal claims, actions and complaints relating to its real estate activities. Management does not expect that the results of any of these proceedings will have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.