Esquire® Financial Holdings, Inc.

2016 Annual Report

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BUSINESS OF THE COMPANY

We are a bank holding company headquartered in Jericho, New York and registered under the BHC Act. Through our wholly owned bank subsidiary, Esquire Bank, National Association, we are a full service commercial bank dedicated to serving the financial needs of the legal and small business communities on a national basis, as well as commercial and retail customers in the New York metropolitan market. We offer tailored products and solutions to the legal community and their clients as well as dynamic and flexible merchant services solutions to small business owners, both on a national basis. We also offer traditional banking products for businesses and consumers in our local market area (a subset of the New York metropolitan market). We believe these activities, primarily anchored by our legal community focus, generate a stable source of low cost core deposits and a diverse asset base to support our overall operations. Our commercial and consumer loans tailored to the litigation market enhance our overall yield on our loan portfolio, enabling us to earn attractive risk-adjusted net interest margins. Additionally, our merchant processing activities generate a relatively stable source of fee income. We believe our unique and dynamic business model distinguishes us from other banks and non-bank financial services companies in the markets in which we operate as demonstrated by comparing our performance metrics for the years ended 2016 and 2015.

For the years ended December 31, 2016 and 2015:

- Our net income increased 140.8% to $2.8 million or $0.55 per diluted share.
- We had a net interest margin of 4.25%, an increase from 3.74%, stabilized by a low cost of funds of 0.15% on our deposits.
- Our loans increased 24.1%, or $54.1 million, to $278.6 million, with no non-performing loans and solid asset quality metrics.
- Our noninterest income increased 40.2% to $4.1 million, which represented 20.9% of our total revenue at December 31, 2016, primarily driven by our merchant services platform.
- As of December 31, 2016, our total assets, loans, deposits and stockholders' equity totaled $424.8 million, $278.6 million, $370.8 million and $52.2 million, respectively.

On June 30, 2017, we closed our initial public offering ("IPO") and our stock now trades on the NASDAQ Capital Markets under the symbol ESQ. The aggregate net proceeds to Esquire Financial from its initial public offering, including the over-allotment shares that closed on July 20, 2017, after deducting the underwriting discount and estimated offering expenses, are approximately $26.3 million. We intend to use the net proceeds of the offering to support the growth in Esquire Bank's loan portfolio, including the possibility of making larger loans due to our increased legal lending limit, to finance potential strategic acquisitions to the extent such opportunities arise and for other general corporate purposes, which could include other growth initiatives.

Additionally, both 2015 and 2016 were transformational years for the Company due in part to the successful execution of our unique and dynamic business model. We believe our ongoing commitment to the litigation and small business communities have been, and should continue to be, the foundation for our success. In August 2015, we closed our private placement offering of our common stock and preferred stock that began in 2014, raising net proceeds of $17.2 million and successfully converted Esquire Financial Holdings, Inc. and Esquire Bank from a savings and loan holding company and savings bank to a bank holding company and national bank, respectively. We believe that the additional capital, coupled with the conversion to a national bank, has and should continue to enhance our commercial loan growth in the legal industry and business communities we serve.

We remain true to our commitment to serve the litigation community and our commercial customers through our tailored and innovative products and solutions. We believe Esquire Bank's approach to the legal community is simple yet effective — we listen to the customer's needs and tailor products and services around those needs. Our management team includes attorneys and bankers who have serviced the legal community throughout their careers, which is a differentiating factor and key to our robust attorney network. This model continues to set us apart from other institutions that offer a "one product fits all" model. Our relationships within the litigation community are a key contributor to our loan growth, strong loan yields, and low cost core deposits. The litigation community represented more than 70% of our deposit base at March 31, 2017. In addition to our lending activities, we have also remained steadfast in growing our merchant services

platform. We provide dynamic and flexible merchant services solutions to small business owners. Our merchant services platform has grown to approximately 13,000 small businesses at December 31, 2016, which generated most of our noninterest income and represented 20.9% of our revenue for the year ended December 31, 2016. We believe merchant services represents a significant opportunity for future growth in fee income, core deposits and enhanced lending opportunities.

Our low cost core deposits (deposits, excluding time deposits), representing our primary funding source for loan growth, totaled $346.8 million at December 31, 2017 resulting in a total cost of deposits of 0.16%. These stable low cost funds are driven by our attorney operating and escrow deposits, representing more than 70% of our total deposit base at December 31, 2017. We intend to continue to prudently manage growth in deposits, utilizing customer sweep programs for our mass tort and class action business banking programs. We do not have traditional “brick and mortar” branches to support our deposit growth. Instead, we rely on our robust attorney network to gather deposits and our customers utilize on-line cash management technology to manage their operating and escrow accounts as well as their business banking needs across the country. We believe the lack of branch infrastructure coupled with our strong net interest margin and growth will continue to drive our efficiency ratio below the 74% reported for the year ended December 31, 2017.

Esquire Bank was originally chartered in 2006. Esquire Financial Holdings, Inc. became our holding company in 2010. Our principal executive offices are located at 100 Jericho Quadrangle, Suite 100, Jericho, New York 11753, and our telephone number at that address is (800) 996-0213.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following tables set forth certain information concerning the consolidated financial position, consolidated data from operations and performance ratios of the Company at the dates and for the years indicated.

	At December 31,		
	2016	2015	2014
	(Dollars in thousands, except share and per share data)		
Balance Sheet Data:			
Total assets	$ 424,833	$ 352,650	$ 330,690
Cash and cash equivalents	42,993	33,154	71,891
Securities available-for-sale	92,645	84,239	70,925
Loans receivable, net	275,165	221,720	170,512
Restricted stock	1,649	1,430	237
Deposits	370,788	301,687	290,774
Secured borrowings	371	381	391
Total stockholders' equity	52,186	49,425	38,542
Income Statement Data:			
Interest income	$ 16,168	$ 12,451	$ 10,714
Interest expense	511	457	466
Net interest income	15,657	11,994	10,248
Provision for loan losses	595	930	300
Net interest income after provision for loan losses	15,062	11,064	9,948
Noninterest income	4,125	2,943	1,765
Noninterest expense	14,599	12,171	11,262
Income before income tax expense	4,588	1,836	451
Income tax expense	1,766	664	410
Net income	2,822	1,172	41
Less: Preferred stock dividends	—	—	—
Net income available to common stockholders	$ 2,822	$ 1,172	$ 41
Per Share Data:			
Earnings per common share:			
Basic	$ 0.56	$ 0.25	$ 0.01
Diluted	$ 0.55	$ 0.25	$ 0.01
Book value per common share(1)	$ 10.29	$ 9.72	$ 8.98
Tangible book value per common share(2)	$ 10.29	$ 9.72	$ 8.98

Selected Performance Ratios:

Return on average assets	0.74%	0.36%	0.01%
Net interest margin	4.25%	3.74%	3.86%
Efficiency ratio	73.80%	81.48%	93.75%
Efficiency ratio, adjusted(3)	73.82%	81.48%	94.94%
Allowance for loan losses to total loans	1.23%	1.25%	1.25%
Nonperforming loans to total loans(4) `	0.00%	0.00%	0.00%

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(1) For purposes of computing book value per common share, book value equals total common stockholders' equity.
(2) The Company had no intangible assets as of the dates indicated. Thus, tangible book value per common share is the same as book value per common share for each of the periods indicated.
(3) Efficiency ratio represents noninterest expenses, divided by the sum of net interest income plus noninterest income. With respect to efficiency ratio, adjusted, noninterest income excludes gains or losses on sale of investment securities. This is a non-GAAP financial measure. See "Non-GAAP Financial Measure Reconciliation" below for a reconciliation of this measure to its most comparable GAAP measure.
(4) Nonperforming loans include nonaccrual loans, loans past due 90 days and still accruing interest and loans modified under troubled debt restructurings.

Non-GAAP Financial Measure Reconciliation

The efficiency ratio is a non-GAAP measure of expense control relative to recurring revenue. We calculate the efficiency ratio by dividing total noninterest expenses as determined under GAAP, and total noninterest income as determined under GAAP, but excluding net gains on securities from this calculation and other non-recurring income sources, if applicable, which we refer to below as recurring revenue. We believe that this provides one reasonable measure of core expenses relative to core revenue.

We believe that this non-GAAP financial measure provides information that is important to investors and that is useful in understanding our financial position, results and ratios. However, this non-GAAP financial measure is supplemental and is not a substitute for an analysis based on GAAP measures. As other companies may use different calculations for this measure, this presentation may not be comparable to other similarly titled measures by other companies.

	At December 31,		
	2016	2015	2014
Efficiency Ratio:			
Net interest income	$ 15,657	$ 11,994	$ 10,247
Noninterest income	4,125	2,943	1,766
Less: Net gains on sales of securities	6	—	151
Adjusted revenue	$ 19,776	$ 14,937	$ 11,862
Total noninterest expense	14,599	12, 171	11,262
Efficiency ratio	73.82%	81.48%	94.94%

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

Our profitability is highly dependent on our net interest income, which is the difference between our interest income on interest earning assets, such as loans and securities, and our interest expense on interest bearing liabilities, such as deposits and borrowed funds. Additionally, we also obtain a significant portion of noninterest income through our merchant services business.

Our net income increased $1.7 million, or 140.8%, to $2.8 million for the year ended December 31, 2016 from $1.2 million for the year ended December 31, 2015. The increase was due to an increase in net interest income and merchant processing income. The increase in net interest income was caused by an increase in interest and fees on loans, which increased $3.5 million, or 32.8%, to $14.1 million for the year ended December 31, 2016 from $10.6 million for the year ended December 31, 2015. This increase was due to our continued success in growing 1-4 family residential, multifamily, commercial real estate loans, construction, commercial loans and consumer loans.

Noninterest income increased $1.2 million, or 40.2%, to $4.1 million for the year ended December 31, 2016 from $2.9 million for the year ended December 31, 2015. The increase in noninterest income was primarily from growth in our merchant services business. Merchant processing income increased by $737,000 or 33.5% to $2.9 million for the year ended December 31, 2016 from $2.2 million for the year ended December 31, 2015. Customer related fees and service charges also increased $439,000 or 59.2% to $1.2 million for the year ended December 31, 2016 from $741,000 for the year ended December 31, 2015.

Our provision for loan losses was $595,000 for the year ended December 31, 2016 compared to $930,000 for the year ended December 31, 2015. The provision recorded resulted in an allowance for loan losses of $3.4 million, or 1.23% of total loans at December 31, 2016, compared to $2.8 million, or 1.25% of total loans at December 31, 2015. The decreases in the allowance for loan losses as a percentage of loans resulted primarily from changes in our loan portfolio composition.

Our net income increased $1.1 million to $1.2 million for the year ended December 31, 2015 from $41,000 for the year ended December 31, 2014. The increase was due to an increase in net interest income and merchant processing income, partially offset by a decrease in gain on sales of securities and an increase in the provision for loan losses. The increase in net interest income was caused by an increase in interest and fees on loans, which increased $1.7 million, or 19.2%, to $10.6 million for the year ended December 31, 2015 from $8.9 million for the year ended December 31, 2014. This increase was due to our continued success in growing 1-4 family residential, multifamily, commercial real estate loans, construction, commercial loans and consumer loans.

Noninterest income increased $1.2 million, or 66.7%, to $2.9 million for the year ended December 31, 2015 from $1.8 million for the year ended December 31, 2014. The increase in noninterest income was primarily from growth in our merchant services business. Merchant processing income increased by $1.1 million or 92.7% to $2.2 million for the year ended December 31, 2015 from $1.1 million for the year ended December 31, 2014. The increase in merchant processing income was primarily due to growth in the business, as average monthly volumes increased to $305.4 million for 2016 compared to $263.6 million for 2015. Gains on sales of securities decreased $151,000 for the year ended December 31, 2015 from the year ended December 31, 2014. We did not sell any securities during the year ended December 31, 2015.

Our provision for loan losses was $930,000 for the year ended December 31, 2015 compared to $300,000 for the year ended December 31, 2014. The higher provision for loan loss was a result of the growth in the loan portfolio and related impact to the allowance for loan losses.

Critical Accounting Policies

A summary of our accounting policies is described in Note 1 to the consolidated financial statements included in this prospectus. Critical accounting estimates are necessary in the application of certain accounting policies and

procedures and are particularly susceptible to significant change. Critical accounting policies are defined as those involving significant judgments and assumptions by management that could have a material impact on the carrying value of certain assets or on income under different assumptions or conditions. Management believes that the most critical accounting policies, which involve the most complex or subjective decisions or assessments, are as follows:

Allowance for Loan Losses. The allowance for loan losses is a valuation allowance for probable incurred credit losses. The allowance for loan losses is increased by provisions for loan losses charged to income. Losses are charged to the allowance when all or a portion of a loan is deemed to be uncollectible. Subsequent recoveries of loans previously charged off are credited to the allowance for loan losses when realized. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired.

Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reason for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

All loans, except for consumer loans, are individually evaluated for impairment. If a loan is impaired, a portion of the allowance is allocated as a specific allowance. The measurement of an impaired loan is based on (i) the present value of expected future cash flows discounted at the loan's effective interest rate, (ii) the loan's observable market price or (iii) the fair value of the collateral if the loan is collateral dependent.

Troubled debt restructurings are separately identified for impairment disclosures and are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a trouble debt restructuring is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral. For troubled debt restructurings that subsequently default, we determine the amount of reserve in accordance with the accounting policy for the allowance for loan losses.

The general component is based on historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the company. This actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations.

We have identified the following loan segments: Commercial Real Estate, Multifamily, Construction, Commercial, 1-4 Family Residential and Consumer. The risks associated with a concentration in real estate loans include potential losses from fluctuating values of land and improved properties. Commercial Real Estate and Multifamily loans are expected to be repaid from the cash flow of the underlying property so the collective amount of rents must be sufficient to cover all operating expenses, property management and maintenance, taxes and debt service. Increases in vacancy rates, interest rates or other changes in general economic conditions can all have an impact on the borrower and their ability to repay the loan. Construction loans are considered riskier than commercial financing on improved and established commercial real estate. The risk of potential loss increases if the original cost estimates or time to complete are significantly off. The remainder of the loan portfolio is comprised of commercial and consumer loans. The primary

risks associated with the commercial loans are the cash flow of the business, the experience and quality of the borrowers' management, the business climate, and the impact of economic factors. The primary risks associated with residential real estate and consumer loans relate to the borrower, such as the risk of a borrower's unemployment as a result of deteriorating economic conditions or the amount and nature of a borrower's other existing indebtedness, and the value of the collateral securing the loan if the bank must take possession of the collateral.

Although management uses available information to recognize losses on loans, because of uncertainties associated with local economic conditions, collateral values and future cash flows on impaired loans, it is reasonably possible that a material change could occur in the allowance for loan losses in the near term. However, the amount of the change that is reasonably possible cannot be estimated. The evaluation of the adequacy of loan collateral is often based upon estimates and appraisals. Because of changing economic conditions, the valuations determined from such estimates and appraisals may also change. Accordingly, we may ultimately incur losses that vary from management's current estimates. Adjustments to the allowance for loan losses will be reported in the period such adjustments become known or can be reasonably estimated. All loan losses are charged to the allowance for loan losses when the loss actually occurs or when the collectability of the principal is unlikely. Recoveries are credited to the allowance at the time of recovery.

Income Taxes. Income taxes are provided for 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 of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred taxes of a change in tax rates is recognized in income in the period the change occurs. Deferred tax assets are reduced, through a valuation allowance, if necessary, by the amount of such benefits that are not expected to be realized based on current available evidence.

A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. The Company recognizes interest and/or penalties related to income tax matters in income tax expense.

Emerging Growth Company. Pursuant to the JOBS Act, an emerging growth company is provided the option to adopt new or revised accounting standards that may be issued by the Financial Accounting Standards Board ("FASB") or the SEC either (i) within the same periods as those otherwise applicable to non-emerging growth companies or (ii) within the same time periods as private companies. We have irrevocably elected to adopt new accounting standards within the public company adoption period.

Although we are still evaluating the JOBS Act, we may take advantage of some of the reduced regulatory and reporting requirements that are available to it so long as we qualify as an emerging growth company, including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404(b) of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation, and exemptions from the requirements of holding non-binding advisory votes on executive compensation and golden parachute payments.

Discussion and Analysis of Financial Condition

Assets. Our total assets were $424.8 million at December 31, 2016, an increase of $72.2 million from $352.7 million at December 31, 2015. The increase was primarily due to an increase in net loans of $53.4 million, or 24.1%, and an increase in cash and cash equivalents of $9.8 million.

Our total assets increased $22.0 million, or 6.6%, to $352.7 million at December 31, 2015 from $330.7 million at December 31, 2014. The increase resulted primarily from an increase in net loans and securities, partially offset by decreases in cash and cash equivalents.

Cash and Cash Equivalents. Cash and cash equivalents increased $9.8 million, or 29.7%, to $43.0 million at December 31, 2016 from $33.1 million at December 31, 2015.

Cash and cash equivalents decreased $38.8 million, or 53.9%, to $33.1 million at December 31, 2015 from $71.9 million at December 31, 2014. The decrease in cash and cash equivalents resulted from our using excess liquidity at December 31, 2014 to fund loan growth and investments in securities.

Loan Portfolio Analysis. At December 31, 2016, net loans were $275.2 million, or 64.8% of total assets, compared to $221.7 million, or 62.9% of total assets, at December 31, 2015. Commercial loans increased $22.5 million, or 26.9%, to $106.1 million at December 31, 2016 from $83.6 million at December 31, 2015. Multifamily loans increased $12.2 million, or 17.2%, to $83.4 million at December 31, 2016 from $71.2 million at December 31, 2015. Consumer loans decreased $3.0 million or 22.0%, to $10.6 million at December 31, 2016 from $13.6 million at December 31, 2015. 1-4 family residential loans increased $21.1 million, or 73.8%, to $49.6 million at December 31, 2016 from $28.5 million at December 31, 2015. Construction loans also increased by $313,000, or 5.9%, to $5.6 million at December 31, 2016 from $5.3 million at December 31, 2015. Commercial real estate loans increased by $926,000, or 4.4%, to $22.2 million at December 31, 2016 from $21.3 million at December 31, 2015.

At December 31, 2015, net loans were $221.7 million, or 62.9% of total assets, compared to $170.5 million, or 51.6% of total assets at December 31, 2014. Commercial loans increased $17.9 million, or 27.3%, to $83.6 million at December 31, 2015 from $65.6 million at December 31, 2014. Multifamily loans increased $12.6 million or 21.5% to $71.2 million at December 31, 2015 from $58.6 million at December 31, 2014. Commercial real estate loans increased $7.5 million, or 54.4%, to $21.3 million at December 31, 2015 from $13.8 million at December 31, 2014. 1-4 family residential loans increased $5.5 million or 23.7% to $28.5 million at December 31, 2015 from $23.1 million at December 31, 2014. Construction loans also increased by $4.2 million to $5.3 million at December 31, 2015 from $1.1 million at December 31, 2014. Consumer loans increased by $4.0 million or 41.9% to $13.6 million at December 31, 2015 from $9.6 million at December 31, 2014.

Loan Portfolio Composition. The following table sets forth the composition of our loan portfolio by type of loan at the dates indicated.

	At December 31,					
	2016		2015		2014	
	Amount	Percent	Amount	Percent	Amount	Percent
			(Dollars in thousands)			
Real estate:						
1-4 family residential	$ 49,597	17.88%	$ 28,531	12.77%	$ 23,072	13.44%
Multifamily	83,410	30.06	71,184	31.86	58,578	34.11
Commercial real estate	22,198	8.00	21,272	9.52	13,776	8.02
Construction	5,610	2.02	5,297	2.38	1,105	0.65
Total real estate	160,815	57.96	126,284	56.53	96,531	56.22
Commercial	106,064	38.23	83,563	37.40	65,643	38.22
Consumer	10,571	3.81	13,556	6.07	9,556	5.56
Total Loans	$ 277,450	100.00%	$ 223,403	100.00%	$ 171,730	100.00%
Allowance for loan losses	(3,413)		(2,799)		(2,165)	
Deferred loan costs, net	1,128		1,116		947	
Loans, net	$ 275,165		$ 221,720		$ 170,512	

	At December 31,			
	2013		2012	
	Amount	Percent	Amount	Percent
	(Dollars in thousands)			
Real estate:				
1-4 family residential	$ 13,757	9.22%	$ 10,879	8.45%
Multifamily	54,702	36.66	46,082	35.79
Commercial real estate	8,016	5.37	8,304	6.45
Construction	6,693	4.49	4,886	3.80
Total real estate	83,168	55.74	70,151	54.49
Commercial	60,833	40.77	53,928	41.88
Consumer	5,208	3.49	4,679	3.63
Total Loans	$ 149,209	100.00%	$ 128,758	100.00%
Allowance for loan losses	(1,865)		(1,855)	
Deferred loan costs, net	(27)		(501)	
Loans, net	$ 147,317		$ 126,402	

Loan Maturity. The following table sets forth certain information at December 31, 2016 regarding the contractual maturity of our loan portfolio. Demand loans, loans having no stated repayment schedule or maturity, and overdraft loans are reported as being due in one year or less. The table does not include any estimate of prepayments that could significantly shorten the average life of all loans and may cause our actual repayment experience to differ from that shown below.

December 31, 2016	1-4 Family Residential	Multifamily	Commercial Real Estate	Construction	Commercial	Consumer	Total
				(In thousands)			
Amounts due in:							
One year or less	$ 8,725	$ 21,578	$ —	$ 1,580	$ 92,288	$ 8,921	$ 133,092
More than one to five years	30,478	38,782	13,920	4,030	13,776	1,302	102,288
More than five to ten years	7,456	13,701	5,338	—	—	348	26,843
More than ten years	2,938	9,349	2,940	—	—	—	15,227
Total	$ 49,597	$ 83,410	$ 22,198	$ 5,610	$ 106,064	$ 10,571	$ 277,450

The following table sets forth fixed and adjustable-rate loans at December 31, 2016 that are contractually due after December 31, 2017.

	Due After December 31, 2017		
	Fixed	Adjustable	Total
		(In thousands)	
Real estate			
1-4 family residential	$ 40,586	$ 286	$ 40,872
Multifamily	53,702	8,130	61,832
Commercial real estate	18,437	3,762	22,199
Construction	4,030	—	4,030
Commercial	988	12,788	13,776
Consumer	1,649	—	1,649
Total	$ 119,392	$ 24,966	$ 144,358

At December 31, 2016, $30.7 million, or 22.5% of our adjustable interest rate loans were at their interest rate floor.

Delinquent Loans. The following tables set forth our loan delinquencies, including non-accrual loans, by type and amount at the dates indicated.

	At December 31, 2016			At December 31, 2015			At December 31, 2014		
	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due
	(Dollars in thousands)								
1-4 family residential	$ 203	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Multifamily	—	—	—	—	—	—	—	—	—
Commercial real estate	—	—	—	—	—	—	—	—	—
Construction	—	—	—	—	—	—	—	—	—
Commercial	—	—	—	—	—	—	—	2,100	—
Consumer	—	—	—	—	—	—	—	—	—
Total	$ 203	$ —	$ —	$ —	$ —	$ —	$ —	$ 2,100	$ —

	At December 31, 2013			At December 31, 2012		
	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due
	(Dollars in thousands)					
1-4 family residential	$ —	$ —	$ —	$ —	$ —	$ —
Multifamily	—	843	—	336	—	264
Commercial real estate	—	685	—	—	—	—
Construction	—	—	634	—	—	—
Commercial	—	—	—	—	—	—
Consumer	—	—	—	—	—	—
Total	$ —	$ 1,528	$ 634	$ 336	$ —	$ 264

Non-performing Assets.

Non-performing assets include loans that are 90 or more days past due or on non-accrual status, including troubled debt restructurings on non-accrual status, and real estate and other loan collateral acquired through foreclosure and repossession. Troubled debt restructurings include loans for economic or legal reasons related to the borrower's financial difficulties, for which we grant a concession to the borrower that we would not consider otherwise. Loans 90 days or greater past due may remain on an accrual basis if adequately collateralized and in the process of collection. At December 31, 2016, we did not have any accruing loans past due 90 days or greater or troubled debt restructurings. For non-accrual loans, interest previously accrued but not collected is reversed and charged against income at the time a loan is placed on non-accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Real estate that we acquire as a result of foreclosure or by deed-in-lieu of foreclosure is classified as foreclosed real estate until it is sold. When property is acquired, it is initially recorded at the fair value less costs to sell at the date of foreclosure, establishing a new cost basis. Holding costs and declines in fair value after acquisition of the property result in charges against income. We have not had any foreclosed assets for the periods presented.

The following table sets forth information regarding our non-performing assets at the dates indicated.

	At December 31,				
	2016	2015	2014	2013	2012
	(Dollars in thousands)				
Non-accrual loans:					
1- 4 family residential	$ —	$ —	$ —	$ —	$ —
Multifamily	—	—	—	—	264
Commercial real estate	—	—	—	—	—
Construction	—	—	—	634	—
Commercial	—	—	—	—	—
Consumer	—	—	—	—	—
Total non-accrual loans	$ —	$ —	$ —	$ 634	$ 264
Other real estate owned	—	—	—	—	—
Loans past due 90 days and still accruing	—	—	—	—	—
Troubled debt restructurings	—	—	—	—	—
Total nonperforming assets	$ —	$ —	$ —	$ 634	$ 264
Total loans [(1)]	$278,578	$224,519	$172,677	$149,182	$128,257
Total assets	$424,833	$352,650	$330,690	$237,580	$222,181
Total non-accrual loans to total loans	—%	—%	—%	0.42%	0.21%
Total non-performing assets to total assets	—%	—%	—%	0.27%	0.12%

(1) Loans are presented before the allowance for loan losses but include deferred fees/costs.

Allowance for Loan Losses.

Please see "–Critical Accounting Policies – Allowance for Loan Losses" for additional discussion of our allowance policy.

The allowance for loan losses is maintained at levels considered adequate by management to provide for probable loan losses inherent in the loan portfolio as of the consolidated balance sheet reporting dates. The allowance for loan losses is based on management's assessment of various factors affecting the loan portfolio, including portfolio composition, delinquent and non-accrual loans, national and local business conditions and loss experience and an overall evaluation of the quality of the underlying collateral.

The following table sets forth activity in our allowance for loan losses for the periods indicated.

	For the years ended December 31,				
	2016	2015	2014	2013	2012
	(Dollars in thousands)				
Allowance at beginning of year	$ 2,799	$ 2,165	$ 1,865	$ 1,855	$ 670
Provision for loan losses	595	930	300	60	1,255
Charge-offs:					
1-4 family residential	—	—	—	—	—
Multifamily	—	—	—	39	70
Commercial real estate	—	—	—	—	—
Construction	—	—	—	12	—
Commercial	—	296	—	—	—
Consumer	7	—	—	—	—
Total charge-offs	7	296	—	51	70
Recoveries:					
1-4 family residential	—	—	—	—	—
Multifamily	—	—	—	1	—
Commercial real estate	—	—	—	—	—
Construction	—	—	—	—	—
Commercial	26	—	—	—	—
Consumer	—	—	—	—	—
Total recoveries	26	—	—	1	—
Allowance at end of year	$ 3,413	$ 2,799	$ 2,165	$ 1,865	$ 1,855
Nonperforming loans at end of period	$ —	$ —	$ —	$ 634	$ 264
Total loans outstanding at end of period[(1)]	$278,578	$224,519	$172,677	$149,182	$128,257
Average loans outstanding during the period[(1)]	$248,068	$187,317	$147,330	$134,748	$109,875
Allowance for loan losses to non-performing loans	N/A	N/A	N/A	294.16%	702.65%
Allowance for loan losses to total loans at end of the period[(1)]	1.23%	1.25%	1.25%	1.25%	1.45%
Net charge-offs to average loans outstanding during the period	(0.01)%	0.16%	0.00%	0.04%	0.06%

(1) Loans are presented before the allowance for loan losses but include deferred fees/costs.

Allocation of Allowance for Loan Losses. The following tables set forth the allowance for loan losses allocated by loan category. The allowance for loan losses allocated to each category is not necessarily indicative of future losses in any particular category and does not restrict the use of the allowance to absorb losses in other categories.

	At December 31,					
	2016		2015		2014	
	Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans	Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans	Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans
	(Dollars in thousands)					
1-4 family residential	$ 360	17.88%	$ 213	12.77%	$ 162	13.44%
Multifamily	621	30.06	533	31.86	528	34.11
Commercial real estate	238	8.00	230	9.52	97	8.02
Construction	141	2.02	134	2.38	27	0.65
Commercial	1,934	38.23	1,536	37.40	1,222	38.22
Consumer	119	3.81	153	6.07	129	5.56
Total allocated allowance	$ 3,413	100.00%	$ 2,799	100.00%	$ 2,165	100.00%

	At December 31,			
	2013		2012	
	Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans	Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans
	(Dollars in thousands)			
1-4 family residential	$ 60	9.22%	$ 61	8.45%
Multifamily	536	36.66	549	35.79
Commercial real estate	115	5.37	119	6.45
Construction	98	4.49	115	3.80
Commercial	960	40.77	946	41.88
Consumer	96	3.49	65	3.63
Total allocated allowance	$ 1,865	100.00%	$ 1,855	100.00%

The allowance for loan losses as a percentage of loans was 1.23%, 1.25%, and 1.25% as of December 31, 2016, 2015 and 2014, respectively. The decrease in the allowance percentage from 2016 to 2015 was primarily due to changes in the composition of the loan portfolio.

The allowance consists of general and allocated components. The general component relates to pools of non-impaired loans and is based on historical loss experience adjusted for qualitative factors. The allocated component relates to loans that are classified as impaired, whereby an allowance is established when the discounted cash flows, collateral value or observable market price of the impaired loan is lower than the carrying value of that loan.

A loan is considered impaired when, based on current information and events, it is probable that we will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by us in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. We determine the significance of payment delays and payment shortfalls on case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. The measurement of an impaired loan is based on (i) the present value of expected future cash flows discounted at the loan's effective interest rate, (ii) the loan's observable market price or (iii) the fair value of the collateral if the loan is collateral dependent.

We had no impaired loans at December 31, 2016, December 31, 2015 and December 31, 2014.

All loans except for consumer loans are individually evaluated for impairment.

Troubled debt restructurings are separately identified for impairment disclosures and are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a troubled debt restructuring is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral. For troubled debt restructurings that subsequently default, we determine the amount of reserve in accordance with the accounting policy for the allowance for loan losses.

Interest income on mortgage and commercial loans is discontinued at the time the loan is 90 days delinquent unless the loan is well-secured and in process of collection. Consumer loans are typically charged off no later than 120 days past due. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. Nonaccrual loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans. A loan is moved to non-accrual status in accordance with our loan policy, typically after 90 days of non-payment.

All interest accrued but not received for loans placed on nonaccrual is reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Although we believe that we use the best information available to establish the allowance for loan losses, future adjustments to the allowance for loan losses may be necessary and our results of operations could be adversely affected if circumstances differ substantially from the assumptions used in making the determinations. Furthermore, while we believe we have established our allowance for loan losses in conformity with generally accepted accounting principles in the United States of America, there can be no assurance that regulators, in reviewing our loan portfolio, will not require us to increase our allowance for loan losses. In addition, because future events affecting borrowers and collateral cannot be predicted with certainty, there can be no assurance that the existing allowance for loan losses is adequate or that increases will not be necessary should the quality of any loans deteriorate as a result of the factors discussed above. Any material increase in the allowance for loan losses may adversely affect our financial condition and results of operations.

Securities Portfolio

The following table sets forth the amortized cost and estimated fair value of our available-for-sale securities portfolio at the dates indicated. Our securities portfolio has decreased in recent years as we have used excess cash to fund our loan growth instead of re-investing the proceeds in investment securities.

	At December 31,					
	2016		2015		2014	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)					
Government agency debentures	$ —	$ —	$ 4,064	$ 4,001	$ 4,074	$ 3,980
Mortgage backed securities-agency	16,417	16,012	17,445	17,147	17,884	17,709
Collateralized mortgage obligations-agency	77,677	76,633	63,447	63,091	49,380	49,236
Total	$ 94,094	$ 92,645	$ 84,956	$ 84,239	$ 71,338	$ 70,925

At December 31, 2016 and December 31, 2015, we had no investments in a single company or entity, other than government and government agency securities, which had an aggregate book value in excess of 10% of our equity.

We review the investment portfolio on a quarterly basis to determine the cause, magnitude and duration of declines in the fair value of each security. In estimating other-than-temporary impairment (OTTI), we consider many factors including: (1) the length of time and extent that fair value has been less than cost, (2) the financial condition and

near term prospects of the issuer, (3) whether the market decline was affected by macroeconomic conditions, and (4) whether we have the intent to sell the security or more likely than not will be required to sell the security before its anticipated recovery. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: (1) OTTI related to credit loss, which must be recognized in the income statement and (2) OTTI related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. The assessment of whether any other than temporary decline exists may involve a high degree of subjectivity and judgment and is based on the information available to management at a point in time. We evaluate securities for OTTI at least on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation.

At December 31, 2016 and December 31, 2015, securities in unrealized loss positions were issuances from government sponsored entities. Due to the decline in fair value attributable to changes in interest rates and illiquidity, not credit quality and because we do not have the intent to sell the securities and it is likely that it will not be required to sell the securities before their anticipated recovery, we do not consider the securities to be other-than-temporarily impaired at December 31, 2016 and 2015.

No impairment charges were recorded for the years ended December 31, 2016, 2015 and 2014.

Portfolio Maturities and Yields. The composition and maturities of the investment securities portfolio at December 31, 2016, are summarized in the following table. No tax-equivalent yield adjustments have been made, as the amount of tax free interest earning assets is immaterial.

	At December 31, 2016									
	One Year or Less		More Than One Year through Five Years		More Than Five Years Through Ten Years		More Than Ten Years		Total	
	Book Value	Weighted Average Yield	Book Value	Weighted Average Yield	Book Value	Weighted Average Yield	Book Value	Weighted Average Yield	Book Value	Weighted Average Yield
	(Dollars in thousands)									
Government agency debentures	$ —	—%	$ —	—%	$ —	—%	$ —	—%	$ —	—%
Mortgage backed securities-agency	—	—	—	—	—	—	16,417	1.12	16,417	1.12
Collateralized mortgage obligations-agency	—	—	—	—	5,026	2.20	72,651	2.02	77,677	2.03
Total securities available for sale	$ —	—%	$ —	—%	$ 5,026	2.20%	$ 89,068	1.85%	$94,094	1.87%

Deposits

Total deposits increased $69.1 million, or 22.9%, to $370.8 million at December 31, 2016 from $301.7 million at December 31, 2015. We continue to focus on the acquisition and expansion of core deposit relationships, which we define as all deposits except for certificates of deposit. Core deposits totaled $346.8 million at December 31, 2016, or 93.5% of total deposits at that date.

The following tables set forth the distribution of average deposits by account type at the dates indicated.

	For the Year Ended December 31, 2016		
	Average Balance	Percent	Average Rate
	(Dollars in thousands)		
Demand	$ 105,035	32.29%	0.00%
Savings, NOW and Money Market	203,185	62.47%	0.20%
Time	17,041	5.24%	0.42%
Total deposits	$ 325,261	100.00%	0.15%

	For the Years Ended December 31,					
	2015			2014		
	Average Balance	Percent	Average Rate	Average Balance	Percent	Average Rate
	(Dollars in thousands)					
Demand	$ 95,820	33.83%	0.00%	$ 72,202	29.60%	0.00%
Savings, NOW and Money Market	176,892	62.46%	0.20%	158,596	65.02%	0.22%
Time	10,494	3.71%	0.74%	13,107	5.38%	0.70%
Total deposits	$ 283,206	100.00%	0.15%	$ 243,905	100.00%	0.18%

As of December 31, 2016, the aggregate amount of all our certificates of deposit in amounts greater than or equal to $100,000 was approximately $20.2 million. The following table sets forth the maturity of these certificates as of December 31, 2016.

	At December 31, 2016 (In thousands)
Maturing period:	
Three months or less	$ 16,678
Over three months through six months	1,129
Over six months through twelve months	1,619
Over twelve months	751
Total certificates	$ 20,177

Borrowings

At December 31, 2016, we had the ability to borrow a total of $72.8 million from the Federal Home Loan Bank of New York. We also had an available line of credit with the Federal Reserve Bank of New York discount window of $15.6 million. At December 31, 2016, we also had a $3.5 million and $4.0 million line of credit with Atlantic Community Bankers' Bank and Zions Bank, respectively. No amounts were outstanding on any of the aforementioned lines as of December 31, 2016.

At December 31, 2015, we had the ability to borrow a total of $69.4 million from the Federal Home Loan Bank of New York. At December 31, 2015, we also had an available line of credit with the Federal Reserve Bank of New York discount window of $10.8 million. At December 31, 2015, we also had a $3.5 million and $4.0 million line of credit with Atlantic Community Bankers' Bank and Zions Bank, respectively. No amounts were outstanding on any of the aforementioned lines as of December 31, 2015.

Stockholders' Equity

Total stockholders' equity increased $2.8 million, or 5.6%, to $52.2 million at December 31, 2016, from $49.4 million at December 31, 2015. The increase for the year ended December 31, 2016 was primarily due to $2.8 million in net income.

Total stockholders' equity increased $10.9 million, or 28.2%, to $49.4 million at December 31, 2015, from $38.5 million at December 31, 2014. The increase for the year ended December 31, 2015 was due primarily to a $9.8 million capital raise through issuance of stock and $1.2 million in net income, partially offset by a $184,000 increase in accumulated other comprehensive loss due to changes in the fair value of securities available for sale.

Average Balance Sheets and Related Yields and Rates

The following tables present average balance sheet information, interest income, interest expense and the corresponding average yields earned and rates paid for the years ended December 31, 2016, 2015 and 2014. The average balances are daily averages and, for loans, include both performing and nonperforming balances. Interest income on loans includes the effects of discount accretion and net deferred loan origination costs accounted for as yield adjustments.

	Years Ended December 31,								
	2016			2015			2014		
	Average Balance	Interest	Average Yield/Rate	Average Balance	Interest	Average Yield/Rate	Average Balance	Interest	Average Yield/Rate
	(Dollars in thousands)								
INTEREST EARNING ASSETS									
Loans	$ 248,068	$ 14,071	5.67%	$ 187,317	$ 10,594	5.66%	$ 147,330	8,891	6.03%
Securities, includes restricted stock	87,830	1,875	2.13%	78,021	1,713	2.20%	75,282	1,722	2.29%
Interest earning cash	32,849	222	0.68%	55,309	144	0.26%	42,989	101	0.23%
Total interest earning assets	368,747	16,168	4.38%	320,647	12,451	3.88%	265,601	10,714	4.03%
NON-INTEREST EARNING ASSETS									
Cash and due from banks	550			556			2,994		
Other assets	11,397			8,509			8,717		
TOTAL AVERAGE ASSETS	$ 380,694			$ 329,712			$ 277,312		
INTEREST-BEARING LIABILITIES									
Savings, NOW, Money Markets	$ 203,185	414	0.20%	$ 176,892	353	0.20%	$ 158,596	345	0.22%
Time deposits	17,041	72	0.42%	10,494	78	0.74%	13,107	92	0.70%
Total deposits	220,226	486	0.22%	187,386	431	0.23%	171,703	437	0.25%
Secured borrowings	405	25	6.17%	388	26	6.70%	449	29	6.46%
Total borrowings	405	25	6.17%	388	26	6.70%	449	29	6.46%
Total interest-bearing liabilities	220,631	511	0.23%	187,774	457	0.24%	172,152	466	0.27%
NON-INTEREST BEARING LIABILITIES									
Demand deposits	105,035			95,820			72,202		
Other liabilities	2,391			2,008			1,605		
Total liabilities	107,426			97,828			73,807		
Stockholders' equity	52,637			44,110			31,353		
TOTAL AVERAGE LIABILITIES AND EQUITY	$ 380,694			$ 329,712			$ 277,312		
Net interest spread		$ 15,657	4.15%		$ 11,994	3.64%		10,248	3.76%
Net interest margin			4.25%			3.74%			3.86%

The following table presents the dollar amount of changes in interest income and interest expense for major components of interest earning assets and interest bearing liabilities for the periods indicated. The table distinguishes between: (1) changes attributable to volume (changes in volume multiplied by the prior period's rate); (2) changes attributable to rate (change in rate multiplied by the prior year's volume) and (3) total increase (decrease) (the sum of the previous columns). Changes attributable to both volume and rate are allocated ratably between the volume and rate categories.

	For the Year Ended December 31, 2016 vs. 2015		
	Increase (Decrease) due to		Total Increase (Decrease)
	Volume	Rate	
	(Dollars in thousands)		
Interest earned on:			
Loans	$ 3,446	$ 31	$ 3,477
Securities, includes restricted stock	210	(48)	162
Interest earning cash	(77)	155	78
Total interest income	3,579	138	3,717
Interest paid on:			
Savings, NOW, Money Markets	54	7	61
Time deposits	36	(42)	(6)
Total deposits	90	(35)	55
Secured borrowings	1	(2)	(1)
Total interest expense	91	(37)	54
Change in net interest income	$ 3,488	$ 175	$ 3,663

	For the Years Ended December 31, 2015 vs. 2014		
	Increase (Decrease) due to		Total Increase (Decrease)
	Volume	Rate	
	(Dollars in thousands)		
Interest earned on:			
Loans	$ 2,290	$ (587)	$ 1,703
Securities, includes restricted stock	61	(70)	(9)
Interest earning cash	31	12	43
Total interest income	2,382	(645)	1,737
Interest paid on:			
Savings, NOW, Money Markets	38	(30)	8
Time deposits	(19)	5	(14)
Total deposits	19	(25)	(6)
Secured borrowings	(4)	1	(3)
Total interest expense	15	(24)	(9)
Change in net interest income	$ 2,367	$ (621)	$ 1,746

Results of Operations for the Years Ended December 31, 2016 and 2015

General. Net income increased $1.7 million or 140.8%, to $2.8 million for the year ended December 31, 2016 from $1.2 million for the year ended December 31, 2015. The increase resulted from a $3.7 million increase in net interest income and an $1.2 million increase in noninterest income, which were partially offset by a $2.4 million increase in noninterest expense.

Interest Income. Interest income increased $3.7 million or 29.9%, to $16.2 million for the year ended December 31, 2016 from $12.5 million for the year ended December 31, 2015. This was attributable to an increase in interest and fees on loans, which increased $3.5 million, or 32.8%, to $14.1 million for the year ended December 31, 2016 from $10.6 million for the year ended December 31, 2015.

The increase in interest income on loans was due to an increase in average balance of loans of $60.8 million, or 32.4%, to $248.1 million for the year ended December 31, 2016 from $187.3 million for the year ended December 31, 2015. This increase was due to our continued success in growing multifamily loans, commercial real estate loans, commercial loans and consumer loans.

Interest Expense. Interest expense increased $54,000, or 11.8%, to $511,000 for the year ended December 31, 2016 from $457,000 for the year ended December 31, 2015, caused by an increase in average-interest bearing deposits. The average rate we paid on interest bearing deposits decreased 1 basis point to 0.22% for the year ended December 31, 2016 from 0.23% for the year ended December 31, 2015. Our average balance of interest bearing deposits increased $26.3 million, or 14.9%, to $203.2 million for the year ended December 31, 2016 from $176.9 million for the year ended December 31, 2015.

Net Interest Income. Net interest income increased $3.7 million, or 30.5%, to $15.7 million for the year ended December 31, 2016 from $12.0 million for the year ended December 31, 2015. Our net interest rate spread increased 51 basis points to 4.15% for the year ended December 31, 2016 from 3.64% for the year ended December 31, 2015, while our net interest margin increased 51 basis points to 4.25% for the year ended December 31, 2016 from 3.74% for the year ended December 31, 2015. Although the average yield we earned on interest earning assets increased 50 basis points to 4.38%, we were able to decrease the average rate we paid on interest bearing liabilities by 1 basis point to 0.22%.

Provision for Loan Losses. Our provision for loan losses was $595,000 for the year ended December 31, 2016 compared to $930,000 for the year ended December 31, 2015. The provisions recorded resulted in an allowance for loan losses of $3.4 million, or 1.23% of total loans at December 31, 2016, compared to $2.8 million, or 1.25% of total loans at December 31, 2015.

Noninterest Income. Noninterest income information is as follows:

	For the Year Ended December 31,		Change	
	2016	**2015**	**Amount**	**Percent**
	(Dollars in thousands)			
Noninterest income				
Customer related fees and service charges	$ 1,180	$ 741	$ 439	59.2%
Merchant processing income	2,939	2,202	737	33.5
Gains of sales of securities	6	—	6	N/A
Total noninterest income	$ 4,125	$ 2,943	$ 1,182	40.2%

Merchant processing income increased significantly due to significant growth in our business. Average monthly volumes increased to $302.8 million for 2016 compared to $269.2 million for 2015. Customer related fees and charges have increased due to overall increases in the balances and count of our deposit customers.

Noninterest Expense. Noninterest expense information is as follows:

	For the Year Ended December 31,		Change	
	2016	2015	Amount	Percent
	(Dollars in thousands)			
Noninterest expense				
Employee compensation and benefits	$ 8,244	$ 6,251	$ 1,993	31.9%
Occupancy and equipment	1,604	1,412	192	13.6
Professional and consulting services	1,642	1,699	(57)	(3.4)
FDIC assessment	99	245	(146)	(59.6)
Advertising and marketing	430	334	96	28.7
Travel and business relations	324	301	23	7.6
OCC assessments	112	105	7	6.7
Data processing	1,369	1,187	182	15.3
Other operating expenses	775	637	138	21.7
Total noninterest expense	$ 14,599	$ 12,171	$ 2,428	19.9%

Salaries and employee benefits increased for the year ended December 31, 2016 from the year ended December 31, 2015 primarily due to increases in the number of employees, increases in incentive compensation tied to performance and salary increases. Occupancy and equipment expense increased primarily due to write-offs related to the closure of our New York City administrative office.

Income Tax Expense. We recorded an income tax expense of $1.8 million for the year ended December 31, 2016, reflecting an effective tax rate of 38.5%, compared to $664,000, or 36.2%, for the year ended December 31, 2015.

Results of Operations for the Years Ended December 31, 2015 and 2014

General. Net income increased $1.1 million, to $1.2 million for the year ended December 31, 2015 from $41,000 for the year ended December 31, 2014. The increase was due to an increase in net interest income and noninterest income.

Interest Income. Interest income increased $1.7 million, or 16.3%, to $12.5 million for the year ended December 31, 2015 from $10.7 million for the year ended December 31, 2014. This was caused by an increase in interest and fees on loans, which increased $1.7 million, or 19.2%, to $10.6 million for the year ended December 31, 2015 from $8.9 million for the year ended December 31, 2014.

The increase in interest income on loans was due to an increase in the average balance of loans of $40.0 million, or 27.1%, to $187.3 million for the year ended December 31, 2015 from $147.3 million for the year ended December 31, 2014. This increase was due to our continued success in growing residential real estate, multifamily, commercial real estate loans, commercial, and consumer loans. The increase in the average balance of loans was partially offset by a 37 basis point decrease in yield to 5.66% for the year ended December 31, 2015 from 6.03% for the year ended December 31, 2014, due to the continued payoff of higher-yielding loans and our originating new loans in a lower interest rate environment.

Interest on investment securities decreased $9,000 to $1.7 million of the year ended December 31, 2015. An increase in average balance of $2.7 million, or 3.6%, offset a 9 basis point decrease in yield on investment securities to 2.20% during the year ended December 31, 2015 from 2.29% for the year ended December 31, 2014. We have been able to use excess cash to originate loans that provide higher interest rates than the rates we could receive on investment securities.

Interest Expense. Interest expense decreased $9,000, or 1.9%, to $457,000 for the year ended December 31, 2015 from $466,000 for the year ended December 31, 2014, caused by a decrease in interest expense on time deposits. The decrease in interest expense on time deposits is primarily driven by lower average balances which decreased $2.6 million or 19.9% for the year ended December 31, 2015 from December 31, 2014.

Interest expense on deposits was $431,000 and $437,000 for the years ended December 31, 2015 and 2014, respectively. However, our average balance of interest bearing deposits increased $15.7 million, or 9.1%, to $187.4 million for the year ended December 31, 2015 from $171.7 million for the year ended December 31, 2014. The increase resulted from increases in the average balance of all deposit categories, except for time deposits. The increase in our average balance of interest bearing deposits was primarily due to an increase savings, NOW, and money market accounts, which increased $18.3 million, or 11.5%, to $176.9 million for the year ended December 31, 2015 from $158.6 million for the year ended December 31, 2014. However, the average interest rate we paid on savings, NOW and money market accounts 2 basis points to 0.20% for the year ended December 31, 2015 from 0.22% for the year ended December 31, 2014.

Our overall cost of funds for the year ended December 31, 2015 was enhanced by an increase in average non-interest bearing deposits, which increased $23.6 million to $95.8 million for the year ended December 31, 2015 from $72.2 million for the year ended December 31, 2014, as we have been successful in obtaining non-interest bearing deposits from commercial loan customers as well as from our merchant services customers.

Net Interest Income. Net interest income increased $1.8 million, or 17.0%, to $12.0 million for the year ended December 31, 2015 from $10.2 million for the year ended December 31, 2014.

Our net interest rate spread decreased 12 basis points to 3.64% for the year ended December 31, 2015 from 3.76% for the year ended December 31, 2014, while our net interest margin decreased 12 basis points to 3.74% for the year ended December 31, 2015 from 3.86% for the year ended December 31, 2014. The average yield we earned on interest earning assets decreased, however, at the same time we were able to decrease the average rate we paid on interest bearing liabilities.

Provision for Loan Losses. Our provision for loan losses was $930,000 for the year ended December 31, 2015 compared to $300,000 for the year ended December 31, 2014. The provisions recorded resulted in an allowance for loan losses of $2.8 million, or 1.25% of total loans at December 31, 2015, compared to $2.2 million, or 1.25% of total loans at December 31, 2014. The higher provision for loan losses was a result of the growth in the loan portfolio and related impact to the allowance for loan losses.

Noninterest Income. Noninterest income information is as follows.

	Years Ended December 31,		Change	
	2015	2014	Amount	Percent
	(Dollars in thousands)			
Noninterest income				
Customer related fees and service charges	$ 741	$ 471	$ 270	57.3%
Merchant processing income	2,202	1,143	1,059	92.7
Gains on sales of securities	—	151	(151)	(100.0)
Total noninterest income	$ 2,943	$ 1,765	$ 1,178	66.7%

Merchant processing income increased significantly during the year due to significant growth in our business. Total active merchants as of December 31, 2015 were approximately 9,500 compared to approximately 6,500 active merchants as of December 31, 2014. Customer related fees and charges have increased due to overall increases in the balances and count of our deposit customers.

Noninterest Expense. Noninterest expense information is as follows.

	Years Ended December 31,		Change	
	2015	2014	Amount	Percent
	(Dollars in thousands)			
Noninterest expense				
Employee compensation and benefits	$ 6,251	$ 5,525	$ 726	13.1%
Occupancy and equipment	1,412	1,774	(362)	(20.4)
Professional and consulting services	1,699	1,065	634	59.5
FDIC assessment	245	306	(61)	(19.9)
Advertising and marketing	334	367	(33)	(9.0)
Travel and business relations	301	296	5	1.7
OCC assessments	105	130	(25)	(19.2)
Data processing	1,187	1,103	84	7.6
Other operating expenses	637	696	(59)	(8.5)
Total noninterest expense	$ 12,171	$ 11,262	$ 909	8.1%

Salaries and employee benefits increased for the year ended December 31, 2015 from the year ended December 31, 2014 primarily due to increases in employees, increases in incentive compensation tied to performance and salary increases. Professional and consulting expenses increased primarily due to our charter conversions and corporate reorganization. Occupancy and equipment expense decreased primarily due to the consolidation of our office facilities in New York City.

Income Tax Provision. We recorded a provision for income taxes of $664,000 for the year ended December 31, 2015, reflecting an effective tax rate of 36.2%, compared to $410,000, or an effective tax rate of 90.9%, for the year ended December 31, 2014. The higher effective tax rate in 2014 was due to additional New York state income tax expense to adjust our state deferred tax assets and liabilities using newly exacted New York state income tax rates and apportionment changes.

Management of Market Risk

General. The principal objective of our asset and liability management function is to evaluate the interest rate risk within the balance sheet and pursue a controlled assumption of interest rate risk while maximizing net income and preserving adequate levels of liquidity and capital. The board of directors of our bank has oversight of our asset and liability management function, which is managed by our Asset/Liability Management Committee. Our Asset/Liability Management Committee meets regularly review, among other things, the sensitivity of our assets and liabilities to market interest rate changes, local and national market conditions and market interest rates. That group also reviews our liquidity, capital, deposit mix, loan mix and investment positions.

As a financial institution, our primary component of market risk is interest rate volatility. Fluctuations in interest rates will ultimately impact both the level of income and expense recorded on most of our assets and liabilities, and the fair value of all interest earning assets and interest bearing liabilities, other than those which have a short term to maturity. Interest rate risk is the potential of economic losses due to future interest rate changes. These economic losses can be reflected as a loss of future net interest income and/or a loss of current fair values. The objective is to measure the effect on net interest income and to adjust the balance sheet to minimize the inherent risk while at the same time maximizing income.

We manage our exposure to interest rates primarily by structuring our balance sheet in the ordinary course of business. We do not typically enter into derivative contracts for the purpose of managing interest rate risk, but we may do so in the future. Based upon the nature of our operations, we are not subject to foreign exchange or commodity price risk. We do not own any trading assets.

Net Interest Income Simulation. We use an interest rate risk simulation model to test the interest rate sensitivity of net interest income and the balance sheet. Instantaneous parallel rate shift scenarios are modeled and utilized to evaluate risk and establish exposure limits for acceptable changes in net interest margin. These scenarios, known as rate shocks, simulate an instantaneous change in interest rates and use various assumptions, including, but not

limited to, prepayments on loans and securities, deposit decay rates, pricing decisions on loans and deposits, reinvestment and replacement of asset and liability cash flows.

The following table presents the estimated changes in net interest income of Esquire Bank, National Association, calculated on a bank-only basis, which would result from changes in market interest rates over twelve-month periods beginning December 31, 2016 and 2015. The tables below demonstrate that we are asset-sensitive in a rising interest rate environment.

	At December 31,			
	2016		2015	
Changes in Interest Rates (Basis Points)	Estimated 12-Months Net Interest Income	Change	Estimated 12-Months Net Interest Income	Change
	(Dollars in thousands)			
400	$ 24,445	5,519	$ 19,462	4,491
300	23,083	4,157	18,360	3,389
200	21,714	2,788	17,262	2,291
100	20,339	1,413	16,155	1,184
0	18,926	—	14,971	—
-100	17,260	(1,166)	13,802	(1,169)
-200	16,220	(2,706)	13,017	(1,954)

Economic Value of Equity Simulation. We also analyze our sensitivity to changes in interest rates through an economic value of equity ("EVE") model. EVE represents the present value of the expected cash flows from our assets less the present value of the expected cash flows arising from our liabilities adjusted for the value of off-balance sheet contracts. EVE attempts to quantify our economic value using a discounted cash flow methodology. We estimate what our EVE would be as of a specific date. We then calculate what EVE would be as of the same date throughout a series of interest rate scenarios representing immediate and permanent, parallel shifts in the yield curve. We currently calculate EVE under the assumptions that interest rates increase 100, 200, 300 and 400 basis points from current market rates, and under the assumption that interest rates decrease 100 and 200 basis points from current market rates.

The following table presents the estimated changes in EVE of Esquire Bank, National Association, calculated on a bank-only basis, that would result from changes in market interest rates as of December 31, 2016 and 2015.

	At December 31,			
	2016		2015	
Changes in Interest Rates (Basis Points)	Economic Value of Equity	Change	Economic Value of Equity	Change
	(Dollars in thousands)			
400	$ 79,188	6,362	$ 66,005	3,996
300	78,277	5,451	65,377	3,368
200	77,062	4,236	64,751	2,742
100	75,397	2,571	63,909	1,900
0	72,826	—	62,009	—
-100	65,985	(6,841)	55,246	(6,763)
-200	56,208	(16,618)	46,863	(15,146)

Many assumptions are used to calculate the impact of interest rate fluctuations. Actual results may be significantly different than our projections due to several factors, including the timing and frequency of rate changes, market conditions and the shape of the yield curve. The computations of interest rate risk shown above do not include actions that our management may undertake to manage the risks in response to anticipated changes in interest rates, and actual results may also differ due to any actions taken in response to the changing rates.

Liquidity and Capital Resources

Liquidity is the ability to meet current and future financial obligations of a short-term nature. Our primary sources of funds consist of deposit inflows, loan repayments and maturities and sales of securities. While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows and mortgage prepayments are greatly influenced by general interest rates, economic conditions and competition.

We regularly review the need to adjust our investments in liquid assets based upon our assessment of: (1) expected loan demand, (2) expected deposit flows, (3) yields available on interest earning deposits and securities, and (4) the objectives of our asset/liability management program. Excess liquid assets are invested generally in interest earning deposits and short- and intermediate-term securities.

Our most liquid assets are cash and cash equivalents. The levels of these assets are dependent on our operating, financing, lending and investing activities during any given period. At December 31, 2016 and December 31, 2015, cash and cash equivalents totaled $43.0 million and $33.1 million, respectively. Securities classified as available-for-sale, which provide additional sources of liquidity, totaled $92.6 million at December 31, 2016 and $84.2 million at December 31, 2015.

At December 31, 2016, we had the ability to borrow a total of $72.8 million from the Federal Home Loan Bank of New York. We also had an available line of credit with the Federal Reserve Bank of New York discount window of $15.6 million. At December 31, 2016, we also had a $3.5 million and $4.0 million line of credit with Atlantic Community Bankers' Bank and Zions Bank, respectively. No amounts were outstanding on any of the aforementioned lines as of December 31, 2016.

At December 31, 2015, we had the ability to borrow a total of $69.4 million from the Federal Home Loan Bank of New York. At December 31, 2015, we also had an available line of credit with the Federal Reserve Bank of New York discount window of $10.8 million. At December 31, 2015, we also had a $3.5 million and $4.0 million, line of credit with Atlantic Community Bankers' Bank and Zions Bank, respectively. No amounts were outstanding on any of the aforementioned lines as of December 31, 2015.

We have no material commitments or demands that are likely to affect our liquidity other than set forth below. In the event loan demand were to increase faster than expected, or any unforeseen demand or commitment were to occur, we could access our borrowing capacity with the Federal Home Loan Bank of New York or obtain additional funds through brokered certificates of deposit.

At December 31, 2016, we had $2.0 million in loan commitments outstanding. We also had $1.3 million in standby letters of credit at December 31, 2016.

Certificates of deposit due within one year of December 31, 2016 totaled $22.3 million, or 6.0% of total deposits. Total certificates of deposit were $24.0 million or 6.5% of total deposits.

At December 31, 2015 and 2014, we had $1.3 million and $846,000 in loan commitments outstanding, respectively. We also had $1.3 million and $803,000 in standby letters of credit at December 31, 2015 and 2014, respectively.

Certificates of deposit due within one year of December 31, 2015 totaled $6.4 million, or 2.1% of total deposits. Total certificates of deposit were $9.9 million or 3.3% of total deposits. Given the small amount of reliance of these funds, they do not have a significant impact on our liquidity.

Our primary investing activities are the origination, and to a lesser extent purchase, of loans and the purchase of securities. During the year ended December 31, 2016, we originated or purchased $125.2 million of loans and $30.2 million of securities. During the year ended December 31, 2015, we originated or purchased $121.7 million of loans and we purchased $24.7 million of securities. During the year ended December 31, 2014, we originated or purchased $91.1 million of loans, and we purchased $20.3 million of securities.

Financing activities consist primarily of activity in deposit accounts. We experienced net increases in total deposits of $69.1 million, $10.9 million and $83.1 million for the years ended December 31, 2016, 2015 and 2014, respectively. We generate deposits from law firms, other local businesses, and individuals through client referrals and other relationships and through our retail presence. We believe we have a very stable core deposit base due primarily to the litigation market strategy as we strongly encourage and are generally successful in having law firm borrowers maintain their entire banking relationship with us. The high level of transaction accounts is expected to be maintained. We have established deposit concentration thresholds to avoid the possibility of dependence on any single depositor base for funds. Since inception, we have not had the need to borrow significantly from the Federal Home Loan Bank of New York. We have been able to use the cash generated from the increases in deposits to fund loan growth in recent periods.

Esquire Bank, National Association is subject to various regulatory capital requirements administered by Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation. At December 31, 2016 and December 31, 2015, Esquire Bank exceeded all applicable regulatory capital requirements, and was considered "well capitalized" under regulatory guidelines. See Note 14 of the Notes to the Consolidated Financial Statements for additional information.

The net proceeds from the stock offering will significantly increase our liquidity and capital resources. Over time, the initial level of liquidity will be reduced as net proceeds from the stock offering are used for general corporate purposes, including the funding of loans. Our financial condition and results of operations will be enhanced by the net proceeds from the stock offering, resulting in increased net interest earning assets and net interest income. However, due to the increase in equity resulting from the net proceeds raised in the stock offering, as well as other factors associated with the stock offering, our return on equity will be adversely affected following the stock offering.

We manage our capital to comply with our internal planning targets and regulatory capital standards administered by the OCC. We review capital levels on a monthly basis. At December 31, 2016, Esquire Bank was classified as well-capitalized.

On November 2, 2012, the OCC notified Esquire Bank that it had established minimum capital ratios for Esquire Bank, requiring Esquire Bank to maintain, commencing December 1, 2012, a Tier 1 Leverage Capital at least equal to 9%, Tier 1 Risk-Based Capital at least equal to 11%, and Total Risk-Based Capital at least equal to 13%.

The following table presents our capital ratios as of the indicated dates for Esquire Bank.

	"Well Capitalized"	For Capital Adequacy Purposes Minimum Capital with Conservation Buffer	Agreed to Minimum Capital Requirements	Actual At December 31, 2016
Tier 1 Leverage Ratio				
Bank	5.00%	4.00%	9.00%	11.63%
Tier 1 Risk-based Capital Ratio				
Bank	8.00%	6.63%	11.00%	16.09%
Total Risk-based Capital Ratio				
Bank	10.00%	8.63%	13.00%	17.25%
Common Equity Tier 1 Capital Ratio				
Bank	6.50%	5.13%	N/A	16.09%

	"Well Capitalized"	Actual At December 31, 2015	Actual At December 31, 2014
Tier 1 Leverage Ratio			
Bank	5.00%	11.90%	10.06%
Tier 1 Risk-based Capital Ratio			
Bank	8.00%	15.91%	17.40%
Total Risk-based Capital Ratio			
Bank	10.00%	17.06%	18.54%
Common Equity Tier 1 Capital Ratio			
Bank	6.50%	15.91%	N/A

Basel III revised the capital adequacy requirements and the Prompt Corrective Action Framework effective January 1, 2015 for Esquire Bank. When fully phased in on January 1, 2019, the Basel Rules will require Esquire Bank to maintain a 2.5% "capital conservation buffer" on top of the minimum risk-weighted asset ratios. The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a (i) CET1 to risk-weighted assets, (ii) Tier 1 capital to risk-weighted assets or (iii) total capital to risk-weighted assets above the respective minimum but below the capital conservation buffer will face constraints on dividends, equity repurchases and discretionary bonus payments to executive officers based on the amount of the shortfall. The implementation of the capital conservation buffer began on January 1, 2016 at the 0.625% level and will increase by 0.625% on each subsequent January 1, until it reaches 2.5% on January 1, 2019.

Contractual Obligations and Off-Balance Sheet Arrangements

Contractual Obligations. In the ordinary course of our operations, we enter into certain contractual obligations. The following table presents our contractual obligations as of December 31, 2016.

	Contractual Maturities				
	Less Than One Year	More Than One Year Through Three Years	More Than Three Years Through Five Years	Over Five Years	Total
			(In thousands)		
Operating lease obligations	$ 489	$ 796	$ 828	$ 2,222	$ 4,335
Time deposits	22,335	1,620	—	—	23,955
Total	$ 22,824	$ 2,416	$ 828	$ 2,222	$ 28,290

Off-Balance Sheet Arrangements. We are a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of our customers. These financial instruments include commitments to extend credit, which involve elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets. Our exposure to credit loss is represented by the contractual amount of the instruments. We use the same credit policies in making commitments as we do for on-balance sheet instruments.

For further information, see Note 11 of the Notes to the Consolidated Financial Statements.

Effect of Inflation and Changing Prices

The consolidated financial statements and related financial data included in this prospectus have been prepared in accordance with generally accepted accounting principles in the United States of America, which require the measurement of financial position and operating results in terms of historical dollars without considering the change in the relative purchasing power of money over time due to inflation. The primary impact of inflation on our operations is reflected in increased operating costs. Unlike most industrial companies, virtually all the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates generally have a more significant impact on a financial institution's performance than do general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services.

Crowe Horwath LLP
Independent Member Crowe Horwath International

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Audit Committee and Stockholders
Esquire Financial Holdings, Inc.
Jericho, New York

We have audited the accompanying consolidated statements of financial condition of Esquire Financial Holdings, Inc. as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Esquire Financial Holdings, Inc. as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Crowe Horwath LLP

Crowe Horwath LLP

Livingston, New Jersey
February 24, 2017

ESQUIRE FINANCIAL HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(Dollars in thousands, except per share data)

	At December 31, 2016	2015
ASSETS		
Cash and due from banks	$ 437	$ 450
Interest earning deposits	42,556	32,704
Total cash and cash equivalents	42,993	33,154
Securities available-for-sale, at fair value Securities,	92,645	84,239
restricted, at cost	1,649	1,430
Loans	278,578	224,519
Less: allowance for loan losses	(3,413)	(2,799)
loans, net	275,165	221,720
Premises and equipment, net	2,767	329
Accrued interest receivable	1,541	1,418
Deferred tax asset	3,108	4,347
Other assets	4,965	6,013
Total assets	$ 424,833	$ 352,650
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Demand	$ 124,990	$ 97,291
Savings, NOW and money market	221,843	194,496
Time	23,955	9,900
Total deposits	370,788	301,687
Secured borrowings	371	381
Accrued expenses and other liabilities	1,488	1,157
Total liabilities	372,647	303,225
Commitments and contingencies (Note 11)	-	-
Stockholders' equity:		
Preferred stock, par value $0.01; authorized 2,000,000 shares (non-voting); issued and outstanding 66,985 shares at December 31, 2016 and 157,985 shares at December 31, 2015	1	2
Common stock, par value $0.01; authorized 15,000,000 shares; issued and outstanding 5,002,950 shares at December 31, 2016, and 4,911,870 shares at December 31, 2015	50	49
Additional paid-in capital	58,845	58,456
Retained deficit	(5,826)	(8,648)
Accumulated other comprehensive loss	(884)	(434)
Total stockholders' equity	52,186	49,425
Total liabilities and stockholders' equity	$ 424,833	$ 352,650

See accompanying notes to consolidated financial statements.

ESQUIRE FINANCIAL HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF INCOME
(Dollars in thousands, except per share data)

	For the Years Ended December 31, 2016	2015
Interest income		
Loans	$ 14,071	$ 10,594
Securities, available-for-sale	1,875	1,713
Interest earning deposits and other	222	144
Total interest income	16,168	12,451
Interest expense		
Savings, NOW and money market deposits	414	353
Time deposits	72	78
Borrowings	25	26
Total interest expense	511	457
Net interest income	15,657	11,994
Provision for loan losses	595	930
Net interest income after provision for loan losses	15,062	11,064
Non-interest income		
Customer related fees and service charges	1,180	741
Merchant processing income	2,939	2,202
Net gains on securities available-for-sale	6	-
Total non-interest income	4,125	2,943
Non-interest expense		
Employee compensation and benefits	8,244	6,251
Occupancy and equipment, net	1,604	1,412
Professional and consulting services	1,642	1,699
Data processing	1,369	1,187
Advertising and marketing	430	334
Travel and business relations	324	301
OCC assessments	112	105
FDIC assessments	99	245
Other operating expenses	775	637
Total non-interest expense	14,599	12,171
Net income before income taxes	4,588	1,836
Income tax expense	1,766	664
Net income	$ 2,822	$ 1,172
Earnings per common share **(See Note 10)**		
Basic	$ 0.56	$ 0.25
Diluted	0.55	0.25

See accompanying notes to consolidated financial statements.

ESQUIRE FINANCIAL HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in thousands)

	For the Years Ended December 31,	
	2016	2015
Net income	$ 2,822	$ 1,172
Other comprehensive loss:		
Unrealized losses arising during the period on securities available-for-sale	(738)	(304)
Reclassification adjustment for net gains included in net income	6	-
Tax effect	282	120
Total other comprehensive loss	(450)	(184)
Total comprehensive income	$ 2,372	$ 988

See accompanying notes to consolidated financial statements.

ESQUIRE FINANCIAL HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Dollars in thousands)

	Preferred shares	Common shares	Preferred stock	Common stock	Additional paid in capital	Retained deficit	Accumulated other comprehensive loss	Total stockholders' equity
Balance at January 1, 2015	157,985	4,088,410	$ 2	$ 41	$ 48,569	$ (9,820)	$ (250)	$ 38,542
Net income	-	-	-	-	-	1,172	-	1,172
Other comprehensive loss	-	-	-	-	-	-	(184)	(184)
Issuance of common stock net of offering costs	-	823,460	-	8	9,749	-	-	9,757
Stock options expense	-	-	-	-	138	-	-	138
Balance at December 31, 2015	157,985	4,911,870	2	49	58,456	(8,648)	(434)	49,425
Net income	-	-	-	-	-	2,822	-	2,822
Other comprehensive loss	-	-	-	-	-	-	(450)	(450)
Exchange of preferred stock for common stock	(91,000)	91,000	(1)	1	-	-	-	-
Issuance of common stock	-	80	-	-	1	-	-	1
Stock options expense	-	-	-	-	388	-	-	388
Balance at December 31, 2016	66,985	5,002,950	$ 1	$ 50	$ 58,845	$ (5,826)	$ (884)	$ 52,186

See accompanying notes to consolidated financial statements.

ESQUIRE FINANCIAL HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)

	For the Years Ended December 31,	
	2016	2015
Cash flows from operating activities:		
Net income	$ 2,822	$ 1,172
Adjustments to reconcile net income to net cash used in operating activities:		
Provision for loan losses	595	930
Net gains on securities available-for-sale	(6)	-
Depreciation	166	237
Stock options expense	388	138
Net amortization:		
Securities	344	256
Loans	421	395
Changes in other assets and liabilities:		
Accrued interest receivable	(123)	(321)
Deferred tax asset	1,521	546
Other assets	(202)	(2,123)
Accrued expenses and other liabilities	172	292
Write-offs related to offices closed	221	47
Net cash provided by operating activities	6,319	1,569
Cash flows from investing activities:		
Originations and purchases of loans, net of principal repayments	(54,461)	(52,533)
Purchases of securities available-for-sale	(30,235)	(24,664)
Settlement of sales of securities available-for-sale	-	6,719
Proceeds of sales of securities available-for-sale	4,068	-
Principal repayments on securities available-for-sale	16,691	10,790
Purchase of securities, restricted	(453)	(1,202)
Redemption of securities, restricted	234	9
Other assets	1,250	-
Purchases of premises and equipment	(2,666)	(85)
Net cash used in investing activities	(65,572)	(60,966)
Cash flows from financing activities:		
Net increase in deposits	69,101	10,913
Decrease in secured borrowings	(10)	(10)
Proceeds from the issuance of common stock	1	9,757
Net cash provided by financing activities	69,092	20,660
Net increase (decrease) in cash and cash equivalents	9,839	(38,737)
Cash and cash equivalents at beginning of the period	33,154	71,891
Cash and cash equivalents at end of the period	$ 42,993	$ 33,154

ESQUIRE FINANCIAL HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)

	For the Years Ended December 31,	
	2016	2015
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$ 508	$ 458
Taxes	234	95
Noncash disclosures:		
Exchange of preferred stock for common stock	1	-

See accompanying notes to consolidated financial statements.

NOTE 1 — Business and Summary of Significant Accounting Policies

Business

Esquire Financial Holdings, Inc. (the "Company") is a registered bank holding company and the parent company of Esquire Bank, National Association (the "Bank"). In August of 2015, the Company and the Bank were converted from a savings and loan holding company and savings bank to a bank holding company and national bank, respectively, and the Company, formerly a Delaware corporation, was reincorporated through a merger to a Maryland corporation.

The Bank is an independent, full-service national bank that serves the banking needs of law professionals, professional service firms, small to mid-sized businesses and individuals. The Bank was established in 2006 and began operations in October 2006. The Bank's headquarters is located in Jericho, New York. The Bank also operates a branch in Garden City, New York and an administrative office in Palm Beach Gardens, Florida.

As a full-service bank, the Bank offers checking, savings, money market and time deposits; a wide range of commercial and consumer loans, as well as customary banking services. Through electronic delivery channels, the Bank provides bill payment services, wire transfers, ACH origination, account transfers and real time deposit relationship updates. These innovative services are complimented with a full range of traditional banking products and services. While the Bank is a full-service institution available to all potential customers, the focus is marketing to law firms and other professional service firms, small to mid-sized businesses and individuals in the local community surrounding the branch office and New York boroughs in order to grow the deposit base. Additionally, due, in part, to the substantial ties that many of the board members and organizers have to the legal community, the Bank concentrates most of its marketing efforts on the legal community in these areas and nationally.

The Bank entered into the merchant service business as an acquiring bank in which credit and debit card transactions are settled on behalf of merchants. The revenue earned on behalf of merchants, net of expenses, is paid to the independent sales organizations (ISO's). The Bank's revenue from this transaction is shown as merchant processing income on the statements of income. Revenue is recognized when earned.

The consolidated financial statements include Esquire Financial Holdings, Inc. and its wholly owned subsidiary, Esquire Bank, N.A. and are referred to as "the Company." Intercompany transactions and balances are eliminated in consolidation.

Basis of Presentation and Use of Estimates

The accounting and financial reporting policies are in conformity with U.S. generally accepted accounting principles (GAAP). The preparation of financial statements requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Such estimates are subject to change in the future as additional information becomes available or previously existing circumstances are modified. Actual results could differ from those estimates.

Statement of Cash Flows

For purposes of the accompanying statements of cash flows, cash and cash equivalents are defined as the amounts included in the consolidated statements of financial condition under the captions "Cash and Due from Banks" and "Interest Earning Deposits", with contractual maturities of less than 90 days. Net cash flows are reported for customer loan and deposit transactions.

Securities

All securities are classified as available-for-sale and carried at fair value. Unrealized gains and losses on these securities are reported, net of applicable taxes, as a separate component of accumulated other comprehensive income (loss), a component of stockholders' equity.

Interest income on securities, including amortization of premiums and accretion of discounts, is recognized using the level yield method without anticipating prepayments (except for mortgage-backed securities where prepayments are

NOTE 1 — Business and Summary of Significant Accounting Policies (Continued)

anticipated) over the lives of the individual securities. Realized gains and losses on sales of securities are computed using the specific identification method.

Loans

Loans that management has the intent and ability to hold for the foreseeable future until maturity or payoff are stated at the principal amount outstanding, net of deferred loan fees and costs for originated loans and net of unamortized premiums or discounts for purchased loans. Interest income is recognized using the level yield method. Net deferred loan fees, origination costs, unamortized premiums or discounts are recognized in interest income over the loan term as a yield adjustment.

Non-Accrual

Interest income on mortgage and commercial loans is discontinued at the time the loan is 90 days delinquent unless the loan is well-secured and in process of collection. Consumer loans are typically charged off no later than 120 days past due. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. Nonaccrual loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans. A loan is moved to non-accrual status in accordance with the Company's policy, typically after 90 days of non-payment.

All interest accrued but not received for loans placed on nonaccrual is reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Provision and Allowance for Loan Losses

The allowance for loan losses is a valuation allowance for probable incurred credit losses. The allowance for loan losses is increased by provisions for loan losses charged to income. Losses are charged to the allowance when all or a portion of a loan is deemed to be uncollectible. Subsequent recoveries of loans previously charged off are credited to the allowance for loan losses when realized. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in Management's judgment, should be charged off.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement.

Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

All loans, except for consumer loans are individually evaluated for impairment. If a loan is impaired, a portion of the allowance is allocated as a specific allowance. The measurement of an impaired loan is based on (i) the present value of expected future cash flows discounted at the loan's effective interest rate, (ii) the loan's observable market price or (iii) the fair value of the collateral if the loan is collateral dependent.

Loans for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired.

NOTE 1 — Business and Summary of Significant Accounting Policies (Continued)

Troubled debt restructurings are separately identified for impairment disclosures and are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a troubled debt restructuring is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral. For troubled debt restructurings that subsequently default, the Company determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses.

The general component is based on historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Company. This actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations.

Management has identified the following loan segments: Commercial Real Estate, Multifamily, Construction, Commercial, 1-4 Family Residential and Consumer. The risks associated with a concentration in real estate loans include potential losses from fluctuating values of land and improved properties. Commercial Real Estate and Multifamily loans are expected to be repaid from the cash flow of the underlying property so the collective amount of rents must be sufficient to cover all operating expenses, property management and maintenance, taxes and debt service. Increases in vacancy rates, interest rates or other changes in general economic conditions can all have an impact on the borrower and their ability to repay the loan. Construction loans are considered riskier than commercial financing on improved and established commercial real estate. The risk of potential loss increases if the original cost estimates or time to complete are significantly off. The remainder of the loan portfolio is comprised of commercial and consumer loans. The primary risks associated with the commercial loans is the cash flow of the business, the experience and quality of the borrowers' management, the business climate, and the impact of economic factors. The primary risks associated with 1-4 Family Residential and Consumer loans relate to the borrower, such as the risk of a borrower's unemployment as a result of deteriorating economic conditions or the amount and nature of a borrower's other existing indebtedness, and the value of the collateral securing the loan if the Bank must take possession of the collateral.

Premises and Equipment

Premises and equipment, including leasehold improvements, are stated at cost, net of accumulated depreciation and amortization. Equipment, which includes furniture and fixtures, are depreciated over the assets' estimated useful lives using the straight-line method (three to ten years). Amortization of leasehold improvements is recognized on a straight-line basis over the lesser of the expected lease term or the estimated useful life of the asset. Costs incurred to improve or extend the life of existing assets are capitalized. Repairs and maintenance are charged to expense.

Federal Home Loan Bank (FHLB) Stock

The Bank is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of mortgage related assets, borrowings and other factors. FHLB stock is carried at cost, classified as a restricted security and periodically evaluated for impairment based on the ultimate recovery of par value. Dividends are reported as interest income.

Federal Reserve Bank (FRB) Stock

The Bank is a member of its regional FRB. FRB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Dividends are reported as interest income.

Loan Commitments and Related Financial Instruments

Financial instruments include off balance sheet credit instruments, such as commitments to make loans and commercial letters of credit, are issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

NOTE 1 — Business and Summary of Significant Accounting Policies (Continued)

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Company, the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Income Taxes

Income taxes are provided for 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 of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred taxes of a change in tax rates is recognized in income in the period the change occurs. Deferred tax assets are reduced, through a valuation allowance, if necessary, by the amount of such benefits that are not expected to be realized based on current available evidence.

A tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded. The Company recognizes interest and/or penalties related to income tax matters in income tax expense.

Earnings per Common Share

Basic earnings per common share is net earnings allocated to common stock divided by the weighted average number of common shares outstanding during the period. All outstanding preferred shares are considered participating securities for computation of basic earnings per common share. Diluted earnings per common share include the dilutive effect of additional potential common shares issuable under stock options.

Share-Based Payment

Share based payment guidance requires the Company to recognize the grant-date fair value of stock options and other equity-based compensation issued to employees and non-employees in the statements of income. A Black-Scholes model is utilized to estimate the fair value of stock options. Compensation cost for stock options are recognized as non-interest expense in the statement of income on a straight-line basis over the vesting period of each stock option grant. Compensation cost for stock options includes the impact of an estimated forfeiture rate. At December 31, 2016, no stock options had vesting conditions linked to the performance of the Company or market conditions.

Dividend Restriction

Banking regulations require maintaining certain capital levels and may limit the dividends paid by the bank to the holding company or by the holding company to shareholders.

Segment Reporting

The Company’s operations are exclusively in the financial services industry and include the provision of traditional banking services. Management evaluates the performance of the Company based on only one business segment, that of community banking. In the opinion of management, the Company does not have any other reportable segments as defined by Accounting Standards Codification (ASC) Topic 280, “Disclosure about Segments of an Enterprise and Related Information”.

Restrictions on Cash

Cash on hand or on deposit with the FRB was required to meet regulatory reserve and clearing requirements.

NOTE 1 — Business and Summary of Significant Accounting Policies (Continued)

Reclassifications

Some items in the prior year financial statements were reclassified to conform to the current presentation. Reclassifications had no effect on prior year net income or stockholders' equity.

Comprehensive Income

Comprehensive income (loss) consists of net income and other comprehensive (loss) income. Other comprehensive (loss) income includes unrealized gains and losses on securities available-for-sale which are also recognized as separate components of equity.

Fair Value of Financial Instruments

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

Loss Contingencies

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there now are such matters that will have a material effect on the consolidated financial statements.

New Accounting Pronouncements

Accounting Standards Update (ASU) 2014-09, "Revenue from Contracts with Customers (Topic 606)" implements a common revenue standard that clarifies the principles for recognizing revenue. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract and (v) recognize revenue when (or as) the entity satisfies a performance obligation. In July 2015, the (Financial Accounting Standards Board FASB) deferred the effective date of the ASU by one year which means ASU 2014-09 will be effective for the Company on January 1, 2018. The Company is currently evaluating the potential impact of ASU 2014-09 on its consolidated financial statements.

On January 5, 2016, the FASB issued ASU 2016-01, "Financial Instruments–Overall: Recognition and Measurement of Financial Assets and Financial Liabilities" (the ASU). Under this ASU, the current GAAP model is changed in the areas of accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. In addition, the FASB clarified guidance related to the valuation allowance assessment when recognizing deferred tax assets resulting from unrealized losses on available-for-sale debt securities. The ASU will be effective for public business entities in fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Adoption of this standard is not expected to have a material effect on the Company's operating results or financial condition.

On February 25, 2016, the FASB completed its Leases project by issuing ASU No. 2016-02, "Leases (Topic 842)." The new guidance affects any organization that enters into a lease, or sublease, with some specified exemptions. Under the new guidance, a lessee will be required to recognize assets and liabilities for leases with lease terms of more than 12 months. Consistent with current GAAP, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. However, unlike current GAAP, which requires only capital leases to be recognized on the balance sheet, the new ASU will require both types of leases to be recognized on the balance sheet. The ASU will also require expanded disclosures. The ASU on leases will take effect for fiscal years beginning after December 15, 2018, and for interim periods within those fiscal years. The Company is currently evaluating the impact of the ASU on its financial condition and results of operations.

NOTE 1 — Business and Summary of Significant Accounting Policies (Continued)

In March 2016, the FASB issued ASU 2016-09, Compensation—Stock Compensation (Topic 718): "Improvements to Employee Share-Based Payment Accounting." This update includes multiple provisions intended to simplify various aspects of the accounting for share-based payments. For public companies, the amendments in this update are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted for any organization in any interim or annual period. Adoption of this standard is not expected to have a material effect on the Company's operating results or financial condition.

On June 16, 2016, the FASB issued Accounting Standards Update No. 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" (the ASU). This ASU replaces the incurred loss model with an expected loss model, referred to as "current expected credit loss" (CECL) model. It will significantly change estimates for credit losses related to financial assets measured at amortized cost, including loans receivable, held-to-maturity (HTM) debt securities and certain other contracts. This ASU will be effective for the Company in fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company is currently in the process of evaluating the impact of this ASU on its financial position, results of operations and cash flows.

Subsequent Events

The Bank has evaluated subsequent events for recognition and disclosure through the date of issuance.

NOTE 2 — Securities

Available-for-Sale Securities

The amortized cost, gross unrealized gains and losses and estimated fair value of securities available-for-sale were as follows at December 31:

	Gross Amortized Cost	Gross Unrealized Gains	Unrealized Losses	Fair Value
2016				
Mortgage-backed securities - agency	$ 16,417	$ 12	$ (417)	$ 16,012
Collateralized mortgage obligations (CMO's) – agency	77,677	56	(1,100)	76,633
Total available-for-sale	$ 94,094	$ 68	$ (1,517)	$ 92,645
2015				
Government agency debentures	$ 4,064	$ -	$ (63)	$ 4,001
Mortgage-backed securities - agency	17,445	27	(325)	17,147
Collateralized mortgage obligations (CMO's) – agency	63,447	116	(472)	63,091
Total available-for-sale	$ 84,956	$ 143	$ (860)	$ 84,239

The amortized cost and fair value of debt securities are shown by contractual maturity. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date are shown separately.

NOTE 2 — Securities (Continued)

	December 31, 2016	
	Amortized Cost	Fair Value
Government agency debentures		
Due from one to five years	$ -	$ -
Five to ten years	-	-
Mortgage-backed securities - agency	16,417	16,012
CMO's – agency	77,677	76,633
Total	$ 94,094	$ 92,645

Mortgage-backed securities included all residential pass-through certificates guaranteed by FHLMC, FNMA, or GNMA and the CMO's are backed by government agency pass-through certificates. The 2016 and 2015 pass-through certificates are fixed rate instruments. CMO's, by virtue of the underlying residential collateral or structure, are fixed rate current pay sequentials or planned amortization classes (PAC's).

When purchasing investment securities, the Company's overall interest-rate risk profile is considered as well as the adequacy of expected returns relative to risks assumed, including prepayments. In continuously managing the investment securities portfolio, management occasionally sells investment securities in response to, or in anticipation of, changes in interest rates and spreads, actual or anticipated prepayments, liquidity needs and credit risk associated with a particular security.

The proceeds from sales and calls of securities and the associated gains and losses are listed below:

	2016	2015
Proceeds	$ 4,068	$ -
Gross gains	6	-
Gross losses	-	-

The tax provision related to these gains was $2 for 2016.

At December 31, 2016, securities having a fair value of $76,633 were pledged to the FHLB for borrowing capacity totaling $72,837. At December 31, 2015, securities having a fair value of $73,100 were pledged to the FHLB for borrowing capacity totaling $69,400. At December 31, 2016 and 2015, the Company had no outstanding FHLB advances.

At December 31, 2016, securities having a fair value of $16,012 were pledged to the FRB of New York for borrowing capacity totaling $15,580. At December 31, 2015, securities having a fair value of $11,100 were pledged to FRB of New York for borrowing capacity totaling $10,800. At December 31, 2016 and 2015, the Company had no outstanding FRB borrowings.

The following table provides the gross unrealized losses and fair value, aggregated by investment category and length of time the individual securities have been in a continuous unrealized loss position, as of December 31:

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
December 31, 2016						
Mortgage-backed securities – agency	$ 13,936	$ (417)	$ -	$ -	$ 13,936	$ (417)
CMO's - agency	50,269	(859)	5,973	(241)	56,242	(1,100)
Total temporarily impaired securities	$ 64,205	$ (1,276)	$ 5,973	$ (241)	$ 70,178	$ (1,517)

NOTE 2 — Securities (Continued)

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
December 31, 2015						
Government agency debentures	$ 2,029	$ (34)	$ 1,972	$ (29)	$ 4,001	$ (63)
Mortgage-backed securities – agency	10,310	(240)	4,228	(85)	14,538	(325)
CMO's - agency	23,401	(147)	7,687	(325)	31,088	(472)
Total temporarily impaired securities	$ 35,740	$ (421)	$ 13,887	$ (439)	$ 49,627	$ (860)

Management reviews the investment portfolio on a quarterly basis to determine the cause, magnitude and duration of declines in the fair value of each security. In estimating other-than-temporary impairment (OTTI), management considers many factors including: (1) the length of time and extent that fair value has been less than cost, (2) the financial condition and near term prospects of the issuer, (3) whether the market decline was affected by macroeconomic conditions, and (4) whether the Company has the intent to sell the security or more likely than not will be required to sell the security before its anticipated recovery. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: (1) OTTI related to credit loss, which must be recognized in the income statement and (2) OTTI related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. The assessment of whether any other than temporary decline exists may involve a high degree of subjectivity and judgment and is based on the information available to management at a point in time. Management evaluates securities for OTTI at least on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation.

At December 31, 2016, securities in unrealized loss positions were issuances from government sponsored entities. Due to the decline in fair value attributable to changes in interest rates and illiquidity, not credit quality and because the Company does not have the intent to sell the securities and it is likely that it will not be required to sell the securities before their anticipated recovery, the Company does not consider the securities to be other-than-temporarily impaired at December 31, 2016.

No impairment charges were recorded in 2016 and 2015.

NOTE 3 — Loans

The composition of loans by class is summarized as follows at December 31:

	2016	% of Total	2015	% of Total
1-4 family residential	$ 49,597	18%	$ 28,531	13%
Commercial	106,064	38	83,563	37
Multifamily	83,410	30	71,184	32
Commercial real estate	22,198	8	21,272	10
Construction	5,610	2	5,297	2
Consumer	10,571	4	13,556	6
Total Loans	277,450	100%	223,403	100%
Deferred costs and unearned premiums, net	1,128		1,116	
Allowance for loan losses	(3,413)		(2,799)	
Net loans	$ 275,165		$ 221,720	

The following tables present the activity in the allowance for loan losses by class for the years ending December 31, 2016 and 2015:

	1-4 Family Residential	Commercial	Multifamily	Commercial Real Estate	Construction	Consumer	Total
December 31, 2016							
Allowance for loan losses:							
Beginning balance	$ 213	$ 1,536	$ 533	$ 230	$ 134	$ 153	$ 2,799
Provision (credit) for loan losses	147	372	88	8	7	(27)	595
Recoveries	-	26	-	-	-	-	26
Loans charged-Off	-	-	-	-	-	(7)	(7)
Total ending allowance balance	$ 360	$ 1,934	$ 621	$ 238	$ 141	$ 119	$ 3,413
December 31, 2015							
Allowance for loan losses:							
Beginning balance	$ 162	$ 1,222	$ 528	$ 97	$ 27	$ 129	$ 2,165
Provision (credit) for loan losses	51	610	5	133	107	24	930
Recoveries	-	-	-	-	-	-	-
Loans charged-off	-	(296)	-	-	-	-	(296)
Total ending allowance balance	$ 213	$ 1,536	$ 533	$ 230	$ 134	$ 153	$ 2,799

NOTE 3 — Loans (Continued)

The following tables present the balance in the allowance for loan losses and the recorded investment in loans by class and based on impairment method as of December 31, 2016 and 2015:

	1-4 Family Residential	Commercial	Multifamily	Commercial Real Estate	Construction	Consumer	Total
December 31, 2016							
Allowance for loan losses:							
Ending allowance							
Balance attributable to loans:							
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	360	1,934	621	238	141	119	3,413
Total ending allowance balance	$ 360	$ 1,934	$ 621	$ 238	$ 141	$ 119	$ 3,413
Loans:							
Loans individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Loans collectively evaluated for impairment	49,597	106,064	83,410	22,198	5,610	10,571	277,450
Total ending loans balance	$ 49,597	$ 106,064	$ 83,410	$ 22,198	$ 5,610	$ 10,571	$ 277,450

Recorded investment is not adjusted for accrued interest, unearned premiums or deferred costs due to immateriality.

NOTE 3 — Loans (Continued**)**

	1-4 Family Residential	Commercial	Multifamily	Commercial Real Estate	Construction	Consumer	Total
December 31, 2015							
Allowance for loan losses:							
Ending allowance							
Balance attributable to loans:							
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	213	1,536	533	230	134	153	2,799
Total ending allowance balance	$ 213	$ 1,536	$ 533	$ 230	$ 134	$ 153	$ 2,799
Loans:							
Loans individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Loans collectively evaluated for impairment	28,531	83,563	71,184	21,272	5,297	13,556	223,403
Total ending loans balance	$ 28,531	$ 83,563	$ 71,184	$ 21,272	$ 5,297	$ 13,556	$ 223,403

Non-Performing Loans

Non-performing loans include loans 90 days past due and still accruing and non-accrual loans. At December 31, 2016 and 2015, none of the Company's loans met these conditions.

The following tables present the aging of the recorded investment in past due loans by class of loans as of December 31, 2016 and 2015:

	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Loans Not Past Due	Total
December 31, 2016						
1-4 family residential	$ 203	$ -	$ -	$ 203	$ 49,394	$ 49,597
Commercial	-	-	-	-	106,064	106,064
Multifamily	-	-	-	-	83,410	83,410
Commercial real estate	-	-	-	-	22,198	22,198
Construction	-	-	-	-	5,610	5,610
Consumer	-	-	-	-	10,571	10,571
Total	$ 203	$ -	$ -	$ 203	$ 277,247	$ 277,450

NOTE 3 — Loans (Continued)

	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Loans Not Past Due	Total
December 31, 2015						
1-4 family residential	$ -	$ -	$ -	$ -	$ 28,531	$ 28,531
Commercial	-	-	-	-	83,563	83,563
Multifamily	-	-	-	-	71,184	71,184
Commercial real estate	-	-	-	-	21,272	21,272
Construction	-	-	-	-	5,297	5,297
Consumer	-	-	-	-	13,556	13,556
Total	$ -	$ -	$ -	$ -	$ 223,403	$ 223,403

Credit Quality Indicators

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis is performed whenever a credit is extended, renewed or modified, or when an observable event occurs indicating a potential decline in credit quality, and no less than annually for large balance loans.

The Company uses the following definitions for risk ratings:

Special Mention - Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

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

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

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans.

Based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

	Pass	Special Mention	Substandard	Doubtful
December 31, 2016				
1-4 family residential	$ 49,597	$ -	$ -	$ -
Commercial	105,777	287	-	-
Multifamily	83,410	-	-	-
Commercial real estate	22,198	-	-	-
Construction	5,610	-	-	-
Consumer	10,571	-	-	-
Total	$ 277,163	$ 287	$ -	$ -

NOTE 3 — Loans (Continued)

	Pass	Special Mention	Substandard	Doubtful
December 31, 2015				
1-4 family residential	$ 28,531	$ -	$ -	$ -
Commercial	80,765	2,798	-	-
Multifamily	71,184	-	-	-
Commercial real estate	21,272	-	-	-
Construction	5,297	-	-	-
Consumer	13,556	-	-	-
Total	$ 220,605	$ 2,798	$ -	$ -

The Company considers the performance of the loan portfolio and its impact on the allowance for loan losses. For residential and consumer loan classes, the Company evaluates credit quality based on the aging status of the loan, which was previously presented, and by payment activity.

The Company has no loans identified as troubled debt restructurings at December 31, 2016 and 2015. Furthermore, there were no loan modifications during 2016 and 2015 that were troubled debt restructurings. In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under the Company's internal underwriting policy.

Related Party Loans

Loans to related parties include loans to directors, their related companies and executive officers of the Company.

Loans to principal officers, directors, and their affiliates during 2016 were as follows:

Beginning balance	$ 6,800
New advances	100
Repayments	(3,536)
Ending balance	$ 3,364

Deposits from principal officers, directors, and their affiliates at year-end 2016 and 2015 were $4,944 and $6,143.

NOTE 4 — Premises and Equipment

The following is a summary of premises and equipment at December 31:

	2016	2015
Leasehold improvements	$ 1,575	$ 176
Equipment	2,876	1,947
Construction in progress	-	23
	4,451	2,146
Less: accumulated depreciation and amortization	(1,684)	(1,817)
Total premises and equipment, net	$ 2,767	$ 329

NOTE 4 — Premises and Equipment (Continued)

Depreciation and amortization of premises and equipment, reflected as a component of occupancy and equipment, net in the statements of income, was $166 and $237 for the periods ended December 31, 2016 and 2015, respectively. At year end 2016, management closed its New York City administrative office. This resulted in a $221 expense comprised of leasehold improvements written off and accrual of the remaining lease obligation.

NOTE 5 — Deposits

The contractual maturities of certificates of deposit at December 31, 2016, are as follows:

	Total
2017	$ 22,335
2018	1,620
Total	$ 23,955

Certificates of deposits greater than $250 were $751 as of December 31, 2016, and $745 at December 31, 2015. CDARS reciprocal deposits totaled approximately $15,800 at December 31, 2016 and $1,800 at December 31, 2015.

NOTE 6 — Secured Borrowings

The Company had a secured borrowing of $371 and $381 as of December 31, 2016 and 2015, respectively, relating to certain loan participations sold by the Company that did not qualify for sales treatment.

NOTE 7 — Income Taxes

The following summarizes components of income tax expense for the years ended December 31:

	2016	2015
Current		
Federal expense	$ 147	$ 37
State and city expense	98	82
Total current tax expense	245	119
Deferred		
Federal expense	1,474	641
State and city expense	47	(96)
Tax expense	1,521	545
Tax expense	$ 1,766	$ 664

NOTE 7 — Income Taxes (Continued)

The following is a reconciliation of the Company's statutory federal income tax rate of 34% to its effective tax rate at December 31:

	2016	2015
Federal tax expense at statutory rate	$ 1,560	$ 624
State and local income taxes, net of federal income tax expense	97	(16)
Incentive stock options	71	4
Change to deferred tax as a result of tax reform	-	16
Other	38	36
Net tax expense	$ 1,766	$ 664

The following summarizes the components of the Company's deferred tax assets and deferred tax liabilities at December 31:

	2016	2015
Deferred tax assets:		
Net operating loss carry forwards	$ 1,136	$ 2,516
Pre-opening costs	172	208
Stock options expense	308	236
Allowance for loan loss	1,208	954
Fixed assets	(31)	136
Unrealized loss on securities available-for-sale	565	283
Other	145	81
Total deferred tax assets	3,503	4,414
Deferred tax liabilities:		
Deferred rent	(43)	-
Deferred loan fees	(352)	(67)
Total deferred tax liabilities	(395)	(67)
Net deferred tax assets	$ 3,108	$ 4,347

The Company has federal, state, and city net operating loss carryforwards of $2,168, $9,743, and $2,714, respectively, as of December 31, 2016. The net operating losses are available to reduce future taxable income. They begin to expire in 2026.

Realization of deferred tax assets is dependent upon the generation of future taxable income. A valuation allowance is provided when it more likely than not that some portion of the deferred tax asset will not be realized. Based on its evaluation, the Company has determined that it is more likely than not that the deferred tax asset as of December 31, 2016 and 2015, will be realized.

The Company does not have any unrecognized tax benefits at December 31, 2016 or 2015, and does not expect this to increase significantly in the next twelve months. There were no interest and penalties recorded in the statements of operations for the years ended December 31, 2016 and 2015. The Company is subject to U.S. federal income tax as well as income tax of the state of New York and New York City. The Company is no longer subject to examination by taxing authorities for years before 2013.

NOTE 8 — Savings Plan

A savings plan is maintained under section 401(k) of the Internal Revenue Code and covers substantially all current full-time employees. Newly hired employees can elect to participate in the savings plan after completing one month of service. Under the provisions of the savings plan, the Company does not match funds for employee contributions. Participants can invest their account balances into several investment alternatives.

NOTE 9 — Share-Based Payment Plans

Stock Option Plan

The Company issues incentive and non-statutory stock options (“options”) to certain employees and directors pursuant to the 2007 Stock Option Plan (“the Plan”), which has been approved by the stockholders. Options to purchase common stock are granted by the Compensation Committee of the Board of Directors. The Plan allows for a maximum of 270,000 shares of common stock to be issued. As of December 31, 2016, 269,500 shares have been issued.

On May 26, 2011, the stockholders of the Company approved the Company’s 2011 Stock Compensation Plan (the “Stock Plan”). The Plan allows for a maximum of 404,607 shares of common stock to be issued. On August 26, 2015, the stockholders of the Company approved an amendment to the Company’s 2011 Stock Compensation Plan to authorize an additional 350,000 shares for issuance under the plan. The Company has issued 754,545 shares under the 2011 Stock Compensation Plan as of December 31, 2016.

Under the Stock Option Plans, options are granted with an exercise price equal to the fair value of the Company’s stock at the date of the grant. Options granted vest on five annual installments (20% per annum) and have ten year contractual terms. All options provide for accelerated vesting upon a change in control (as defined in the Plan). Stock options exercised result in the issuance of new shares.

The fair value of each option award is estimated on the date of grant using a closed form option valuation (Black-Scholes) model that uses the assumptions noted in the table below. Expected volatilities are based on peer volatility. The Company uses peer data to estimate option exercise and post-vesting termination behavior. The expected term of options granted is based on peer data and represents the period of time that options granted are expected to be outstanding, which takes into account that the options are not transferable. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of the grant.

The fair value of options granted was determined using the following weighted-average assumptions as of grant date.

	2016	2015
Risk-Free Interest Rate	1.44%	1.88%
Expected Term	84 months	84 months
Expected Stock Price Volatility	24.1%	19.9%
Dividend Yield	0.0%	0.0%

The weighted average fair value of options granted was $3.61 and $3.27 in 2016 and 2015.

NOTE 9 — Share-Based Payment Plans (Continued)

The following table presents a summary of the activity related to options as of December 31, 2016:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)
December 31, 2016			
Outstanding at beginning of year	690,545	$ 11.95	
Granted	333,500	12.50	
Exercised	-	-	
Forfeited	-	-	
Outstanding at year end	1,024,045	$ 12.13	7.33
Vested or expected to vest	1,024,045	$ 12.13	7.33
Exercisable at year end	333,201	$ 11.35	3.62

The Company recognized compensation expense related to options of $388 and $138 for the years ended December 31, 2016 and 2015, respectively. At December 31, 2016, unrecognized compensation cost related to non-vested options was approximately $2,200 and is expected to be recognized over a weighted average period of 4.08 years. The intrinsic value for outstanding, vested or expected to vest, and exercisable options at December 31, 2016, was approximately $400 for all three categories.

NOTE 10 — Earnings per Common Share

The two-class method is used in the calculation of basic and diluted earnings per share. Under the two-class method, earnings available to common shareholders for the period are allocated between common shareholders and participating securities according to participation rights in undistributed earnings. The factors used in earnings per share computation follow:

	2016	2015
Basic		
Net income available to common shareholders	$ 2,822	$ 1,172
Less: Earnings allocated to participating securities	62	40
Net income allocated to common shareholders	2,760	1,132
Weighted average common shares outstanding	4,958,655	4,460,098
Basic earnings per common share	$ 0.56	$ 0.25
Diluted		
Net income allocated to common shareholders for basic earnings per share	$ 2,760	$ 1,132
Weighted average shares outstanding for basic earnings per common share	4,958,655	4,460,098
Add: Dilutive effects of assumed exercises of stock options	30,550	30,550
Average shares and dilutive potential common shares	4,989,205	4,490,648
Diluted earnings per common share	$ 0.55	$ 0.25

Stock options totaling 837,170 and 537,795 shares of common stock were not considered in computing diluted earnings per common share for 2016 and 2015 because they were anti-dilutive.

NOTE 11 — Commitments and Contingent Liabilities

Change-In-Control Arrangements

Certain key executive officers have arrangements that provide for the payment of a multiple of base salary, should a change-in control, as defined, occur. These payments are limited under guidelines for deductibility pursuant to the Internal Revenue Code.

Credit Related Commitments

The Company provides the following types of off-balance sheet financial products to customers:

Commitments to extend credit are agreements to lend to customers in accordance with contractual provisions. These commitments usually have fixed expiration dates or other termination clauses and may require the payment of a fee. Total commitments outstanding do not necessarily represent future cash flow requirements, since many commitments expire without being funded.

Each customer's creditworthiness is evaluated prior to issuing these commitments and may require the customer to pledge certain collateral (i.e., inventory, income-producing property) prior to the extension of credit. Fixed rate commitments are subject to interest rate risk based on changes in prevailing rates during the commitment period. The Company is subject to credit risk in the event that the commitments are drawn upon and the customer is unable to repay the obligation.

Letters of credit are irrevocable commitments issued at the request of customers. They authorize the beneficiary to draw drafts for payment in accordance with the stated terms and conditions. Letters of credit substitute the Company's creditworthiness for that of the customer and are issued for a fee commensurate with the risk.

The Company can issue two types of letters of credit: Commercial (documentary) Letters of Credit and Standby Letters of Credit. Commercial Letters of Credit are commonly issued to finance the purchase of goods and are typically short term in nature. Standby Letters of Credit are issued to back financial or performance obligations of a Bank customer, and are typically issued for periods up to one year. Due to their long-term nature, standby letters of credit require adequate collateral in the form of cash or other liquid assets. In most instances, standby letters of credit expire without being drawn upon.

The credit risk involved in issuing letters of credit is essentially the same as extending credit facilities to comparable customers.

The Company had $1,316 and $1,759 of fixed rate commitments to extend credit at December 31, 2016 and 2015, respectively. The Company had $730 and $769 of variable rate commitments to extend credit at December 31, 2016 and 2015. As of December 31, 2016 and 2015, the Company had standby letters of credit totaling $1,259.

Lease Commitments

At December 31, 2016, the Company was obligated under several non-cancelable leases for certain premises and equipment. The minimum annual rental commitments, exclusive of taxes and other charges, under non-cancelable lease agreements for premises at December 31, 2016, are summarized as follows:

	Minimum Rentals
2017	$ 489
2018	397
2019	399
2020	409
2021	419
Thereafter	2,222
Total lease commitments	$ 4,335

NOTE 11 — Commitments and Contingent Liabilities (Continued)

These leases contain periodic escalation clauses and all expiring leases are evaluated for extensions at renewal. Rent expense for the years ended December 31, 2016 and 2015, amounted to $573 and $531, respectively.

Litigation

The Company and its subsidiary are subject to certain pending and threatened legal actions that arise out of the normal course of business. In the opinion of management at the present time, the resolution of any pending or threatened litigation will not have a material adverse effect on its consolidated financial statements.

NOTE 12 — Stockholders' Equity

Sale of Common and Preferred Stock

In 2014, the Company, through various offerings during the year, sold an additional 583,967 shares of common stock, with total proceeds, net of offering costs, of approximately $6,800. The net proceeds were used to support the Company's continued growth and for general corporate purposes .

On December 23, 2014, an investor executed the purchase of 157,985 shares of 0.00% Series B Non-Voting Preferred Shares at a price of $12.50 per share for proceeds, net of offering costs, of approximately $1,800. The preferred stock does not have a maturity date and is not convertible by the holder, but is convertible on a one for one basis into shares of common stock by us under certain circumstances. In addition, the preferred stock does not have a liquidation preference. Preferred shares have equal rights to receive dividends when dividends are declared on common stock, and thus are considered participating securities.

During 2015, the Company sold 823,460 shares of common stock for a total of $9,800. The net proceeds were used to support the Company's continued growth and for general corporate purposes.

In June 2016, the Company and the preferred shareholder agreed to perform an exchange of 91,000 shares of 0.00% of Series B Non-Voting Preferred Shares for 91,000 voting common shares, par value $0.01.

NOTE 13 — Fair Value Measurements

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values.

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

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

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

For available-for-sale securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2).

NOTE 13 — Fair Value Measurements (Continued)

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

	Fair Value Measurements Using		
	Quoted Prices In Active Markets For Identical Assets (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
December 31, 2016			
Assets			
Available-for-sale securities			
Mortgage-backed securities - agency	$ -	$ 16,012	$ -
CMO's - agency	-	76,633	-
Total	$ -	$ 92,645	$ -
December 31, 2015			
Assets			
Available-for-sale securities			
Government agency debentures	$ -	$ 4,001	$ -
Mortgage-backed securities - agency	-	17,147	-
CMO's - agency	-	63,091	-
Total	$ -	$ 84,239	$ -

There were no transfers between Level 1 and Level 2 during the year. There were no assets measured on a non-recurring basis as of December 31, 2016 and 2015.

Estimated Fair Value of Financial Instruments

Fair value estimates are made at specific points in time and are based on existing on-and off-balance sheet financial instruments. Such estimates are generally subjective in nature and dependent upon a number of significant assumptions associated with each financial instrument or group of financial instruments, including estimates of discount rates, risks associated with specific financial instruments, estimates of future cash flows, and relevant available market information. Changes in assumptions could significantly affect the estimates. In addition, fair value estimates do not reflect the value of anticipated future business, premiums or discounts that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument, or the tax consequences of realizing gains or losses on the sale of financial instruments.

The Company used the following method and assumptions in estimating the fair value of its financial instruments:

Cash and Due from Banks and Interest Earning Deposits: Carrying amounts approximate fair value, since these instruments are either payable on demand or have short-term maturities. Cash on hand and non-interest due from bank accounts are Level 1 and interest bearing deposits are Level 2.

NOTE 13 — Fair Value Measurements (Continued)

Securities Available-for-Sale: The fair values for securities available-for-sale are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2), using matrix pricing. Matrix pricing is a mathematical technique commonly used to price debt securities that are not actively traded, values debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs).

Securities, Restricted: It is not practical to determine the fair value of FHLB and FRB stock due to restrictions placed on its transferability.

Loans: The estimated fair values of real estate mortgage loans and other loans receivable are based on discounted cash flow calculations that use available market benchmarks when establishing discount factors for the types of loans resulting in a Level 3 classification. Exceptions may be made for adjustable rate loans (with resets of one year or less), which would be discounted straight to their rate index plus or minus an appropriate spread. All nonaccrual loans are carried at their current fair value, if applicable. The method utilized to determine fair value does not represent exit price.

Accrued Interest Receivable and Payable: For these short-term instruments, the carrying amount is a reasonable estimate of the fair value resulting in a Level 2 or 3 classification.

Deposits: The estimated fair value of certificates of deposits are based on discounted cash flow calculations that use a replacement cost of funds approach to establishing discount rates for certificates of deposits maturities resulting in a Level 2 classification. Stated value is fair value for all other deposits resulting in a Level 1 classification.

Secured Borrowings: Borrowings represent secured borrowings and carrying value is a reasonable estimate of fair value resulting in a Level 2 classification.

Off-Balance-Sheet Liabilities: The fair value of off-balance-sheet commitments to extend credit is estimated using fees currently charged to enter into similar agreements. The fair value is immaterial as of December 31, 2016 and 2015.

NOTE 13 — Fair Value Measurements (Continued)

The following table presents the carrying amounts and fair values of the Company's financial instruments:

	Carrying Value	Fair Value Measurement at December 31, 2016, Using: (Level 1)	(Level 2)	(Level 3)	Total
Financial Assets:					
Cash and due from banks	$ 437	$ 437	$ -	$ -	$ 437
Interest earning deposits	42,556	-	42,556	-	42,556
Securities available-for-sale	92,645	-	92,645	-	92,645
Securities, restricted	1,649	N/A	N/A	N/A	N/A
Loans, net of allowance	275,165	-	-	277,620	277,620
Accrued interest receivable	1,541	-	201	1,340	1,541
Financial Liabilities:					
Certificates of deposit	23,955	-	23,930	-	23,930
Demand and other deposits	346,833	346,833	-	-	346,833
Secured borrowings	371	-	371	-	371
Accrued interest payable	3	-	3	-	3

	Carrying Value	Fair Value Measurement at December 31, 2015, Using: (Level 1)	(Level 2)	(Level 3)	Total
Financial Assets:					
Cash and due from banks	$ 450	$ 450	$ -	$ -	$ 450
Interest earning deposits	32,704	-	32,704	-	32,704
Securities available-for-sale	84,239	-	84,239	-	84,239
Securities, restricted	1,430	N/A	N/A	N/A	N/A
Loans, net of allowance	221,720	-	-	224,715	224,715
Accrued interest receivable	1,418	-	205	1,213	1,418
Financial Liabilities:					
Certificates of deposit	9,900	-	9,881	-	9,881
Demand and other deposits	291,787	291,787	-	-	291,787
Secured borrowings	381	-	381	-	381
Accrued interest payable	-	-	-	-	-

NOTE 14 — Capital

Banks are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities and certain off-balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. The final rules of implementing the Basel Committee on Banking Supervision's capital guidelines for U.S. Banks (Basel III rules) became effective for the Company on January 1, 2015, with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. Management believes as of December 31, 2016, the Bank met all capital adequacy requirements to which it is subject.

NOTE 14 — Capital (Continued)

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized. Undercapitalized, significantly undercapitalized and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required.

As of December 31, 2016, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized," the Bank must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the table below. Since that notification, there are no conditions or events that management believes have changed the institution's category.

	Actual		Required For Capital Adequacy Purposes*		For Capital Adequacy Purposes Including Capital Conservation Buffer(1)		To be Well Capitalized Under Prompt Corrective Action Regulations*	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2016								
Total capital to risk weighted assets	$ 50,974	17.25%	$ 23,642	8.00%	$ 25,489	8.63%	$ 29,552	10.00%
Tier 1 (core) capital to risk weighted assets	47,560	16.09	17,731	6.00	19,578	6.63	23,642	8.00
Tier 1 (common) capital to risk weighted assets	47,560	16.09	13,299	4.50	15,146	5.13	19,209	6.50
Tier 1 (core) capital to adjusted total assets	47,560	11.63	16,351	4.00	16,351	4.00	20,439	5.00
December 31, 2015								
Total capital to risk weighted assets	$ 41,425	17.06%	$ 19,426	8.00%	n/a	n/a	$ 24,282	10.00%
Tier 1 (core) capital to risk weighted assets	38,626	15.91	14,567	6.00	n/a	n/a	19,422	8.00
Tier 1 (common) capital to risk weighted assets	38,626	15.91	10,925	4.50	n/a	n/a	15,781	6.50
Tier 1 (core) capital to adjusted total assets	38,626	11.90	12,984	4.00	n/a	n/a	16,229	5.00

* BASEL III revised the capital adequacy requirements and the Prompt Corrective Action Framework effective January 1, 2015 for the Bank.

(1) When fully phased in on January 1, 2019, the Basel Rules will require the Bank to maintain a 2.5% "capital conservation buffer" on top of the minimum risk-weighted asset ratios. The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a (i) Common Equity Tier 1 capital to risk-weighted assets, (ii)Tier 1 capital to risk-weighted assets or (iii) total capital to risk-weighted assets above the respective minimum but below the capital conservation buffer will face constraints on dividends, equity repurchases and discretionary bonus payments to executive officers based on the amount of the shortfall. The implementation of the capital conservation buffer began on January 1, 2016 at the 0.625% level and will increase by 0.625% on each subsequent January 1, until it reaches 2.5% on January 1, 2019.

In December 2012, the Board of Directors of the Bank ratified maintaining Tier I Leverage Capital at least equal to 9%, Tier I Risk-Based Capital at least equal to 11% and Total Risk-Based Capital at least equal to 13%.

ESQUIRE FINANCIAL HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2016 and 2015
(Dollars in thousands, except per share data)

NOTE 15 — Parent Company Only Condensed Financial Information

Condensed financial information of Esquire Financial Holdings, Inc. follows:

CONDENSED STATEMENTS OF FINANCIAL CONDITION

	At December 31, 2016	2015
ASSETS		
Cash and cash equivalents	$ 4,473	$ 7,459
Investment in banking subsidiary	47,085	40,393
Other assets	660	1,710
Total assets	$ 52,218	$ 49,562
LIABILITIES		
Due to subsidiary	$ -	$ 90
Other liabilities	32	47
Total liabilities	32	137
Stockholders' equity		
Preferred stock	1	2
Common stock	50	49
Additional paid-in-capital	58,845	58,456
Retained deficit	(5,826)	(8,648)
Other comprehensive loss	(884)	(434)
Total stockholders' equity	52,186	49,425
Total liabilities and equity	$ 52,218	$ 49,562

CONDENSED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

	For the Years Ended December 31, 2016	2015
Interest income	$ 100	$ -
Other expense	(620)	(540)
Loss before income tax and undistributed subsidiary income	(520)	(540)
Income tax benefit	(200)	(213)
Equity in undistributed subsidiary income	3,142	1,499
Net income	$ 2,822	$ 1,172
Comprehensive income	$ 2,372	$ 988

NOTE 15 — Parent Company Only Condensed Financial Information (Continued)

CONDENSED STATEMENTS OF CASH FLOWS

	For the Years Ended December 31, 2016	2015
Cash flows from operating activities		
Net income	$ 2,822	$ 1,172
Adjustments:		
Stock options expense	388	138
Equity in undistributed subsidiary income	(3,142)	(1,499)
Change in other assets	(200)	(213)
Change in other liabilities	(105)	(438)
Net cash used in operating activities	(237)	(840)
Cash flows from investing activities		
Investments in subsidiaries	(4,000)	(3,000)
Other assets	1,250	(1,250)
Net cash used in investing activities	(2,750)	(4,250)
Cash flows from financing activities		
Proceeds from the issuance of common stock	1	9,757
Net cash from financing activities	1	9,757
Net change in cash and cash equivalents	(2,986)	4,667
Beginning cash and cash equivalents	7,459	2,792
Ending cash and cash equivalents	$ 4,473	$ 7,459

NOTE 16 — Accumulated Other Comprehensive Loss

The following is changes in accumulated other comprehensive loss by component, net of tax, for the years ending December 31, 2016 and 2015:

Year Ended December 31,	2016 Unrealized Losses on Available for Sale Securities	2015 Unrealized Losses on Available for Sale Securities
Beginning balance	$ (434)	$ (250)
Other comprehensive loss before reclassifications	(454)	(184)
Amounts reclassified from accumulated other comprehensive income	4	-
Net current period other comprehensive loss	(450)	(184)
Ending balance	$ (884)	$ (434)

The following represents the reclassifications out of accumulated other comprehensive income for the years ended December 31, 2016, and 2015:

	Twelve months ended December 31, 2016	2015	Affected Line in the Consolidated Statement of Income
Realized gain on securities sales, AFS	$ 6	$ -	Net gains on securities available-for-sale
Income tax expense	(2)	-	Income tax expense
Total reclassifications, net of tax	$ 4	$ -	

COMMON STOCK INFORMATION

Our common stock is traded on the Nasdaq Capital Market under the symbol "ESQ". As of September 1, 2017, we had approximately 269 stockholders of record, who held 7,312,410 shares of our outstanding common stock.

Prior to our initial public offering, which was completed on June 30, 2017, we did not trade on an established public market.

We have not historically declared or paid cash dividends on our common stock and we do not expect to pay cash dividends on our common stock for the foreseeable future. Instead, we anticipate that all of our future earnings will be retained to support our operations and to finance the growth and development of our business. Any future determination to pay cash dividends on our common stock will be made by our board of directors and will depend on a number of factors, including

- our historical and projected financial condition, liquidity and results of operations;
- our capital levels and requirements;
- statutory and regulatory prohibitions and other limitations;
- any contractual restriction on our ability to pay cash dividends, including pursuant to the terms of any of our credit agreements or other borrowing arrangements;
- our business strategy;
- tax considerations;
- any acquisitions or potential acquisitions that we may examine;
- general economic conditions; and
- other factors deemed relevant by our board of directors.

As a Maryland corporation, we are subject to certain restrictions on dividends under the Maryland General Corporation Code. Generally, Maryland law limits cash dividends if the corporation would not be able to pay its debts in the usual course of business after giving effect to the cash dividend or if the corporation's total assets would be less than the corporation's total liabilities plus the amount needed to satisfy the preferential rights upon dissolution of stockholders whose preferential rights on dissolution are superior to those receiving the distribution. We are also subject to certain restrictions on the payment of cash dividends as a result of banking laws, regulations and policies.

Because we are a holding company, we are dependent upon the payment of dividends by Esquire Bank to us as our principal source of funds to pay dividends in the future, if any, and to make other payments. Esquire Bank is also subject to various legal, regulatory and other restrictions on its ability to pay dividends and make other distributions and payments to us. A national bank may generally declare a cash dividend, without approval from the OCC, in an amount equal to its year-to-date net income plus the prior two years' net income that is still available for dividends. The OCC has the authority to prohibit a national bank from paying cash dividends if such payment is deemed to be an unsafe or unsound practice. In addition, as a depository institution the deposits of which are insured by the FDIC, Esquire Bank may not pay cash dividends or distribute any of its capital assets while it remains in default on any assessment due to the FDIC. Esquire Bank currently is not (and never has been) in default under any of its obligations to the FDIC.

The FRB has issued a policy statement regarding the payment of cash dividends by bank holding companies. In general, the FRB's policy provides that cash dividends should be paid only out of current earnings and only if the prospective rate of earnings retention by the bank holding company appears consistent with the organization's capital needs, asset quality and overall financial condition. The FRB has the

authority to prohibit a bank holding company from paying cash dividends if such payment is deemed to be an unsafe or unsound practice.

DIRECTORS AND EXECUTIVE OFFICERS

Directors

Dennis Shields
Executive Chairman

Andrew C. Sagliocca
President, Chief Executive Officer and Director

Selig A. Zises
Retired Investor

Todd Deutsch
Private Investor and Entrepreneur

John Morgan
Founder, Attorney
Morgan & Morgan

Robert J. Mitzman
Founder and Chairman
Quick Group of Companies

Marc Grossman
Founding and Senior Partner
The Sanders Law Firm

Janet Hill
Principal
Hill Family Advisors

Anthony Coelho
Chair of the Advisory Board
Bender Consulting Services

Richard T. Powers
Owner
RT Powers & Associates

Jack Thompson
Head of Financial Services Investments
Gapstow Capital Partners

Russ M. Herman
Senior Partner
Herman, Herman & Katz, L.L.C.

Kevin C. Waterhouse
Vice President and Investment Advisor
L.M. Waterhouse & Company

Executive Officers

Dennis Shields
Executive Chairman

Eric S. Bader
Executive Vice President, Chief Financial Officer, Treasurer and Corporate Secretary

Andrew C. Sagliocca
President, Chief Executive Officer and Director

Ari P. Kornhaber
Executive Vice President, Director of Sales

CORPORATE INFORMATION

Corporate Headquarters

100 Jericho Quadrangle, Suite 100
Jericho, New York 11753
(800) 996-0213
Website: www.esquirebank.com

Transfer Agent

American Stock Transfer & Trust Company, LLC
6201 15th Avenue
Brooklyn, New York 11219
(800) 937-5449

Special Counsel

Luse Gorman, PC
5335 Wisconsin Ave., N.W., Suite 780
Washington, D.C. 20015
(202) 274-2000

Independent Registered Public Accounting Firm

Crowe Horwath LLP
488 Madison Avenue, Floor 3
New York, New York 10022-5702
(212) 572 5500

ANNUAL MEETING

The Annual Meeting of the Stockholders will be held on November 8, 2017 at 10:00 a.m., Eastern time, at the executive offices of Esquire Financial Holdings, Inc. located at 100 Jericho Quadrangle, Jericho, New York 11753.

GENERAL INQUIRIES

A copy of our Annual Report to the SEC may be obtained without charge by written request of stockholders to Eric Bader or by calling us at (800) 996-0213. The Annual Report is also available on our website at www.esquirebank.com. Our Code of Ethics, Audit Committee Charter, Corporate Governance and Nominating Committee Charter, Compensation Committee Charter, and Beneficial Ownership reports of our directors and executive officers are also available on our website.

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