Section 1: 10-Q (FORM 10-Q)

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2018

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _______________ to _______________

Commission File No. 001-38131

Esquire Financial Holdings, Inc.
(Exact Name of Registrant as Specified in Its Charter)

Maryland	**27-5107901**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**
100 Jericho Quadrangle, Suite 100, Jericho, New York	**11753**
(Address of Principal Executive Offices)	**(Zip Code)**

(516) 535-2002
(Registrant's Telephone Number, Including Area Code)

N/A
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such requirements for the past 90 days.
YES ☒ NO ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
YES ☒ NO ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☐
(Do not check if a smaller reporting company)		Emerging growth company	☒

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
YES ☐ NO ☒

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date: As of August 1, 2018, there were 7,445,723 outstanding shares of the issuer’s common stock.

Esquire Financial Holdings, Inc.
Form 10-Q

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

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

	June 30, 2018	December 31, 2017
ASSETS		
Cash and due from banks	$ 589	$ 471
Interest earning deposits	26,915	42,606
Total cash and cash equivalents	27,504	43,077
Securities available-for-sale, at fair value	147,768	128,758
Securities, restricted, at cost	2,343	2,183
Loans	391,673	348,978
Less: allowance for loan losses	(4,789)	(4,264)
Loans, net	386,884	344,714
Premises and equipment, net	2,493	2,546
Accrued interest receivable	4,025	2,836
Deferred tax asset, net	3,107	2,241
Other assets	13,063	7,202
Total assets	$ 587,187	$ 533,557
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Demand	$ 170,712	$ 190,847
Savings, NOW and money market	309,954	230,715
Time	16,449	26,932
Total deposits	497,115	448,494
Secured borrowings	274	278
Accrued expenses and other liabilities	3,302	1,402
Total liabilities	500,691	450,174
Commitments and Contingencies	-	-
Stockholders' equity:		
Preferred stock, par value $0.01; authorized 2,000,000 shares; no shares issued and outstanding at June 30, 2018 and December 31, 2017	-	-
Common stock, par value $0.01; authorized 15,000,000 shares; issued and outstanding 7,445,723 shares at June 30, 2018, and 7,326,536 shares at December 31, 2017	74	73
Additional paid-in capital	87,460	86,660
Retained earnings (deficit)	2,219	(1,960)
Accumulated other comprehensive loss	(3,257)	(1,390)
Total stockholders' equity	86,496	83,383
Total liabilities and stockholders' equity	$ 587,187	$ 533,557

See accompanying condensed notes to interim condensed consolidated financial statements.

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	**2017**	**2018**	**2017**
Interest income:				
Loans	$ 5,657	$ 4,062	$ 10,946	$ 7,889
Securities	1,006	628	1,870	1,178
Interest earning deposits and other	201	66	317	121
Total interest income	6,864	4,756	13,133	9,188
Interest expense:				
Savings, NOW and money market deposits	167	106	289	215
Time deposits	51	25	98	47
Borrowings	5	5	10	11
Total interest expense	223	136	397	273
Net interest income	6,641	4,620	12,736	8,915
Provision for loan losses	300	300	525	450
Net interest income after provision for loan losses	6,341	4,320	12,211	8,465
Non-interest income:				
Merchant processing income	1,211	831	2,232	1,670
Customer related fees and service charges	769	528	1,823	894
Total non-interest income	1,980	1,359	4,055	2,564
Non-interest expense:				
Employee compensation and benefits	3,008	2,369	6,069	4,714
Occupancy and equipment, net	432	374	858	761
Professional and consulting services	684	516	1,312	905
FDIC and regulatory assessments	83	76	155	147
Advertising and marketing	171	96	296	206
Travel and business relations	111	122	268	228
Data processing	446	409	930	780
Other operating expenses	354	207	673	452
Total non-interest expense	5,289	4,169	10,561	8,193
Net income before income taxes	3,032	1,510	5,705	2,836
Income tax expense	811	483	1,526	994
Net income	$ 2,221	$ 1,027	$ 4,179	$ 1,842
Earnings per common share				
Basic	$ 0.30	$ 0.20	$ 0.57	$ 0.36
Diluted	$ 0.29	$ 0.20	$ 0.54	$ 0.36

See accompanying condensed notes to interim condensed consolidated financial statements

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	**2017**	**2018**	**2017**
Net income	$ 2,221	$ 1,027	$ 4,179	$ 1,842
Other comprehensive (loss) income:				
Unrealized holding (losses) gains arising during the period on securities available for sale	(844)	440	(2,572)	623
Reclassification adjustment for net gains included in net income	-	-	-	-
Tax effect	232	(169)	705	(247)
Total other comprehensive (loss) income	(612)	271	(1,867)	376
Total comprehensive income	$ 1,609	$ 1,298	$ 2,312	$ 2,218

See accompanying condensed notes to interim condensed consolidated financial statements.

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

	Preferred shares	Common shares	Preferred stock	Common stock	Additional paid in capital	Retained earnings (deficit)	Accumulated other comprehensive loss	Total stockholders' equity
Balance at January 1, 2018	-	7,326,536	$ -	$ 73	$ 86,660	$ (1,960)	$ (1,390)	$ 83,383
Net income	-	-	-	-	-	4,179	-	4,179
Other comprehensive loss	-	-	-	-	-	-	(1,867)	(1,867)
Exercise of stock options, net of repurchases	-	42,687	-	1	377	-	-	378
Restricted stock grants	-	76,500	-	-	-	-	-	-
Stock compensation expense	-	-	-	-	423	-	-	423
Balance at June 30, 2018	-	7,445,723	$ -	$ 74	$ 87,460	$ 2,219	$ (3,257)	$ 86,496

See accompanying condensed notes to interim condensed consolidated financial statements.

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

	For the Six Months Ended June 30,	
	2018	**2017**
Cash flows from operating activities:		
Net income	$ 4,179	$ 1,842
Adjustments to reconcile net income to		
Net cash used in operating activities:		
Provision for loan losses	525	450
Depreciation	205	204
Stock compensation expense	423	288
Net amortization:		
Securities	216	196
Loans	198	281
Changes in other assets and liabilities:		
Accrued interest receivable	(1,189)	(155)
Deferred tax asset	(161)	413
Other assets	(3,451)	(1,366)
Accrued expenses and other liabilities	1,900	694
Net cash provided by operating activities	2,845	2,847
Cash flows from investing activities:		
Net change in loans	(42,893)	(29,161)
Purchases of securities available for sale	(33,822)	(15,398)
Principal repayments on securities available for sale	12,024	11,168
Purchases of securities, restricted	(160)	(200)
Investment in equity security without readily determinable fair value	(2,410)	-
Purchases of premises and equipment	(152)	(157)
Net cash used in investing activities	(67,413)	(33,748)
Cash flows from financing activities:		
Net increase in deposits	48,621	5,575
Decrease in secured borrowings	(4)	(89)
Exercise of stock options	378	540
Proceeds from issuance of common stock, net of issuance costs	-	21,742
Net cash provided by financing activities	48,995	27,768
Decrease in cash and cash equivalents	(15,573)	(3,133)
Cash and cash equivalents at beginning of the period	43,077	42,993
Cash and cash equivalents at end of the period	$ 27,504	$ 39,860

(Continued)

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

	For the Six Months Ended June 30, 2018	2017
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$ 396	$ 273
Income taxes	1,005	868

See accompanying condensed notes to interim condensed consolidated financial statements.

NOTE 1 — Basis of Presentation

The interim consolidated financial statements include the accounts of Esquire Financial Holdings, Inc. and its wholly owned subsidiary, Esquire Bank, N.A. These entities are collectively referred to as "the Company." All significant intercompany accounts and transactions have been eliminated in consolidation.

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial information. In the opinion of management, the interim statements reflect all adjustments necessary for a fair presentation of the financial position, results of operations and cash flows of the Company on a consolidated basis and all such adjustments are recurring in nature. These financial statements and the accompanying notes should be read in conjunction with the Company's audited financial statements for the years ended December 31, 2017 and 2016. Operating results for the three and six months ended June 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018 or any other period.

Subsequent Events

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

Equity Security Without Readily Determinable Fair Value

In April of 2018, the Company completed its $2,410 investment for a 4.95% interest in Litify LLC, a technology solution to automate and manage a law firm's business and cases. As Litify LLC is a private company, the investment does not have a readily determinable fair value. At June 30, 2018, the investment's carrying amount remains at its original cost basis of $2,410 and is grouped with other assets on the balance sheet. Based on a qualitative assessment, we have noted no significant adverse changes which would indicate the asset is impaired as of June 30, 2018.

Secured Borrowing

The Company had a secured borrowing of $274 and $278 as of June 30, 2018 and December 31, 2017, respectively, relating to certain loan participations sold by the Company that did not qualify for sales treatment.

Preferred Stock

In December of 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.

In June of 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.

In July of 2017, the Company and the preferred shareholder agreed to perform an exchange of 66,985 shares of 0.00% of Series B non-voting preferred shares for 66,985 voting common shares, par value $0.01. As of June 30, 2018 and December 31, 2017, there are no preferred shares outstanding.

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 are now such matters that will have a material effect on the consolidated financial statements.

Reclassifications

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

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. Topic 606 was effective for the Company on January 1, 2018. The Company has applied ASU 2014-09 using the modified retrospective approach to all existing contracts with customers covered under the scope of the standard. The adoption of this ASU was not significant to the Company and had no material effect on how the Company recognizes revenue nor did it result in a cumulative effect adjustment or any presentation changes to the consolidated financial statements. See below for additional information related to revenue generated from contracts with customers.

The majority of the Company's revenue-generating transactions are not subject to ASC 606, including revenue generated from financial instruments, such as loans, letters of credit, and investment securities. Descriptions of revenue-generating activities that are within the scope of ASC 606, and are presented in the accompanying Consolidated Statements of Income as components of noninterest income, are as follows:

	Three months ended, June 30,		**Six months ended, June 30,**	
	2018	**2017**	**2018**	**2017**
Non-interest income				
Customer related fees and service charges				
Administrative service income	$ 688	$ 327	$ 1,652	$ 585
Merchant processing income				
Merchant services income	1,129	763	2,070	1,528
ACH income	82	68	162	142
Other	81	201	171	309
Total non-interest income	$ 1,980	$ 1,359	$ 4,055	$ 2,564

The Company has made no significant judgments in applying the revenue guidance prescribed in ASC 606 that affect the determination of the amount and timing of revenue from the above-described contracts with customers.

- Administrative service income – Administrative service income is derived from our relationships with qualified settlement funds (QSFs), which are plaintiffs' funds from settled class action lawsuits. Our performance obligations with the QSFs are outlined in the master settlement agreements (MSAs), essentially court orders, and are limited to ensuring funds are invested into safe investment vehicles such as U.S. treasuries, FDIC insured CDs and money market funds. Our fees for placing these funds in appropriate vehicles are earned over the course of a month, representing the period over which the Company satisfies the performance obligation.

- Merchant services income – We provide merchant services as an acquiring bank through the third-party or ISO business model in which we process credit and debit card transactions on behalf of merchants. We enter into a tri-party merchant agreement, between the company, ISO and each merchant. The Company's performance obligation is essentially acquiring, clearing and settling credit and debit transactions on behalf of the ISO's merchants. The Company only recognizes revenue once a month, once it summarizes and computes all revenue and expenses applicable to each ISO. By this juncture, it has satisfied its performance obligation.

- ACH income – We provide ACH services for various commercial customers. Contracts are entered into with third parties that need ACH transactions processed on behalf of their customers. Fees are variable and based on the number volume of transactions within a given month. Our performance obligations are processing and settling ACH's on behalf of the customers as an originating depository financial institution. Our obligation is satisfied within each business day when the transactions (ACH files) are sent to the Federal Reserve Bank for clearing. Revenue is recognized when we send a bill to commercial customer based on the total volume of transactions processed that month.

- Other – The other category includes revenue from service charges on deposit accounts, debit card interchange fees, which are within scope of ASC 606, revenue is recognized as performance obligations are satisfied.

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 did not have a material effect on the Company's operating results or financial condition. However, the Company did enhance its computation of fair value of loans (as disclosed in Note 6) to comply with the exit price notion as required by the ASU.

On February 25, 2016, the FASB completed its Leases project by issuing ASU No. 2017-02, "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 reviewing its existing lease contracts and service contracts that may include embedded leases.

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 gathering data and building a roadmap for the implementation of this standard.

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:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2018				
Mortgage-backed securities - agency	$ 20,071	$ -	$ (774)	$ 19,297
Collateralized mortgage obligations (CMO's) - agency	132,183	11	(3,723)	128,471
Total available-for-sale	$ 152,254	$ 11	$ (4,497)	$ 147,768
December 31, 2017				
Mortgage-backed securities - agency	$ 20,082	$ 12	$ (291)	$ 19,803
Collateralized mortgage obligations (CMO's) - agency	110,590	13	(1,648)	108,955
Total available-for-sale	$ 130,672	$ 25	$ (1,939)	$ 128,758

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. We have no securities due at a single maturity. Securities not due at a single maturity date are shown below.

	June 30, 2018	
	Amortized Cost	Fair Value
Mortgage-backed securities - agency	$ 20,071	$ 19,297
CMO's - agency	132,183	128,471
Total	$ 152,254	$ 147,768

Mortgage-backed securities include residential pass-through certificates guaranteed by FHLMC, FNMA, or GNMA and the CMO’s are backed by government agency pass-through certificates. The 2018 and 2017 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 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.

There were no sales or calls of securities for the three and six months ended June 30, 2018 and 2017.

At June 30, 2018, securities having a fair value of $128,471 were pledged to the Federal Home Loan Bank of New York (FHLB) for borrowing capacity totaling $123,171. At December 31, 2017, securities having a fair value of approximately $108,955 were pledged to the FHLB for borrowing capacity totaling $103,351. At June 30, 2018 and December 31, 2017, the Company had no outstanding FHLB advances.

At June 30, 2018, securities having a fair value of $19,297 were pledged to the Federal Reserve Bank of New York (FRB) for borrowing capacity totaling $17,608. At December 31, 2017, securities having a fair value of approximately $19,803 were pledged to the FRB for borrowing capacity totaling $19,370. At June 30, 2018 and December 31, 2017, 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:

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
June 30, 2018						
Mortgage-backed securities - agency	$ 7,936	$ (286)	$ 11,361	$ (488)	$ 19,297	$ (774)
CMO's – agency	97,801	(2,227)	25,889	(1,496)	123,690	(3,723)
Total temporarily impaired securities	$ 105,737	$ (2,513)	$ 37,250	$ (1,984)	$ 142,987	$ (4,497)
December 31, 2017						
Mortgage-backed securities - agency	$ 5,766	$ (26)	$ 12,312	$ (265)	$ 18,078	$ (291)
CMO's - agency	75,056	(685)	28,848	(963)	103,904	(1,648)
Total temporarily impaired securities	$ 80,822	$ (711)	$ 41,160	$ (1,228)	$ 121,982	$ (1,939)

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 June 30, 2018, securities in unrealized loss positions were issuances from government sponsored entities. Due to the decline in fair value being attributable to changes in interest rates, 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 June 30, 2018.

No impairment charges were recorded for the three and six months ended June 30, 2018 and 2017.

NOTE 3 — Loans

The composition of loans by class is summarized as follows:

	June 30, 2018	% of Total	December 31, 2017	% of Total
1-4 family residential	$ 57,522	15%	$ 51,556	15%
Commercial	147,419	38%	136,412	39%
Multifamily	115,597	29%	98,432	28%
Commercial real estate	31,539	8%	24,761	7%
Construction	6,618	2%	5,047	2%
Consumer	32,139	8%	31,881	9%
Total Loans	390,834	100%	348,089	100%
Deferred costs and unearned premiums, net	839		889	
Allowance for loan losses	(4,789)		(4,264)	
Net loans	$ 386,884		$ 344,714	

The following tables present the activity in the allowance for loan losses by class for the three months ending June 30, 2018 and 2017:

	1-4 Family Residential	Commercial	Multifamily	Commercial Real Estate	Construction	Consumer	Total
June 30, 2018							
Allowance for loan losses:							
Beginning balance	$ 378	$ 2,485	$ 696	$ 262	$ 151	$ 517	$ 4,489
Provision (credit) for loan losses	47	33	130	83	17	(10)	300
Recoveries	-	-	-	-	-	-	-
Loans charged-off	-	-	-	-	-	-	-
Total ending allowance balance	$ 425	$ 2,518	$ 826	$ 345	$ 168	$ 507	$ 4,789
June 30, 2017							
Allowance for loan losses:							
Beginning balance	$ 350	$ 2,039	$ 669	$ 227	$ 102	$ 136	$ 3,523
Provision (credit) for loan losses	8	115	(5)	(1)	7	176	300
Recoveries	-	-	-	-	-	-	-
Loans charged-off	-	-	-	-	-	-	-
Total ending allowance balance	$ 358	$ 2,154	$ 664	$ 226	$ 109	$ 312	$ 3,823

The following tables present the activity in the allowance for loan losses by class for the six months ending June 30, 2018 and 2017:

	1-4 Family Residential	Commercial	Multifamily	Commercial Real Estate	Construction	Consumer	Total
June 30, 2018							
Allowance for loan losses:							
Beginning balance	$ 382	$ 2,272	$ 713	$ 266	$ 127	$ 504	$ 4,264
Provision for loan losses	43	246	113	79	41	3	525
Recoveries	-	-	-	-	-	-	-
Loans charged-off	-	-	-	-	-	-	-
Total ending allowance balance	$ 425	$ 2,518	$ 826	$ 345	$ 168	$ 507	$ 4,789
June 30, 2017							
Allowance for loan losses:							
Beginning balance	$ 360	$ 1,934	$ 621	$ 238	$ 141	$ 119	$ 3,413
Provision (credit) for loan losses	(2)	220	43	(12)	(32)	233	450
Recoveries	-	-	-	-	-	-	-
Loans charged-off	-	-	-	-	-	(40)	(40)
Total ending allowance balance	$ 358	$ 2,154	$ 664	$ 226	$ 109	$ 312	$ 3,823

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 June 30, 2018 and December 31, 2017:

	1-4 Family Residential	Commercial	Multifamily	Commercial Real Estate	Construction	Consumer	Total
June 30, 2018							
Allowance for loan losses:							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	425	2,518	826	345	168	507	4,789
Total ending allowance balance	$ 425	$ 2,518	$ 826	$ 345	$ 168	$ 507	$ 4,789

	1-4 Family Residential	Commercial	Multifamily	Commercial Real Estate	Construction	Consumer	Total
Loans:							
Loans individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Loans collectively evaluated for impairment	57,522	147,419	115,597	31,539	6,618	32,139	390,834
Total ending loans balance	$ 57,522	$ 147,419	$ 115,597	$ 31,539	$ 6,618	$ 32,139	$ 390,834

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

	1-4 Family Residential	Commercial	Multifamily	Commercial Real Estate	Construction	Consumer	Total
December 31, 2017							
Allowance for loan losses:							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	382	2,272	713	266	127	504	4,264
Total ending allowance balance	$ 382	$ 2,272	$ 713	$ 266	$ 127	$ 504	$ 4,264
Loans:							
Loans individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Loans collectively evaluated for impairment	51,556	136,412	98,432	24,761	5,047	31,881	348,089
Total ending loans balance	$ 51,556	$ 136,412	$ 98,432	$ 24,761	$ 5,047	$ 31,881	$ 348,089

Non-Performing Loans

Non-performing loans include loans 90 days past due and still accruing and non-accrual loans. At June 30, 2018 and December 31, 2017, the Company did not have any non-performing loans.

The following tables present the aging of the recorded investment in past due loans by class of loans as of June 30, 2018 and December 31, 2017:

	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Loans Not Past Due	Total
June 30, 2018						
1-4 family residential	$ -	$ -	$ -	$ -	$ 57,522	$ 57,522
Commercial	-	-	-	-	147,419	147,419
Multifamily	-	-	-	-	115,597	115,597
Commercial real estate	-	-	-	-	31,539	31,539
Construction	-	-	-	-	6,618	6,618
Consumer	-	-	-	-	32,139	32,139
Total	$ -	$ -	$ -	$ -	$ 390,834	$ 390,834

	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, 2017						
1-4 family residential	$ -	$ -	$ -	$ -	$ 51,556	$ 51,556
Commercial	-	-	-	-	136,412	136,412
Multifamily	-	-	-	-	98,432	98,432
Commercial real estate	-	-	-	-	24,761	24,761
Construction	-	-	-	-	5,047	5,047
Consumer	-	-	-	-	31,881	31,881
Total	$ -	$ -	$ -	$ -	$ 348,089	$ 348,089

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
June 30, 2018				
1-4 family residential	$ 57,522	$ -	$ -	$ -
Commercial	137,710	9,499	210	-
Multifamily	115,597	-	-	-
Commercial real estate	31,539	-	-	-
Construction	6,618	-	-	-
Consumer	32,139	-	-	-
Total	$ 381,125	$ 9,499	$ 210	$ -

	Pass	Special Mention	Substandard	Doubtful
December 31, 2017				
1-4 family residential	$ 51,556	$ -	$ -	$ -
Commercial	126,577	9,835	-	-
Multifamily	98,432	-	-	-
Commercial real estate	24,761	-	-	-
Construction	5,047	-	-	-
Consumer	31,881	-	-	-
Total	$ 338,254	$ 9,835	$ -	$ -

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 June 30, 2018 and December 31, 2017. Furthermore, there were no loans modified during the three and six months ended June 30, 2018 and 2017 as 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.

NOTE 4 — Share-Based Payment Plans

The Company issues incentive and non-statutory stock options and restricted stock awards to certain employees and directors pursuant to its equity incentive plans, which have been approved by the stockholders. Share-based awards are recommended by the Compensation Committee of the Board of Directors, which are then approved by the full Board.

At June 30, 2018, there are options outstanding and/or restricted stock awards from three plans, the 2007 Stock Option Plan ("the 2007 Plan") the 2011 Stock Compensation Plan ("the 2011 Plan") and the 2017 Equity Incentive Plan ("the 2017 Plan"). The 2007 Plan allowed for a maximum of 270,000 shares of common stock to be issued. The 2007 Plan expired in May of 2017. The 2011 Plan allows for 754,607 shares to be issued, of which 750,545 have been issued as of June 30, 2018. The 2017 Plan allows for a maximum of 300,000 shares of common stock to be issued. During the first quarter of 2018 the Company granted 45,000 stock options and 76,500 restricted shares from the 2017 Plan.

Under the 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 over three or five years and have ten year contractual terms. All options provide for accelerated vesting upon a change in control (as defined in the plans). Restricted shares are granted at the fair value on the date of grant and typically vest over 6 years with a third vesting after years four, five, and six. Restricted shares have the same voting rights as common stock. Nonvested restricted shares do not have rights to dividends.

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 the Company's stock price activity. The expected term of options granted 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.

There were no stock options granted during the three months ended June 30, 2018 or during the three and six months ended June 30, 2017. The fair value of options granted during the six months ended June 30, 2018 was determined using the following weighted average assumptions as of the grant date:

	2018
Risk-Free Interest Rate	2.54%
Expected Term	84 months
Expected Stock Price Volatility	21.0%
Dividend Yield	0.00%
Weighted Average Fair Value	$ 5.63

The following table presents a summary of the activity related to options as of June 30, 2018:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)
June 30, 2018			
Outstanding at beginning of year	880,925	$ 12.36	
Granted	45,000	19.25	
Exercised	(47,750)	10.00	
Forfeited	(1,500)	19.25	
Outstanding at period end	876,675	$ 12.83	7.18
Vested or expected to vest	876,675	$ 12.83	7.18
Exercisable at period end	310,218	$ 12.50	6.05

The Company recognized compensation expense related to options of $163 and $151 for the three months ended June 30, 2018 and 2017, respectively. The Company recognized compensation expense related to options of $317 and $288 for the six months ended June 30, 2018 and 2017, respectively. At June 30, 2018, unrecognized compensation cost related to non-vested options was approximately $1,559 and is expected to be recognized over a weighted average period of 2.64 years. The intrinsic value for outstanding options and for options vested or expected to vest was $11,883 and $4,309 for exercisable options at June 30, 2018.

The following table presents a summary of the activity related to restricted stock as of June 30, 2018:

	Shares	Weighted Average Grant Date Fair Value
Non-vested Shares		
Outstanding at beginning of year	-	$ -
Granted	76,500	19.25
Vested or expected to vest	-	-
Outstanding at period end	76,500	$ 19.25

The Company recognized compensation expense related to restricted stock of $61 and zero for the three months ended June 30, 2018 and 2017, respectively. The Company recognized compensation expense related to restricted stock of $106 and zero for the six months ended June 30, 2018 and 2017, respectively. As of June 30, 2018, there was $1,366 of total unrecognized compensation cost related to non-vested shares granted under the plan. The cost is expected to be recognized over a weighted-average period of 5.57 years.

NOTE 5 — Earnings per 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. Our preferred shares are considered participating securities. The factors used in the earnings per share computation follow:

	Three months ended At June 30,		Six months ended At June 30,	
	2018	2017	2018	2017
Basic				
Net income available to common shareholders	$ 2,221	$ 1,027	$ 4,179	$ 1,842
Less: Earnings allocated to preferred stock	-	13	-	24
Net income allocated to common shareholders	$ 2,221	$ 1,014	$ 4,179	$ 1,818
Weighted average common shares outstanding	7,369,223	5,075,019	7,366,950	5,039,197
Basic earnings per common share	$ 0.30	$ 0.20	$ 0.57	$ 0.36
Diluted				
Net income allocated to common shareholders for basic earnings per share	$ 2,221	$ 1,014	$ 4,179	$ 1,818
Weighted average shares outstanding for basic earnings per common share	7,369,223	5,075,019	7,366,950	5,039,197
Add: Dilutive effects of assumed exercises of stock options	346,792	25,589	323,853	30,202
Average shares and dilutive potential common shares	7,716,015	5,100,608	7,690,803	5,069,399
Diluted earnings per common share	$ 0.29	$ 0.20	$ 0.54	$ 0.36
Stock options not considered in computing diluted earnings per share because they were anti-dilutive	-	775,425	43,500	779,425

NOTE 6 — 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).

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)
June 30, 2018			
Assets			
Available-for-sale securities			
Mortgage-backed securities - agency	$ -	$ 19,297	$ -
CMO's - agency	-	128,471	-
Total	$ -	$ 147,768	$ -
December 31, 2017			
Assets			
Available-for-sale securities			
Mortgage-backed securities - agency	$ -	$ 19,803	$ -
CMO's - agency	-	108,955	-
Total	$ -	$ 128,758	$ -

There were no transfers between Level 1 and Level 2 during the three and six months ended June 30, 2018 and 2017. There were no assets measured on a non-recurring basis as of June 30, 2018 and December 31, 2017.

The following tables present the carrying amounts and fair values (represents exit price) of financial instruments at June 30, 2018 and December 31, 2017:

	Carrying Value	Fair Value Measurement at June 30, 2018, Using: (Level 1)	(Level 2)	(Level 3)	Total
Financial Assets:					
Cash and cash equivalents	$ 27,504	$ 589	$ 26,915	$ -	$ 27,504
Securities available for sale	147,768	-	147,768	-	147,768
Securities, restricted	2,343	N/A	N/A	N/A	N/A
Loans, net of allowance	386,884	-	-	384,305	384,305
Accrued interest receivable	4,025	-	368	3,657	4,025
Financial Liabilities:					
Time deposits	16,449	-	16,353	-	16,353
Demand and other deposits	480,666	480,666	-	-	480,666
Secured borrowings	274	-	274	-	274
Accrued interest payable	7	-	7	-	7

	Carrying Value	Fair Value Measurement at December 31, 2017, Using: (Level 1)	(Level 2)	(Level 3)	Total
Financial Assets:					
Cash and cash equivalents	$ 43,077	$ 471	$ 42,606	$ -	$ 43,077
Securities available for sale	128,758	-	128,758	-	128,758
Securities, restricted	2,183	N/A	N/A	N/A	N/A
Loans, net of allowance	344,714	-	-	345,540	345,540
Accrued interest receivable	2,836	-	300	2,536	2,836
Financial Liabilities:					
Time deposits	26,932	-	26,847	-	26,847
Demand and other deposits	421,562	421,562	-	-	421,562
Secured borrowings	278	-	278	-	278
Accrued interest payable	6	-	6	-	6

NOTE 7 — Accumulated Other Comprehensive (Loss) Income

The following is changes in accumulated other comprehensive (loss) income by component, net of tax for the three and six months ending June 30, 2018 and 2017:

	Three months ended At June 30, 2018	2017	Six months ended At June 30, 2018	2017
Unrealized Gains on Available for Sale Securities				
Beginning balance	$ (2,645)	$ (779)	$ (1,390)	$ (884)
Other comprehensive (loss) income before reclassifications	(612)	271	(1,867)	376
Amounts reclassified from accumulated other comprehensive income	-	-	-	-
Net current period other comprehensive (loss) income	(612)	271	(1,837)	376
Ending balance	$ (3,257)	$ (508)	$ (3,257)	$ (508)

The following represents the reclassifications out of accumulated other comprehensive loss for the three and six months ended June 30, 2018, and 2017:

	Three months ended At June 30, 2018	2017	Six months ended At June 30, 2018	2017
Realized gain on securities sales	$ -	$ -	$ -	$ -
Income tax expense	-	-	-	-
Total reclassifications, net of tax	$ -	$ -	$ -	$ -

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

General

Management’s discussion and analysis of financial condition at June 30, 2018 and December 31, 2017 and results of operations for the three and six months ended June 30, 2018 and 2017 is intended to assist in understanding the financial condition and results of operations of Esquire Financial Holdings, Inc. The information contained in this section should be read in conjunction with the unaudited consolidated financial statements and the audited consolidated financial statements as of December 31, 2017 and the notes thereto appearing in Part I, Item 1, of this quarterly report on Form 10-Q.

Cautionary Note Regarding Forward-Looking Statements

This quarterly report contains forward-looking statements, which can be identified by the use of words such as “may,” “might,” “should,” “could,” “predict,” “potential,” “believe,” “expect,” “attribute,” “continue,” “will,” “anticipate,” “seek,” “estimate,” “intend,” “plan,” “projection,” “goal,” “target,” “outlook,” “aim,” “would,” “annualized” and “outlook,” or the negative version of those words or other comparable words or phrases of a future or forward-looking nature. These forward-looking statements include, but are not limited to:

- statements of our goals, intentions and expectations;
- statements regarding our business plans, prospects, growth and operating strategies;
- statements regarding the quality of our loan and investment portfolios; and
- estimates of our risks and future costs and benefits.

These forward-looking statements are based on our current beliefs and expectations and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change. We are under no duty to and do not take any obligation to update any forward-looking statements after the date of this quarterly report.

The following factors, among others, could cause actual results to differ materially from the anticipated results or other expectations expressed in the forward-looking statements:

- our ability to manage our operations under the current economic conditions nationally and in our market area;
- adverse changes in the financial industry, securities, credit and national local real estate markets (including real estate values);
- risks related to a high concentration of loans secured by real estate located in our market area;
- risks related to a high concentration of loans and deposits dependent upon the legal and “litigation” market;
- the impact of any potential strategic transactions;
- our ability to enter new markets successfully and capitalize on growth opportunities;
- significant increases in our loan losses, including as a result of our inability to resolve classified and non-performing assets or reduce risks associated with our loans, and management’s assumptions in determining the adequacy of the allowance for loan losses;
- interest rate fluctuations, which could have an adverse effect on our profitability;
- external economic and/or market factors, such as changes in monetary and fiscal policies and laws, including the interest rate policies of the he Board of Governors of the Federal Reserve System, inflation or deflation, changes in the demand for loans, and fluctuations in consumer spending, borrowing and savings habits, which may have an adverse impact on our financial condition;
- continued or increasing competition from other financial institutions, credit unions, and non-bank financial services companies, many of which are subject to different regulations than we are;
- credit risks of lending activities, including changes in the level and trend of loan delinquencies and write-offs and in our allowance for loan losses and provision for loan losses;
- our success in increasing our legal and “litigation” market lending;
- our ability to attract and maintain deposits and our success in introducing new financial products;

- losses suffered by merchants or Independent Sales Organizations with whom we do business;
- our ability to effectively manage risks related to our merchant services business;
- our ability to leverage the professional and personal relationships of our board members and advisory board members;
- changes in interest rates generally, including changes in the relative differences between short-term and long-term interest rates and in deposit interest rates, that may affect our net interest margin and funding sources;
- fluctuations in the demand for loans;
- technological changes that may be more difficult or expensive than expected;
- changes in consumer spending, borrowing and savings habits;
- declines in the yield on our assets resulting from the current low interest rate environment;
- declines in our merchant processing income as a result of reduced demand, competition and changes in laws or government regulations or policies affecting financial institutions, including the Dodd-Frank Wall Street Reform and Consumer Protection Act and the Jumpstart Our Business Startups Act (the "JOBS Act"), which could result in, among other things, increased deposit insurance premiums and assessments, capital requirements, regulatory fees and compliance costs, particularly the new capital regulations, and the resources we have available to address such changes;
- changes in accounting policies and practices, as may be adopted by the bank regulatory agencies, the Financial Accounting Standards Board, the Securities and Exchange Commission or the Public Company Accounting Oversight Board;
- loan delinquencies and changes in the underlying cash flows of our borrowers;
- the impairment of our investment securities;
- our ability to control costs and expenses, particularly those associated with operating as a publicly traded company;
- the failure or security breaches of computer systems on which we depend;
- political instability;
- acts of war or terrorism;
- competition and innovation with respect to financial products and services by banks, financial institutions and non-traditional providers, including retail businesses and technology companies;
- changes in our organization and management and our ability to retain or expand our management team and our board of directors, as necessary;
- the costs and effects of legal, compliance and regulatory actions, changes and developments, including the initiation and resolution of legal proceedings, regulatory or other governmental inquiries or investigations, and/or the results of regulatory examinations and reviews;
- the ability of key third-party service providers to perform their obligations to us; and
- other economic, competitive, governmental, regulatory and operational factors affecting our operations, pricing, products and services described elsewhere in this Quarterly Report on Form 10-Q.

The foregoing factors should not be construed as exhaustive and should be read in conjunction with other cautionary statements that are included in this Quarterly Report on Form 10-Q. If one or more events related to these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may differ materially from what we anticipate. Accordingly, you should not place undue reliance on any such forward-looking statements. Any forward-looking statement speaks only as of the date on which it is made, and we do not undertake any obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise. New risks and uncertainties arise from time to time, and it is not possible for us to predict those events or how they may affect us. In addition, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

Summary of Significant Accounting Policies

A summary of our accounting policies is described in Note 1 to the audited consolidated financial statements included in our annual report. 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 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 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, which also include commercial Attorney-Related loans and consumer Attorney-Related 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.

We may take advantage of some of the reduced regulatory and reporting requirements that are available to us 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.

Overview

We are a bank holding company headquartered in Jericho, New York and registered under the Bank Holding Company Act of 1956, as amended. Through our wholly owned bank subsidiary, Esquire Bank, National Association ("Esquire Bank" or the "Bank"), 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.

Our results of operations depend primarily on our net interest income which is the difference between the interest income we earn on our interest-earning assets and the interest we pay on our interest-bearing liabilities. Our results of operations also are affected by our provisions for loan losses, non-interest income and non-interest expense. Non-interest income currently consists primarily of merchant processing income and customer related fees and charges. Non-interest expense currently consists primarily of employee compensation and benefits and professional and consulting services. Our results of operations also may be affected significantly by general and local economic and competitive conditions, changes in market interest rates, governmental policies, the litigation market and actions of regulatory authorities.

Comparison of Financial Condition at June 30, 2018 and December 31, 2017

Assets. Our total assets were $587.2 million at June 30, 2018, an increase of $53.6 million, or 10.1%, from $533.6 million at December 31, 2017. The increase was primarily due to an increase in loans of $42.7 million, or 12.2%, and an increase in securities of $19.0 million, or 14.8%, partially offset by a decrease in cash and cash equivalents of $15.6 million, or 36.2%.

Loans. At June 30, 2018, loans were $391.7 million, or 78.8% of total deposits, compared to $349.0 million, or 77.8% of total deposits, at December 31, 2017. Commercial loans increased $11.0 million, or 8.1%, to $147.4 million at June 30, 2018 from $136.4 million at December 31, 2017. Multifamily loans increased $17.2 million, or 17.4%, to $115.6 million at June 30, 2018 from $98.4 million at December 31, 2017. Consumer loans increased $258,000, or 0.8%, to $32.1 million at June 30, 2018 from $31.9 million at December 31, 2017. 1 – 4 family residential loans increased $6.0 million, or 11.6%, to $57.5 million at June 30, 2018 from $51.6 million at December 31, 2017. Construction loans also increased by $1.6 million, or 31.1%, to $6.6 million at June 30, 2018 from $5.0 million at December 31, 2017. Commercial real estate loans increased by $6.8 million, or 27.4%, to $31.5 million at June 30, 2018 from $24.8 million at December 31, 2017.

The following table sets forth the composition of our Attorney-Related loan portfolio by type of loan at the dates indicated:

	June 30, 2018		December 31, 2017	
	Amount	Percent	Amount	Percent
Attorney-Related Loans				
Commercial Attorney-Related:				
Working capital lines of credit	$ 93,602	57.0%	$ 96,070	62.1%
Case cost lines of credit	29,063	17.7	24,446	15.8
Term loans	12,930	7.9	7,082	4.6
Post-settlement commercial and other commercial attorney-related loans	12	0.0	68	0.0
Total Commercial Attorney-Related	135,607	82.6%	127,666	82.5%
Consumer Attorney-Related:				
Post-settlement consumer loans	27,199	16.6%	25,731	16.6%
Structured settlement loans	1,315	0.8	1,421	0.9
Total Consumer Attorney-Related	28,514	17.4%	27,152	17.5%
Total Attorney-Related Loans	$ 164,121	100.0%	$ 154,818	100.0%

At June 30, 2018, our Attorney-Related Loans, which include commercial loans to law firms and consumer lending to plaintiffs/claimants and attorneys, totaled $164.1 million, or 42.0% of our total loan portfolio, compared to $154.8 million at December 31, 2017. At June 30, 2018, our Commercial Attorney-Related Loans totaled $135.6 million, or 82.6% of our total attorney-related loan portfolio and 34.7% of our total loan portfolio, compared to $127.7 million Commercial Attorney-Related Loans at December 31, 2017. As of June 30, 2018, our Consumer Attorney-Related Loans totaled $28.5 million, or 17.4% of our total Attorney-Related Loan portfolio and 7.3% of our total loan portfolio, compared to $27.2 million Consumer Attorney-Related Loans at December 31, 2017.

Securities. Securities available for sale increased $19.0 million, or 14.8%, to $147.8 million at June 30, 2018 from $128.8 million at December 31, 2017. The increase in securities was due to prudent deployment of excess funds into interest earning assets in accordance with our liquidity policy and asset/liability management program.

Funding. Total deposits increased $48.6 million, or 10.8%, to $497.1 million at June 30, 2018 from $448.5 million at December 31, 2017. 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 $480.7 million at June 30, 2018, or 96.7% of total deposits at that date, compared to $421.6 million or 94.0% of total deposits at December 31, 2017. The Company continued to prudently manage its balance sheet through mass tort deposit sweep programs, maintaining off-balance sheet funds totaling $251.2 million at June 30, 2018.

At June 30, 2018, we had the ability to borrow a total of $123.2 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 $17.6 million. At June 30, 2018, we also had $7.5 million in aggregate unsecured lines of credit with unaffiliated correspondent banks. No amounts were outstanding on any of the aforementioned lines of credit at June 30, 2018.

Equity. Total stockholders' equity increased $3.1 million, or 3.7%, to $86.5 million at June 30, 2018, from $83.4 million at December 31, 2017. The increase was primarily due to net income.

Average Balance Sheets

The following tables present average balance sheet information, interest income, interest expense and the corresponding average yields earned and rates paid for periods indicated. 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. No tax-equivalent yield adjustments were made, as the effect thereof was not material.

	For the Three Months Ended June 30,					
	2018			2017		
	(Dollars in thousands)					
	Average Balance	Interest	Average Yield/Rate	Average Balance	Interest	Average Yield/Rate
INTEREST EARNING ASSETS						
Loans	$ 370,981	$ 5,657	6.12%	$ 290,576	$ 4,062	5.61%
Securities, includes restricted stock	154,224	1,006	2.62%	103,702	628	2.43%
Interest earning cash	49,686	201	1.62%	33,156	66	0.80%
Total interest earning assets	574,891	6,864	4.79%	427,434	4,756	4.46%
NON-INTEREST EARNING ASSETS						
Cash and due from banks	642			572		
Other assets	12,892			7,942		
TOTAL AVERAGE ASSETS	$ 588,425			$ 435,948		
INTEREST-BEARING LIABILITIES						
Savings, NOW, money markets	$ 272,929	167	0.25%	$ 218,466	106	0.19%
Time deposits	33,780	51	0.61%	25,565	25	0.39%
Total deposits	306,709	218	0.29%	244,031	131	0.22%
Secured borrowings	276	5	7.27%	285	5	7.04%
Total interest-bearing liabilities	306,985	223	0.29%	244,316	136	0.22%
NON-INTEREST BEARING LIABILITIES						
Demand deposits	193,555			135,401		
Other liabilities	2,848			1,571		
Total non-interest bearing liabilities	196,403			136,972		
Stockholders’ equity	85,037			54,660		
TOTAL AVERAGE LIABILITIES AND EQUITY	$ 588,425			$ 435,948		
Net interest spread		$ 6,641	4.50%		$ 4,620	4.24%
Net interest margin			4.63%			4.34%

	For the Six Months Ended June 30,					
	2018			2017		
	(Dollars in thousands)					
	Average Balance	Interest	Average Yield/Rate	Average Balance	Interest	Average Yield/Rate
INTEREST EARNING ASSETS						
Loans	$ 363,085	$ 10,946	6.08%	$ 284,417	$ 7,889	5.59%
Securities, includes restricted stock	145,450	1,870	2.59%	101,567	1,178	2.34%
Interest earning cash	43,539	317	1.47%	33,520	121	0.73%
Total interest earning assets	552,074	13,133	4.80%	419,504	9,188	4.42%
NON-INTEREST EARNING ASSETS						
Cash and due from banks	622			548		
Other assets	9,284			7,609		
TOTAL AVERAGE ASSETS	$ 561,980			$ 427,661		
INTEREST-BEARING LIABILITIES						
Savings, NOW, money markets	$ 258,499	289	0.23%	$ 220,351	215	0.20%
Time deposits	31,991	98	0.62%	21,184	47	0.45%
Total deposits	290,490	387	0.27%	241,535	262	0.22%
Secured borrowings	278	10	7.25%	314	11	7.06%
Total interest-bearing liabilities	290,768	397	0.28%	241,849	273	0.23%
NON-INTEREST BEARING LIABILITIES						
Demand deposits	184,645			130,693		
Other liabilities	2,308			1,495		
Total non-interest bearing liabilities	186,953			132,188		
Stockholders’ equity	84,259			53,624		
TOTAL AVERAGE LIABILITIES AND EQUITY	$ 561,980			$ 427,661		
Net interest spread		$ 12,736	4.52%		$ 8,915	4.19%
Net interest margin			4.65%			4.29%

Rate/Volume Analysis

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 Three Months Ended June 30, 2018 vs. 2017			For the Six Months Ended June 30, 2018 vs. 2017		
	Increase (Decrease) due to			Increase (Decrease) due to		
	Volume	Rate	Total Increase (Decrease)	Volume	Rate	Total Increase (Decrease)
	(Dollars in thousands)					
Interest earned on:						
Loans	$ 1,201	$ 394	$ 1,595	$ 2,326	$ 731	$ 3,057
Securities, includes restricted stock	326	52	378	553	139	692
Interest earning cash	44	91	135	45	151	196
Total interest income	1,571	537	2,108	2,924	1,021	3,945
Interest paid on:						
Savings, NOW, money markets	30	31	61	40	34	74
Time deposits	10	16	26	29	22	51
Total deposits	40	47	87	69	56	125
Secured borrowings	-	-	-	(1)	-	(1)
Total interest expense	40	47	87	68	56	124
Change in net interest income	$ 1,531	$ 490	$ 2,021	$ 2,856	$ 965	$ 3,821

Comparison of Operating Results for the Three Months Ended June 30, 2018 and 2017

General. Net income increased $1.2 million, or 116.3%, to $2.2 million for the three months ended June 30, 2018 from $1.0 million for the three months ended June 30, 2017. The increase resulted from a $2.0 million increase in net interest income and a $621,000 increase in non-interest income, which was partially offset by a $1.1 million increase in non-interest expense.

Interest Income. Interest income increased $2.1 million, or 44.3%, to $6.9 million for the three months ended June 30, 2018 from $4.8 million for the three months ended June 30, 2017. This was primarily attributable to an increase in loan interest income, which increased $1.6 million, or 39.3%, to $5.7 million for the three months ended June 30, 2018 from $4.1 million for the three months ended June 30, 2017.

The increase in interest income on loans was due to an increase in average loans during the quarter ended June 30, 2018 of $80.4 million or 27.7% as well as a 51 basis point increase in the average rate of loans. Securities interest income also increased due to an increase in the average balance of securities during the quarter ended June 30, 2018 of $50.5 million, or 48.7% and a 19 basis point increase in the average rate of securities when compared to the second quarter of 2017.

Interest Expense. Interest expense increased $87,000, or 64.0%, to $223,000 for the three months ended June 30, 2018 from $136,000 for the three months ended June 30, 2017, primarily due to increases in average balance of deposits. The average rate we paid on interest bearing deposits increased to 0.29% for the three months ended June 30, 2018 compared to 0.22% for the three months ended June 30, 2017.

Net Interest Income. Net interest income increased $2.0 million, or 43.7%, to $6.6 million for the three months ended June 30, 2018 from $4.6 million for the three months ended June 30, 2017, primarily due to an increase in average interest earning assets and rising rates. Our net interest rate spread increased 26 basis points to 4.50% for the three months ended June 30, 2018 from 4.24% for the three months ended June 30, 2017, while our net interest margin increased 29 basis points to 4.63% for the three months ended June 30, 2018 from 4.34% for the three months ended June 30, 2017. The increase in net interest margin was due to a 33 basis point increase in the average yield earned on interest earning assets, primarily driven by an increase in loan yields.

Provision for Loan Losses. Our provision for loan losses was $300,000 for the three months ended June 30, 2018 compared to $300,000 for the three months ended June 30, 2017. The provisions recorded resulted in an allowance for loan losses of $4.8 million, or 1.22% of total loans at June 30, 2018, compared to $4.3 million, or 1.22% of total loans at December 31, 2017, and $3.8 million, or 1.24% of total loans at June 30, 2017. As of June 30, 2018 the Company had no delinquent loans or non-performing assets. There were no charge-offs for the quarters ended June 30, 2018 and 2017.

Noninterest Income. Noninterest income information is as follows:

	For the Three Months Ended June 30,		Change	
	2018	2017	Amount	Percent
	(Dollars in thousands)			
Noninterest income				
Merchant processing income	$ 1,211	$ 831	$ 380	45.7%
Customer related fees and service charges	769	528	241	45.6
Total noninterest income	$ 1,980	$ 1,359	$ 621	45.7%

Merchant processing income increased primarily due to increases in the number of ISOs, average monthly volumes and the number of merchants we service. Customer related fees and service charges have increased primarily due to increases in administrative service income on off-balance sheet funds as a result of rising interest rates and higher volumes.

Noninterest Expense. Noninterest expense information is as follows:

	For the Three Months Ended June 30,		Change	
	2018	2017	Amount	Percent
	(Dollars in thousands)			
Noninterest expense				
Employee compensation and benefits	$ 3,008	$ 2,369	$ 639	27.0%
Occupancy and equipment	432	374	58	15.5
Professional and consulting services	684	516	168	32.6
FDIC and regulatory assessments	83	76	7	9.2
Advertising and marketing	171	96	75	78.1
Travel and business relations	111	122	(11)	(9.0)
Data processing	446	409	37	9.0
Other operating expenses	354	207	147	71.0
Total noninterest expense	$ 5,289	$ 4,169	$ 1,120	26.9%

Employee compensation and benefits increased due to the Company's hiring efforts, including several senior managers, to support our future growth and technology efforts as well as salary and incentive increases. The increase in professional and consulting services as well as other expenses was due primarily to additional costs related to being a public company and costs related to certain strategic projects.

Income Tax Expense. We recorded an income tax expense of $811,000 for the three months ended June 30, 2018, reflecting an effective tax rate of 26.8%, compared to $483,000, or 32.0%, for the three months ended June 30, 2017. The lower effective tax rate was a result of federal tax reform that was enacted in December 2017.

Comparison of Operating Results for the Six Months Ended June 30, 2018 and 2017

General. Net income increased $2.3 million, or 126.9%, to $4.2 million for the six months ended June 30, 2018 from $1.8 million for the six months ended June 30, 2017. The increase resulted from a $3.8 million increase in net interest income and a $1.5 million increase in non-interest income, which were partially offset by a $2.4 million increase in non-interest expense.

Interest Income. Interest income increased $3.9 million, or 42.9%, to $13.1 million for the six months ended June 30, 2018 from $9.2 million for the six months ended June 30, 2017. This was primarily attributable to an increase in loan interest income, which increased $3.1 million, or 38.8%, to $10.9 million for the six months ended June 30, 2018 from $7.9 million for the six months ended June 30, 2017.

The increase in interest income on loans was due to an increase in average loans during the six months ended June 30, 2018 of $78.7 million or 27.7% as well as a 49 basis point increase in the average rate of loans. Securities interest income also increased due to an increase in the average balance of securities during the six months ended June 30, 2018 of $43.9 million or 43.2% and a 25 basis point increase in the average rate of securities when compared to the first six months of 2017.

Interest Expense. Interest expense increased $124,000, or 45.4%, to $397,000 for the six months ended June 30, 2018 from $273,000 for the six months ended June 30, 2017, primarily due to increases in the average balance of deposits and increases in rates. The average rate we paid on interest bearing deposits increased to 0.27% for the six months ended June 30, 2018 compared to 0.22% for the six months ended June 30, 2017.

Net Interest Income. Net interest income increased $3.8 million, or 42.9%, to $12.7 million for the six months ended June 30, 2018 from $8.9 million for the six months ended June 30, 2017, primarily due to an increase in average interest earning assets. Our net interest rate spread increased 33 basis points to 4.52% for the six months ended June 30, 2018 from 4.19% for the six months ended June 30, 2017. Our net interest margin also increased 36 basis points to 4.65% for the six months ended June 30, 2018 from 4.29% for the six months ended June 30, 2017. The increase in net interest margin was due to a 38 basis point increase in the average yield earned on interest earning assets, primarily driven by an increase in loan yields.

Provision for Loan Losses. Our provision for loan losses was $525,000 for the six months ended June 30, 2018 compared to $450,000 for the six months ended June 30, 2017. The higher provision is reflective of loan growth experienced in the Company's higher yielding commercial and consumer loan categories. As of June 30, 2018 the Company had no delinquent loans or non-performing assets. There were no charge-offs for the six months ended June 30, 2018 compared to net charge-offs of $40,000 for the six months ended June 30, 2017.

Noninterest Income. Noninterest income information is as follows:

	For the Six Months Ended June 30, 2018	For the Six Months Ended June 30, 2017	Change Amount	Change Percent
	(Dollars in thousands)			
Noninterest income				
Merchant processing income	$ 2,232	$ 1,670	$ 562	33.7%
Customer related fees and service charges	1,823	894	929	103.9
Total noninterest income	$ 4,055	$ 2,564	$ 1,491	58.2%

Merchant processing income increased primarily due to increases in the number of ISOs, average monthly volumes and the number of merchants we service. Customer related fees and service charges have increased primarily due to increases in administrative service income on off-balance sheet funds as a result of rising interest rates and higher volumes.

Noninterest Expense. Noninterest expense information is as follows:

	For the Six Months Ended June 30, 2018	For the Six Months Ended June 30, 2017	Change Amount	Change Percent
	(Dollars in thousands)			
Noninterest expense				
Employee compensation and benefits	$ 6,069	$ 4,714	$ 1,355	28.7%
Occupancy and equipment	858	761	97	12.7
Professional and consulting services	1,312	905	407	45.0
FDIC and regulatory assessments	155	147	8	5.4
Advertising and marketing	296	206	90	43.7
Travel and business relations	268	228	40	17.5
Data processing	930	780	150	19.2
Other operating expenses	673	452	221	48.9
Total noninterest expense	$ 10,561	$ 8,193	$ 2,368	28.9%

Employee compensation and benefits increased due to the Company's hiring efforts, including several senior managers, to support our future growth and technology efforts as well as salary and incentive increases. The increase in professional and consulting services as well as other expenses was due primarily to additional costs related to being a public company and costs related to certain strategic projects.

Income Tax Expense. We recorded an income tax expense of $1.5 million for the six months ended June 30, 2018, reflecting an effective tax rate of 26.8%, compared to $994,000, or 35.0%, for the six months ended June 30, 2017. The lower effective tax rate was a result of federal tax reform that was enacted in December 2017.

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 to 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 a twelve-month period. The tables below demonstrate that we are asset-sensitive in a rising interest rate environment.

	At June 30, 2018	
Changes in Interest Rates (Basis Points)	Estimated 12-Months Net Interest Income	Change
	(Dollars in thousands)	
400	$ 36,441	7,444
300	34,305	5,308
200	32,290	3,293
100	30,504	1,507
0	28,997	-
-100	26,858	(2,139)
-200	24,060	(4,937)

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 at June 30, 2018.

Changes in Interest Rates (Basis Points)	At June 30, 2018	
	Economic Value of Equity	Change
	(Dollars in thousands)	
400	$ 116,754	1,173
300	116,650	1,069
200	116,519	938
100	116,385	804
0	115,581	-
-100	109,580	(6,001)
-200	96,919	(18,662)

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 June 30, 2018, cash and cash equivalents totaled $27.5 million. Securities classified as available-for-sale, which provide additional sources of liquidity, totaled $147.8 million at June 30, 2018.

At June 30, 2018, we had the ability to borrow a total of $123.2 million from the Federal Home Loan Bank of New York and had an available line of credit with the Federal Reserve Bank of New York discount window of $17.6 million. At June 30, 2018, we also had $7.5 million in aggregate unsecured lines of credit with unaffiliated correspondent banks. No amounts were outstanding on any of the aforementioned lines of credit at June 30, 2018.

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.

Esquire Bank, National Association is subject to various regulatory capital requirements administered by Office of the Comptroller of the Currency (the "OCC"), and the Federal Deposit Insurance Corporation. At June 30, 2018, Esquire Bank exceeded all applicable regulatory capital requirements, and was considered "well capitalized" under regulatory guidelines.

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 June 30, 2018, 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	Actual At June 30, 2018
Tier 1 Leverage Ratio			
Bank	5.00%	4.00%	12.87%
Tier 1 Risk-based Capital Ratio			
Bank	8.00%	7.88%	17.53%
Total Risk-based Capital Ratio			
Bank	10.00%	9.88%	17.53%
Common Equity Tier 1 Capital Ratio			
Bank	6.50%	6.38%	18.67%

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 June 30, 2018.

	Contractual Maturities as of June 30, 2018				
	Due in One Year or Less	Due After One Year Through Three Years	Due After Three Years Through Five Years	Due After Five Years	Total
	(In thousands)				
Operating lease obligations	$ 592	$ 1,033	$ 1,045	$ 1,970	$ 4,640
Time deposits	14,898	1,551	-	-	16,449
Total	$ 15,490	$ 2,584	$ 1,045	$ 1,970	$ 21,089

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.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The information required by this item is included in Item 2 of this quarterly report under "Management of Market Risk."

Item 4. Controls and Procedures

An evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Securities and Exchange Act of 1934, as amended) as of June 30, 2018. Based on that evaluation, the Company's management, including the Chief Executive Officer and the Chief Financial Officer, concluded that the Registrant's disclosure controls and procedures were effective.

During the quarter ended June 30, 2018, there have been no changes in the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

Periodically, we are involved in claims and lawsuits, such as claims to enforce liens, condemnation proceedings on properties in which we hold security interests, claims involving the making and servicing of real property loans and other issues incident to our business. At June 30, 2018, we are not a party to any pending legal proceedings that we believe would have a material adverse effect on our financial condition, results of operations or cash flows.

Item 1A. Risk Factors

There have been no material changes to our risk factors as disclosed in the Company's Annual Report on Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

a) Not applicable.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit Number	Description
3.1	Articles of Incorporation of Esquire Financial Holdings, Inc. (1)
3.2	Articles Supplementary of Series B Non-Voting Preferred Stock of Esquire Financial Holdings, Inc. (2)
3.3	Amended and Restated Bylaws of Esquire Financial Holdings, Inc. (3)
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Written Statement of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.0	The following materials for the quarter ended June 30, 2018, formatted in XBRL (Extensible Business Reporting Language): (i) Balance Sheets, (ii) Statements of Income, (iii) Statements of Comprehensive Income, (iv) Statements of Cash Flows, and (v) Notes to Financial Statements.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Label Linkbase Document
101.PRE	XBRL Taxonomy Presentation Linkbase Document

(1) Incorporated by reference to Exhibit 3.1 in the Registration Statement on Form S-1 (File No. 333-218372) originally filed by the Company under the Securities Act of 1933 with the Commission on May 31, 2017, and all amendments or reports filed thereto.
(2) Incorporated by reference to Exhibit 3.2 in the Registration Statement on Form S-1 (File No. 333-218372) originally filed by the Company under the Securities Act of 1933 with the Commission on May 31, 2017, and all amendments or reports filed thereto.
(3) Incorporated by reference to Exhibit 3.3 in the Registration Statement on Form S-1/A (File No. 333-218372) originally filed by the Company under the Securities Act of 1933 with the Commission on June 22, 2017, and all amendments or reports filed thereto.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	ESQUIRE FINANCIAL HOLDINGS, INC.
Date: August 14, 2018	/s/ Andrew C. Sagliocca
	Andrew C. Sagliocca
	President and Chief Executive Officer
Date: August 14, 2018	/s/ Eric S. Bader
	Eric S. Bader
	Executive Vice President, Chief Financial Officer and Treasurer

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Section 2: EX-31.1 (EXHIBIT 31.1)

Exhibit 31.1

Certification of Principal Executive Officer

Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Andrew C. Sagliocca, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Esquire Financial Holdings, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 14, 2018

/s/ Andrew C. Sagliocca
Andrew C. Sagliocca
President and Chief Executive Officer

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Section 3: EX-31.2 (EXHIBIT 31.2)

Exhibit 31.2

Certification of Principal Financial Officer

Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Eric S. Bader, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Esquire Financial Holdings, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 14, 2018

/s/ Eric S. Bader
Eric S. Bader
Executive Vice President, Chief Financial Officer and Treasurer

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Section 4: EX-32 (EXHIBIT 32)

Exhibit 32

Certification of Chief Executive Officer and Chief Financial Officer
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Andrew C. Sagliocca, President and Chief Executive Officer of Esquire Financial Holdings, Inc. (the "Company"), and Eric S. Bader, Executive Vice President, Chief Financial Officer and Treasurer of the Company, each certify in his capacity as an executive officer of the Company that he or she has reviewed the quarterly report on Form 10-Q for the quarter ended June 30, 2018 (the "Report") and that to the best of his knowledge:

1. the Report fully complies with the requirements of Sections 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 14, 2018	/s/ Andrew C. Sagliocca Andrew C. Sagliocca President and Chief Executive Officer
Date: August 14, 2018	/s/ Eric S. Bader Eric S. Bader Executive Vice President, Chief Financial Officer and Treasurer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

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