

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

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SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 10-Q

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

For the quarterly period ended September 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

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**Esquire Financial Holdings, Inc.**

(Exact Name of Registrant as Specified in Its Charter)

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Maryland  
(State or Other Jurisdiction of  
Incorporation or Organization)

27-5107901  
(I.R.S. Employer  
Identification No.)

100 Jericho Quadrangle, Suite 100, Jericho, New York  
(Address of Principal Executive Offices)

11753  
(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)

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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 every Interactive Data File required to be submitted 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 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   
Non-accelerated filer

Accelerated filer   
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 November 1, 2018, there were 7,445,723 outstanding shares of the issuer's common stock.

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**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)

	September 30, 2018	December 31, 2017
<b>ASSETS</b>		
Cash and due from banks	\$ 1,230	\$ 471
Interest earning deposits	38,610	42,606
Total cash and cash equivalents	39,840	43,077
Securities available-for-sale, at fair value	147,522	128,758
Securities, restricted, at cost	2,403	2,183
Loans	437,883	348,978
Less: allowance for loan losses	(5,229)	(4,264)
Loans, net	432,654	344,714
Premises and equipment, net	2,616	2,546
Accrued interest receivable	4,408	2,836
Deferred tax asset	3,319	2,241
Other assets	12,841	7,202
<b>Total assets</b>	<u>\$ 645,603</u>	<u>\$ 533,557</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Deposits:		
Demand	\$ 189,960	\$ 190,847
Savings, NOW and money market	332,016	230,715
Time	30,215	26,932
Total deposits	552,191	448,494
Secured borrowings	272	278
Accrued expenses and other liabilities	4,645	1,402
<b>Total liabilities</b>	<u>\$ 557,108</u>	<u>\$ 450,174</u>
<b>Commitments and Contingencies</b>		
	—	—
<b>Stockholders' equity:</b>		
Preferred stock, par value \$0.01; authorized 2,000,000 shares; no shares issued and outstanding at September 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 September 30, 2018 and 7,326,536 shares at December 31, 2017	74	73
Additional paid-in capital	88,341	86,660
Retained earnings (deficit)	3,901	(1,960)
Accumulated other comprehensive loss	(3,821)	(1,390)
<b>Total stockholders' equity</b>	<u>88,495</u>	<u>83,383</u>
<b>Total liabilities and stockholders' equity</b>	<u>\$ 645,603</u>	<u>\$ 533,557</u>

*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		For the Nine Months	
	Ended September 30,		Ended	
	2018	2017	September 30,	2017
<b>Interest income:</b>				
Loans	\$ 6,432	\$ 4,630	\$17,378	\$12,519
Securities	1,035	631	2,906	1,809
Interest earning deposits and other	153	93	470	214
Total interest income	<u>7,620</u>	<u>5,354</u>	<u>20,754</u>	<u>14,542</u>
<b>Interest expense:</b>				
Savings, NOW and money market deposits	291	101	580	316
Time deposits	41	22	140	70
Borrowings	12	5	21	16
Total interest expense	<u>344</u>	<u>128</u>	<u>741</u>	<u>402</u>
Net interest income	7,276	5,226	20,013	14,140
Provision for loan losses	450	275	975	725
Net interest income after provision for loan losses	<u>6,826</u>	<u>4,951</u>	<u>19,038</u>	<u>13,415</u>
<b>Non-interest income:</b>				
Merchant processing income	1,300	797	3,532	2,467
Customer related fees and service charges	500	548	2,322	1,442
Total non-interest income	<u>1,800</u>	<u>1,345</u>	<u>5,854</u>	<u>3,909</u>
<b>Non-interest expense:</b>				
Employee compensation and benefits	4,161	2,466	10,230	7,180
Occupancy and equipment, net	429	393	1,287	1,155
Professional and consulting services	547	548	1,859	1,453
FDIC and regulatory assessments	79	73	235	220
Advertising and marketing	146	134	442	340
Travel and business relations	116	92	384	320
Data processing	485	466	1,415	1,245
Other operating expenses	367	253	1,039	705
Total non-interest expense	<u>6,330</u>	<u>4,425</u>	<u>16,891</u>	<u>12,618</u>
Net income before income taxes	2,296	1,871	8,001	4,706
Income tax expense	614	730	2,140	1,723
Net income	<u>\$ 1,682</u>	<u>\$ 1,141</u>	<u>\$ 5,861</u>	<u>\$ 2,983</u>
Earnings per common share				
Basic	\$ 0.23	\$ 0.16	\$ 0.80	\$ 0.51
Diluted	\$ 0.22	\$ 0.16	\$ 0.76	\$ 0.51

*See accompanying condensed notes to interim condensed consolidated financial statements*

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

	<b>For the Three Months Ended</b>		<b>For the Nine Months Ended</b>	
	<b>September 30,</b>	<b>September 30,</b>	<b>September 30,</b>	<b>September 30,</b>
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Net income	\$ 1,682	\$ 1,141	\$ 5,861	\$ 2,983
Other comprehensive (loss) income:				
Unrealized (losses) gains arising during the period on securities available for sale	(776)	(1)	(3,347)	623
Reclassification adjustment for net gains included in net income	—	—	—	—
Tax effect	212	5	916	(243)
Total other comprehensive (loss) income	(564)	4	(2,431)	380
Total comprehensive income	<u>\$ 1,118</u>	<u>\$ 1,145</u>	<u>\$ 3,430</u>	<u>\$ 3,363</u>

*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
<b>Balance at January 1, 2018</b>	—	7,326,536	\$ —	\$ 73	\$ 86,660	\$ (1,960)	\$ (1,390)	\$ 83,383
Net income	—	—	—	—	—	5,861	—	5,861
Other comprehensive loss	—	—	—	—	—	—	(2,431)	(2,431)
Exercise of stock options, net of repurchases	—	42,687	—	1	377	—	—	378
Restricted stock grants	—	76,500	—	—	—	—	—	—
Stock compensation expense	—	—	—	—	1,304	—	—	1,304
<b>Balance at September 30, 2018</b>	<u>—</u>	<u>7,445,723</u>	<u>\$ —</u>	<u>\$ 74</u>	<u>\$ 88,341</u>	<u>\$ 3,901</u>	<u>\$ (3,821)</u>	<u>\$ 88,495</u>

	Preferred shares	Common shares	Preferred stock	Common stock	Additional paid in capital	Retained deficit	Accumulated other comprehensive loss	Total stockholders' equity
<b>Balance at January 1, 2017</b>	66,985	5,002,950	\$ 1	\$ 50	\$ 58,845	\$ (5,826)	\$ (884)	\$ 52,186
Net income	—	—	—	—	—	2,983	—	2,983
Other comprehensive income	—	—	—	—	—	—	380	380
Conversion of preferred stock	(66,985)	66,985	(1)	1	—	—	—	—
Exercise of stock options, net of repurchases	—	101,941	—	1	941	—	—	942
Issuance of common stock, net of issuance costs	—	2,154,660	—	21	26,320	—	—	26,341
Stock compensation expense	—	—	—	—	421	—	—	421
<b>Balance at September 30, 2017</b>	<u>—</u>	<u>7,326,536</u>	<u>\$ —</u>	<u>\$ 73</u>	<u>\$ 86,527</u>	<u>\$ (2,843)</u>	<u>\$ (504)</u>	<u>\$ 83,253</u>

*See accompanying condensed notes to interim condensed consolidated financial statements.*

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

	<b>For the Nine Months Ended September 30,</b>	
	<b>2018</b>	<b>2017</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 5,861	\$ 2,983
Adjustments to reconcile net income to net cash used in operating activities:		
Net cash used in operating activities:		
Provision for loan losses	975	725
Depreciation	304	308
Stock compensation expense	1,304	421
Net amortization:		
Securities	339	296
Loans	296	470
Changes in other assets and liabilities:		
Accrued interest receivable	(1,572)	(656)
Deferred tax asset	(162)	413
Other assets	(3,229)	(2,803)
Accrued expenses and other liabilities	3,243	833
Net cash provided by operating activities	<u>7,359</u>	<u>2,990</u>
<b>Cash flows from investing activities:</b>		
Net change in loans	(89,211)	(50,616)
Purchases of securities available for sale	(40,844)	(31,446)
Principal repayments on securities available for sale	18,394	16,602
Purchase of securities, restricted	(220)	(234)
Investment in equity security without readily determinable fair value	(2,410)	—
Purchases of premises and equipment	(374)	(168)
Net cash used in investing activities	<u>(114,665)</u>	<u>(65,862)</u>
<b>Cash flows from financing activities:</b>		
Net increase in deposits	103,697	24,133
Decrease in secured borrowings	(6)	(91)
Exercise of stock options	378	942
Proceeds from the issuance of common stock, net of issuance costs	—	26,341
Net cash provided by financing activities	<u>104,069</u>	<u>51,325</u>
<b>Decrease in cash and cash equivalents</b>	<b>(3,237)</b>	<b>(11,547)</b>
Cash and cash equivalents at beginning of the period	<u>43,077</u>	<u>42,993</u>
<b>Cash and cash equivalents at end of the period</b>	<b><u>\$ 39,840</u></b>	<b><u>\$ 31,446</u></b>
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid during the period for:		
Interest	\$ 730	\$ 398
Taxes	1,955	2,330

*See accompanying condensed notes to interim condensed consolidated financial statements.*



**ESQUIRE FINANCIAL HOLDINGS, INC.**  
**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Dollars in thousands, except per share data)**

(Unaudited)

**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 nine months ended September 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 September 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 September 30, 2018.

*Secured Borrowing*

The Company had a secured borrowing of \$272 and \$278 as of September 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 September 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:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Non-interest income				
Customer related fees and service charges				
Administrative service income	\$ 425	\$ 459	\$ 2,077	\$ 1,044
Merchant processing income				
Merchant services income	1,214	725	3,284	2,252
ACH income	86	72	248	215
Other	75	89	245	398
Total non-interest income	\$ 1,800	\$ 1,345	\$ 5,854	\$ 3,909

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 volume of transactions within a given month. Our performance obligations are processing and settling ACHs 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 the 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 was effective on January 1, 2018. 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. 2016-02, “Leases (Topic 842).” The new guidance affects any organization that enters into a lease, or sublease, with some specified exemptions. Under the new guidance, a lessee will be required to recognize assets and liabilities for leases with lease terms of more than 12 months. Consistent with current GAAP, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. However, unlike current GAAP, which requires only capital leases to be recognized on the balance sheet, the new ASU will require both types of leases to be recognized on the balance sheet. The ASU will also require expanded disclosures. The ASU on leases will take effect for fiscal years beginning after December 15, 2018, and for interim periods within those fiscal years. The Company is currently evaluating the impact of ASU 2016-02 on the consolidated financial statements. Based on leases outstanding at September 30, 2018, the Company does not expect the updates to have a material impact on the income statement, but does anticipate the adoption of ASU 2016-02 will result in an increase in the Company’s Consolidated Balance Sheets as a result of recognizing right-of-use assets and lease liabilities.

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 plans to adopt ASU 2016-13 in the first quarter of 2020 using the require modified retrospective method with a cumulative effect adjustment as of the beginning of the reporting period. The Company is currently gathering data and finalizing the selection of a vendor to assist with 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:

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
<b>September 30, 2018</b>				
Mortgage-backed securities – agency	\$ 26,282	\$ —	\$ (988)	\$ 25,294
Collateralized mortgage obligations (CMO's) – agency	126,502	—	(4,274)	122,228
Total available-for-sale	<u>\$ 152,784</u>	<u>\$ —</u>	<u>\$ (5,262)</u>	<u>\$147,522</u>
<b>December 31, 2017</b>				
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	<u>\$ 130,672</u>	<u>\$ 25</u>	<u>\$ (1,939)</u>	<u>\$128,758</u>

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.

	<u>September 30, 2018</u>	
	<u>Amortized Cost</u>	<u>Fair Value</u>
Mortgage-backed securities – agency	\$ 26,282	\$ 25,294
CMO's – agency	126,502	122,228
Total	<u>\$ 152,784</u>	<u>\$ 147,522</u>

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 nine months ended September 30, 2018 and 2017.

At September 30, 2018, securities having a fair value of \$130,288 were pledged to the Federal Home Loan Bank of New York (FHLB) for borrowing capacity totaling \$123,318. 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 September 30, 2018 and December 31, 2017, the Company had no outstanding FHLB advances.

At September 30, 2018, securities having a fair value of \$17,234 were pledged to the Federal Reserve Bank of New York (FRB) for borrowing capacity totaling \$16,584. 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 September 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:

	<u>Less Than 12 Months</u>		<u>12 Months or Longer</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>	<u>Gross Unrealized Losses</u>
<u>September 30, 2018</u>						
Mortgage-backed securities – agency	\$ 9,531	\$ (172)	\$15,763	\$ (816)	\$ 25,294	\$ (988)
CMO’s – agency	78,511	(1,906)	43,717	(2,368)	122,228	(4,274)
Total temporarily impaired securities	<u>\$88,042</u>	<u>\$ (2,078)</u>	<u>\$59,480</u>	<u>\$ (3,184)</u>	<u>\$147,522</u>	<u>\$ (5,262)</u>
<u>December 31, 2017</u>						
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	<u>\$80,822</u>	<u>\$ (711)</u>	<u>\$41,160</u>	<u>\$ (1,228)</u>	<u>\$121,982</u>	<u>\$ (1,939)</u>

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 September 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 September 30, 2018.

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

**NOTE 3 — Loans**

The composition of loans by class is summarized as follows:

	<b>September 30, 2018</b>	<b>% of Total</b>	<b>December 31, 2017</b>	<b>% of Total</b>
1 – 4 family residential	\$ 57,238	13 %	\$ 51,556	15 %
Commercial	172,513	40 %	136,412	39 %
Multifamily	129,763	30 %	98,432	28 %
Commercial real estate	35,028	8 %	24,761	7 %
Construction	5,609	1 %	5,047	2 %
Consumer	36,912	8 %	31,881	9 %
<b>Total Loans</b>	<b>437,063</b>	<b>100 %</b>	<b>348,089</b>	<b>100 %</b>
Deferred costs and unearned premiums, net	820		889	
Allowance for loan losses	(5,229)		(4,264)	
<b>Net loans</b>	<b>\$ 432,654</b>		<b>\$ 344,714</b>	

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

	<b>1-4 Family Residential</b>	<b>Commercial</b>	<b>Multifamily</b>	<b>Commercial Real Estate</b>	<b>Construction</b>	<b>Consumer</b>	<b>Total</b>
<b>September 30, 2018</b>							
Allowance for loan losses:							
Beginning balance	\$ 425	\$ 2,518	\$ 826	\$ 345	\$ 168	\$ 507	\$4,789
Provision (credit) for loan losses	(6)	303	85	34	(26)	60	450
Recoveries	—	—	—	—	—	—	—
Loans charged-off	—	—	—	—	—	(10)	(10)
<b>Total ending allowance balance</b>	<b>\$ 419</b>	<b>\$ 2,821</b>	<b>\$ 911</b>	<b>\$ 379</b>	<b>\$ 142</b>	<b>\$ 557</b>	<b>\$5,229</b>
<b>September 30, 2017</b>							
Allowance for loan losses:							
Beginning balance	\$ 358	\$ 2,154	\$ 664	\$ 226	\$ 109	\$ 312	\$3,823
Provision for loan losses	25	71	13	14	3	149	275
Recoveries	—	—	—	—	—	—	—
Loans charged-off	—	(14)	—	—	—	—	(14)
<b>Total ending allowance balance</b>	<b>\$ 383</b>	<b>\$ 2,211</b>	<b>\$ 677</b>	<b>\$ 240</b>	<b>\$ 112</b>	<b>\$ 461</b>	<b>\$4,084</b>

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

	<b>1-4 Family Residential</b>	<b>Commercial</b>	<b>Multifamily</b>	<b>Commercial Real Estate</b>	<b>Construction</b>	<b>Consumer</b>	<b>Total</b>
<b>September 30, 2018</b>							
Allowance for loan losses:							
Beginning balance	\$ 382	\$ 2,272	\$ 713	\$ 266	\$ 127	\$ 504	\$4,264
Provision for loan losses	37	549	198	113	15	63	975
Recoveries	—	—	—	—	—	—	—
Loans charged-off	—	—	—	—	—	(10)	(10)
Total ending allowance balance	<u>\$ 419</u>	<u>\$ 2,821</u>	<u>\$ 911</u>	<u>\$ 379</u>	<u>\$ 142</u>	<u>\$ 557</u>	<u>\$5,229</u>
<b>September 30, 2017</b>							
Allowance for loan losses:							
Beginning balance	\$ 360	\$ 1,934	\$ 621	\$ 238	\$ 141	\$ 119	\$3,413
Provision (credit) for loan losses	23	291	56	2	(29)	382	725
Recoveries	—	—	—	—	—	—	—
Loans charged-off	—	(14)	—	—	—	(40)	(54)
Total ending allowance balance	<u>\$ 383</u>	<u>\$ 2,211</u>	<u>\$ 677</u>	<u>\$ 240</u>	<u>\$ 112</u>	<u>\$ 461</u>	<u>\$4,084</u>

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 September 30, 2018 and December 31, 2017:

	<b>1-4 Family Residential</b>	<b>Commercial</b>	<b>Multifamily</b>	<b>Commercial Real Estate</b>	<b>Construction</b>	<b>Consumer</b>	<b>Total</b>
<b>September 30, 2018</b>							
Allowance for loan losses:							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Collectively evaluated for impairment	419	2,821	911	379	142	557	5,229
Total ending allowance balance	<u>\$ 419</u>	<u>\$ 2,821</u>	<u>\$ 911</u>	<u>\$ 379</u>	<u>\$ 142</u>	<u>\$ 557</u>	<u>\$ 5,229</u>
Loans:							
Loans individually evaluated for impairment	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Loans collectively evaluated for impairment	57,238	172,513	129,763	35,028	5,609	36,912	437,063
Total ending loans balance	<u>\$ 57,238</u>	<u>\$ 172,513</u>	<u>\$ 129,763</u>	<u>\$ 35,028</u>	<u>\$ 5,609</u>	<u>\$ 36,912</u>	<u>\$437,063</u>

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

	<b>1-4 Family Residential</b>	<b>Commercial</b>	<b>Multifamily</b>	<b>Commercial Real Estate</b>	<b>Construction</b>	<b>Consumer</b>	<b>Total</b>
<b>December 31, 2017</b>							
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
<b>Total ending allowance balance</b>	<b>\$ 382</b>	<b>\$ 2,272</b>	<b>\$ 713</b>	<b>\$ 266</b>	<b>\$ 127</b>	<b>\$ 504</b>	<b>\$ 4,264</b>
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
<b>Total ending loans balance</b>	<b>\$ 51,556</b>	<b>\$ 136,412</b>	<b>\$ 98,432</b>	<b>\$ 24,761</b>	<b>\$ 5,047</b>	<b>\$ 31,881</b>	<b>\$ 348,089</b>

*Non-Performing Loans*

Non-performing loans include loans 90 days past due and still accruing and non-accrual loans. At September 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 September 30, 2018 and December 31, 2017:

	<b>30-59 Days Past Due</b>	<b>60-89 Days Past Due</b>	<b>Greater than 90 Days Past Due</b>	<b>Total Past Due</b>	<b>Loans Not Past Due</b>	<b>Total</b>
<b>September 30, 2018</b>						
1 – 4 family residential	\$ —	\$ —	\$ —	\$ —	\$ 57,238	\$ 57,238
Commercial	—	—	—	—	172,513	172,513
Multifamily	—	—	—	—	129,763	129,763
Commercial real estate	—	—	—	—	35,028	35,028
Construction	—	—	—	—	5,609	5,609
Consumer	—	—	—	—	36,912	36,912
<b>Total</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 437,063</b>	<b>\$ 437,063</b>



	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Loans Not Past Due	Total
<u>December 31, 2017</u>						
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	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 348,089</u>	<u>\$348,089</u>

*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.

	<u>Pass</u>	<u>Special Mention</u>	<u>Substandard</u>	<u>Doubtful</u>
<u>September 30, 2018</u>				
1 – 4 family residential	\$ 57,238	\$ —	\$ —	\$ —
Commercial	163,220	9,098	195	—
Multifamily	129,763	—	—	—
Commercial real estate	35,028	—	—	—
Construction	5,609	—	—	—
Consumer	36,912	—	—	—
Total	<u>\$427,770</u>	<u>\$ 9,098</u>	<u>\$ 195</u>	<u>\$ —</u>

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

	<u>Pass</u>	<u>Special Mention</u>	<u>Substandard</u>	<u>Doubtful</u>
<u>December 31, 2017</u>				
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	<u>\$338,254</u>	<u>\$ 9,835</u>	<u>\$ —</u>	<u>\$ —</u>

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 September 30, 2018 and December 31, 2017. Furthermore, there were no loans modified during the three and nine months ended September 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 September 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 September 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 September 30, 2018 or during the three and nine months ended September 30, 2017. The fair value of options granted during the nine months ended September 30, 2018 was determined using the following weighted average assumptions as of the grant date:

	<u>2018</u>
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 September 30, 2018:

	<u>Options</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Life (Years)</u>
<u>September 30, 2018</u>			
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	<u>876,675</u>	<u>\$ 12.83</u>	<u>5.07</u>
Vested or expected to vest	<u>876,675</u>	<u>\$ 12.83</u>	<u>5.07</u>
Exercisable at period end	<u>579,811</u>	<u>\$ 12.50</u>	<u>3.71</u>

The Company recognized compensation expense related to options of \$563 and \$133 for the three months ended September 30, 2018 and 2017, respectively. The Company recognized compensation expense related to options of \$880 and \$421 for the nine months ended September 30, 2018 and 2017, respectively. At September 30, 2018, unrecognized compensation cost related to non-vested options was approximately \$996 and is expected to be recognized over a weighted average period of 2.41 years. The intrinsic value for outstanding options and for options vested or expected to vest was \$10,630 and \$7,224 for exercisable options at September 30, 2018. Cash received from options exercised in 2018 totaled \$478 with an intrinsic value of \$463. The tax benefit of options exercised was \$209.

	<u>Shares</u>	<u>Weighted Average Grant Date Fair Value</u>
<u>September 30, 2018</u>		
Outstanding at beginning of year	—	\$ —
Granted	76,500	19.25
Vested or expected to vest	15,000	19.25
Outstanding at period end	<u>61,500</u>	<u>\$ 19.25</u>

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

The Company recognized compensation expense related to restricted stock of \$317 and zero for the three months ended September 30, 2018 and 2017, respectively. The Company recognized compensation expense related to restricted stock of \$424 and zero for the nine months ended September 30, 2018 and 2017, respectively. As of September 30, 2018, there was \$1,048 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 5.32 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		Nine months ended	
	At September 30,		At September 30,	
	2018	2017	2018	2017
<b>Basic</b>				
Net income available to common shareholders	\$ 1,682	\$ 1,141	\$ 5,861	\$ 2,983
Less: Earnings allocated to preferred stock	—	3	—	27
Net income allocated to common shareholders	\$ 1,682	\$ 1,138	\$ 5,861	\$ 2,956
Weighted average common shares outstanding	7,369,223	7,212,603	7,367,716	5,771,627
Basic earnings per common share	\$ 0.23	\$ 0.16	\$ 0.80	\$ 0.51
<b>Diluted</b>				
Net income allocated to common shareholders for basic earnings per share	\$ 1,682	\$ 1,138	\$ 5,861	\$ 2,956
Weighted average shares outstanding for basic earnings per common share	7,369,223	7,212,603	7,367,716	5,771,627
Add: Dilutive effect of share based awards	408,762	56,913	352,156	38,183
Average shares and dilutive potential common shares	7,777,985	7,269,516	7,719,872	5,809,810
Diluted earnings per common share	\$ 0.22	\$ 0.16	\$ 0.76	\$ 0.51
Stock options not considered in computing diluted earnings per share because they were anti-dilutive	—	298,181	—	707,397

**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:

	<b>Fair Value Measurements Using</b>		
	<b>Quoted Prices In Active Markets For Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
<b>September 30, 2018</b>			
Assets			
Available-for-sale securities			
Mortgage-backed securities – agency	\$ —	\$ 25,294	\$ —
CMO's – agency	—	122,228	—
Total	<u>\$ —</u>	<u>\$ 147,522</u>	<u>\$ —</u>
<b>December 31, 2017</b>			
Assets			
Available-for-sale securities			
Mortgage-backed securities – agency	\$ —	\$ 19,803	\$ —
CMO's – agency	—	108,955	—
Total	<u>\$ —</u>	<u>\$ 128,758</u>	<u>\$ —</u>

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

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

	<b>Fair Value Measurement at September 30, 2018, Using:</b>				
	<b>Carrying Value</b>	<b>(Level 1)</b>	<b>(Level 2)</b>	<b>(Level 3)</b>	<b>Total</b>
<b>Financial Assets:</b>					
Cash and cash equivalents	\$ 39,840	\$ 1,230	\$ 38,610	\$ —	\$ 39,840
Securities available for sale	147,522	—	147,522	—	147,522
Securities, restricted	2,403	N/A	N/A	N/A	N/A
Loans, net of allowance	432,654	—	—	428,949	428,949
Accrued interest receivable	4,408	—	404	4,004	4,408
<b>Financial Liabilities:</b>					
Time deposits	30,215	—	30,124	—	30,124
Demand and other deposits	521,976	521,976	—	—	521,976
Secured borrowings	272	—	272	—	272
Accrued interest payable	17	—	17	—	17

	<b>Fair Value Measurement at December 31, 2017, Using:</b>				
	<b>Carrying Value</b>	<b>(Level 1)</b>	<b>(Level 2)</b>	<b>(Level 3)</b>	<b>Total</b>
<b>Financial Assets:</b>					
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
<b>Financial Liabilities:</b>					
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 presents changes in accumulated other comprehensive (loss) income by component, net of tax for the three and nine months ending September 30, 2018 and 2017:

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>At September 30,</b>		<b>At September 30,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
<b>Unrealized Losses on Available for Sale Securities</b>				
Beginning balance	\$(3,257)	\$ (508)	\$(1,390)	\$ (884)
Other comprehensive (loss) income before reclassifications	(564)	4	(2,431)	380
Amounts reclassified from accumulated other comprehensive income	—	—	—	—
Net current period other comprehensive (loss) income	(564)	4	(2,431)	380
Ending Balance	<u>\$(3,821)</u>	<u>\$ (504)</u>	<u>\$(3,821)</u>	<u>\$ (504)</u>

There were no reclassifications out of accumulated other comprehensive loss for the three and nine months ended September 30, 2018 and 2017.

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

### **General**

Management’s discussion and analysis of financial condition at September 30, 2018 and December 31, 2017 and results of operations for the three and nine months ended September 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 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 September 30, 2018 and December 31, 2017

**Assets.** Our total assets were \$645.6 million at September 30, 2018, an increase of \$112.0 million, or 21.0%, from \$533.6 million at December 31, 2017. The increase was primarily due to an increase in loans of \$88.9 million, or

25.5%, and an increase in securities of \$18.8 million, or 14.6%, partially offset by a decrease in cash and cash equivalents of \$3.2 million, or 7.5%.

**Loans.** At September 30, 2018, loans were \$437.9 million, or 79.3% of total deposits, compared to \$349.0 million, or 77.8% of total deposits, at December 31, 2017. The growth in loans was primarily driven by increases in commercial, multifamily, and commercial real estate loans. Commercial loans increased \$36.1 million, or 26.5%, to \$172.5 million at September 30, 2018 from \$136.4 million at December 31, 2017. Multifamily loans increased \$31.3 million, or 31.8%, to \$129.8 million at September 30, 2018 from \$98.4 million at December 31, 2017. Commercial real estate loans increased by \$10.3 million, or 41.5%, to \$35.0 million at September 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:

	<u>September 30, 2018</u>		<u>December 31, 2017</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
<b>(Dollars in thousands)</b>				
<b>Attorney-Related Loans</b>				
<b>Commercial Attorney-Related:</b>				
Working capital lines of credit	\$103,219	55.7 %	\$ 96,070	62.1 %
Case cost lines of credit	32,709	17.6	24,446	15.8
Term loans	17,899	9.7	7,082	4.6
Post-settlement commercial and other commercial attorney-related loans	4	0.0	68	0.0
<b>Total Commercial Attorney-Related</b>	<b>153,831</b>	<b>83.0 %</b>	<b>127,666</b>	<b>82.5 %</b>
<b>Consumer Attorney-Related:</b>				
Post-settlement consumer loans	30,299	16.3 %	25,731	16.6 %
Structured settlement loans	1,229	0.7	1,421	0.9
<b>Total Consumer Attorney-Related</b>	<b>31,528</b>	<b>17.0 %</b>	<b>27,152</b>	<b>17.5 %</b>
<b>Total Attorney-Related Loans</b>	<b>\$185,359</b>	<b>100.0 %</b>	<b>\$154,818</b>	<b>100.0 %</b>

At September 30, 2018, our Attorney-Related Loans, which include commercial loans to law firms and consumer lending to plaintiffs/claimants and attorneys, totaled \$185.4 million, or 42.4% of our total loan portfolio, compared to \$154.8 million at December 31, 2017. We continue to grow our Commercial and Consumer Attorney-Related Loans by originating loans within our risk profile.

**Securities.** Securities available for sale increased \$18.8 million, or 14.6%, to \$147.5 million at September 30, 2018 from \$128.8 million at December 31, 2017. Management took advantage of increases in short-term rates, deploying excess funds into the investment portfolio.

**Funding.** Total deposits increased \$103.7 million, or 23.1%, to \$552.2 million at September 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 \$522.0 million at September 30, 2018, or 94.5% of total deposits at that date, compared to \$421.6 million or 94.0% of total deposits at December 31, 2017.

At September 30, 2018, we had the ability to borrow a total of \$123.3 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 \$16.6 million. At September 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 September 30, 2018.

**Equity.** Total stockholders' equity increased \$5.1 million, or 6.1%, to \$88.5 million at September 30, 2018, from \$83.4 million at December 31, 2017.

## 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 September 30,					
	2018			2017		
	Average Balance	Interest	Average Yield/Rate	Average Balance	Interest	Average Yield/Rate
(Dollars in thousands)						
<b>INTEREST EARNING ASSETS</b>						
Loans	\$416,004	\$ 6,432	6.13 %	\$315,005	\$ 4,630	5.83 %
Securities, includes restricted stock	157,635	1,035	2.60 %	108,168	631	2.31 %
Interest earning cash	33,777	153	1.80 %	34,471	93	1.07 %
Total interest earning assets	<u>607,416</u>	<u>7,620</u>	<u>4.98 %</u>	<u>457,644</u>	<u>5,354</u>	<u>4.64 %</u>
<b>NON-INTEREST EARNING ASSETS</b>						
Cash and due from banks	2,766			537		
Other assets	<u>12,037</u>			<u>7,711</u>		
<b>TOTAL AVERAGE ASSETS</b>	<u>\$622,219</u>			<u>\$465,892</u>		
<b>INTEREST-BEARING LIABILITIES</b>						
Savings, NOW, Money Markets	\$327,548	\$ 291	0.35 %	\$212,535	\$ 101	0.19 %
Time deposits	17,555	41	0.93 %	27,430	22	0.32 %
Total deposits	<u>345,103</u>	<u>332</u>	<u>0.38 %</u>	<u>239,965</u>	<u>123</u>	<u>0.20 %</u>
Short-term borrowings	1,131	7	2.46 %	2	—	— %
Secured borrowings	<u>273</u>	<u>5</u>	<u>7.27 %</u>	<u>282</u>	<u>5</u>	<u>7.03 %</u>
Total interest-bearing liabilities	<u>346,507</u>	<u>344</u>	<u>0.39 %</u>	<u>240,249</u>	<u>128</u>	<u>0.21 %</u>
<b>NON-INTEREST BEARING LIABILITIES</b>						
Demand deposits	183,864			142,086		
Other liabilities	<u>4,708</u>			<u>2,192</u>		
Total non-interest bearing liabilities	<u>188,572</u>			<u>144,278</u>		
Stockholders' equity	87,140			81,365		
<b>TOTAL AVG. LIABILITIES AND EQUITY</b>	<u>\$622,219</u>			<u>\$465,892</u>		
Net interest income		<u>\$ 7,276</u>			<u>\$ 5,226</u>	
Net interest spread			<u>4.58 %</u>			<u>4.43 %</u>
Net interest margin			<u>4.75 %</u>			<u>4.53 %</u>

	For the Nine Months Ended September 30,					
	2018			2017		
	Average Balance	Interest	(Dollars in thousands) Average Yield/Rate	Average Balance	Interest	Average Yield/Rate
<b>INTEREST EARNING ASSETS</b>						
Loans	\$380,918	\$ 17,378	6.10 %	\$294,725	\$ 12,519	5.68 %
Securities, includes restricted stock	149,556	2,906	2.60 %	103,792	1,809	2.33 %
Interest earning cash	40,249	470	1.56 %	33,840	214	0.85 %
Total interest earning assets	<u>570,723</u>	<u>20,754</u>	<u>4.86 %</u>	<u>432,357</u>	<u>14,542</u>	<u>4.50 %</u>
<b>NON-INTEREST EARNING ASSETS</b>						
Cash and due from banks	1,345			544		
Other assets	<u>10,211</u>			<u>7,646</u>		
<b>TOTAL AVERAGE ASSETS</b>	<u><b>\$582,279</b></u>			<u><b>\$440,547</b></u>		
<b>INTEREST-BEARING LIABILITIES</b>						
Savings, NOW, Money Markets	\$281,768	\$ 580	0.28 %	\$217,717	\$ 316	0.19 %
Time deposits	27,126	140	0.69 %	23,289	70	0.40 %
Total deposits	308,894	720	0.31 %	241,006	386	0.21 %
Short-term borrowings	382	6	2.10 %	2	—	— %
Secured borrowings	275	15	7.29 %	302	16	7.08 %
Total interest-bearing liabilities	<u>309,551</u>	<u>741</u>	<u>0.32 %</u>	<u>241,310</u>	<u>402</u>	<u>0.22 %</u>
<b>NON-INTEREST BEARING LIABILITIES</b>						
Demand deposits	184,382			134,533		
Other liabilities	<u>3,117</u>			<u>1,730</u>		
Total non-interest bearing liabilities	187,499			136,263		
Stockholders' equity	85,229			62,974		
<b>TOTAL AVG. LIABILITIES AND EQUITY</b>	<u><b>\$582,279</b></u>			<u><b>\$440,547</b></u>		
Net interest income		<u>\$ 20,013</u>			<u>\$ 14,140</u>	
Net interest spread			<u>4.54 %</u>			<u>4.27 %</u>
Net interest margin			<u>4.69 %</u>			<u>4.37 %</u>

**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 September 30, 2018 vs. 2017			For the Nine Months Ended September 30, 2018 vs. 2017		
	Increase (Decrease) due to Volume	Rate	Total Increase (Decrease)	Increase (Decrease) due to Volume	Rate	Total Increase (Decrease)
<b>Interest earned on:</b>						
Loans	\$ 1,551	\$ 251	\$ 1,802	\$ 3,877	\$ 982	\$ 4,859
Securities, includes restricted stock	317	87	404	870	227	1,097
Interest earning cash	(2)	62	60	47	209	256
Total interest income	<u>1,866</u>	<u>400</u>	<u>2,266</u>	<u>4,794</u>	<u>1,418</u>	<u>6,212</u>
<b>Interest paid on:</b>						
Savings, NOW, Money Markets	73	117	190	109	155	264
Time deposits	(10)	29	19	13	57	70
Total deposits	63	146	209	122	212	334
Short-term borrowings	7	—	7	6	—	6
Secured borrowings	—	—	—	(1)	—	(1)
Total interest expense	<u>70</u>	<u>146</u>	<u>216</u>	<u>127</u>	<u>212</u>	<u>339</u>
Change in net interest income	<u>\$ 1,796</u>	<u>\$ 254</u>	<u>\$ 2,050</u>	<u>\$ 4,667</u>	<u>\$ 1,206</u>	<u>\$ 5,873</u>

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

**General.** Net income increased \$541,000, or 47.4%, to \$1.7 million for the three months ended September 30, 2018 from \$1.1 million for the three months ended September 30, 2017. The increase resulted from a \$2.1 million increase in net interest income and a \$455,000 increase in non-interest income, which was partially offset by a \$1.9 million increase in non-interest expense.

**Interest Income.** Interest income increased \$2.3 million, or 42.3%, to \$7.6 million for the three months ended September 30, 2018 from \$5.4 million for the three months ended September 30, 2017. This was primarily attributable to an increase in loan interest income, which increased \$1.8 million, or 38.9%, to \$6.4 million for the three months ended September 30, 2018 from \$4.6 million for the three months ended September 30, 2017.

The increase in interest income on loans was due to an increase in average loans during the quarter ended September 30, 2018 of \$101.0 million or 32.1% as well as a 30 basis point increase in the average rate of loans. The increase in the average rate of loans is due to the positive effects of increases in short-term rates. Securities interest income also increased due to an increase in the average balance of securities during the quarter ended September 30, 2018 of \$49.5 million, or 45.7% and a 29 basis point increase in the average rate of securities when compared to the third quarter of 2017.

**Interest Expense.** Interest expense increased \$216,000, or 168.8%, to \$344,000 for the three months ended September 30, 2018 from \$128,000 for the three months ended September 30, 2017, primarily due to increases in average balance of deposits. The average rate we paid on interest bearing deposits increased to 0.38% for the three months ended September 30, 2018 compared to 0.20% for the three months ended September 30, 2017. Deposit rate increases coincided with increases in short-term rates.

**Net Interest Income.** Net interest income increased \$2.1 million, or 39.2%, to \$7.3 million for the three months ended September 30, 2018 from \$5.2 million for the three months ended September 30, 2017, primarily due to an increase in average interest earning assets and rising rates. Our net interest rate spread increased 15 basis points to 4.58% for the three months ended September 30, 2018 from 4.43% for the three months ended September 30, 2017, while our net interest margin increased 22 basis points to 4.75% for the three months ended September 30, 2018 from 4.53% for



the three months ended September 30, 2017. The increase in net interest margin was due to a 34 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 \$450,000 for the three months ended September 30, 2018 compared to \$275,000 for the three months ended September 30, 2017. The provisions recorded resulted in an allowance for loan losses of \$5.2 million, or 1.19% of total loans at September 30, 2018, compared to \$4.3 million, or 1.22% of total loans at December 31, 2017, and \$4.1 million, or 1.24% of total loans at September 30, 2017. As of September 30, 2018 the Company had no delinquent loans or non-performing assets.

**Noninterest Income.** Noninterest income information is as follows:

	<b>For the Three Months Ended September 30,</b>		<b>Change</b>	
	<b>2018</b>	<b>2017</b>	<b>Amount</b>	<b>Percent</b>
	<b>(Dollars in thousands)</b>			
<b>Noninterest income</b>				
Merchant processing income	\$1,300	\$ 797	\$ 503	63.1 %
Customer related fees and service charges	500	548	(48)	(8.8)
Total noninterest income	\$1,800	\$1,345	\$ 455	33.8 %

Merchant processing income increased due to growth in average monthly volumes and the number of merchants we service.

**Noninterest Expense.** Noninterest expense information is as follows:

	<b>For the Three Months Ended September 30,</b>		<b>Change</b>	
	<b>2018</b>	<b>2017</b>	<b>Amount</b>	<b>Percent</b>
	<b>(Dollars in thousands)</b>			
<b>Noninterest expense</b>				
Employee compensation and benefits	\$4,161	\$2,466	\$ 1,695	68.7 %
Occupancy and equipment	429	393	36	9.2
Professional and consulting services	547	548	(1)	(0.2)
FDIC and regulatory assessments	79	73	6	8.2
Advertising and marketing	146	134	12	9.0
Travel and business relations	116	92	24	26.1
Data processing	485	466	19	4.1
Other operating expenses	367	253	114	45.1
Total noninterest expense	\$6,330	\$4,425	\$ 1,905	43.1 %

Employee compensation and benefits increased due to a one-time compensation related charge of \$1.2 million for the recent passing of our Executive Chairman, 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 other operating expenses was due primarily to additional public relations and SEC related costs.

**Income Tax Expense.** We recorded an income tax expense of \$614,000 for the three months ended September 30, 2018, reflecting an effective tax rate of 26.8%, compared to 730,000, or 39.0%, for the three months ended September 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 Nine Months Ended September 30, 2018 and 2017**

**General.** Net income increased \$2.9 million, or 96.5%, to \$5.9 million for the nine months ended September 30, 2018 from \$3.0 million for the nine months ended September 30, 2017. The increase resulted from a \$5.9 million increase in net interest income and a \$1.9 million increase in non-interest income, which were partially offset by a \$4.3 million increase in non-interest expense.

**Interest Income.** Interest income increased \$6.2 million, or 42.7%, to \$20.8 million for the nine months ended September 30, 2018 from \$14.5 million for the nine months ended September 30, 2017. This was primarily attributable to an increase in loan interest income, which increased \$4.9 million, or 38.8%, to \$17.4 million for the nine months ended September 30, 2018 from \$12.5 million for the nine months ended September 30, 2017.

The increase in interest income on loans was due to an increase in average loans during the nine months ended September 30, 2018 of \$86.2 million or 29.2% as well as a 42 basis point increase in the average rate of loans. The increase in the average rate of loans is due to the positive effects of increases in short-term rates. Securities interest income also increased due to an increase in the average balance of securities during the nine months ended September 30, 2018 of \$45.8 million or 44.1% and a 27 basis point increase in the average rate of securities when compared to the first nine months of 2017.

**Interest Expense.** Interest expense increased \$339,000, or 84.3%, to \$741,000 for the nine months ended September 30, 2018 from \$402,000 for the nine months ended September 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 0.31% for the nine months ended September 30, 2018 compared to 0.21% for the nine months ended September 30, 2017. Deposit rate increases coincided with increases in short-term rates.

**Net Interest Income.** Net interest income increased \$5.9 million, or 41.5%, to \$20.0 million for the nine months ended September 30, 2018 from \$14.1 million for the nine months ended September 30, 2017, primarily due to an increase in average interest earning assets. Our net interest rate spread increased 27 basis points to 4.54% for the nine months ended September 30, 2018 from 4.27% for the nine months ended September 30, 2017. Our net interest margin also increased 32 basis points to 4.69% for the nine months ended September 30, 2018 from 4.37% for the nine months ended September 30, 2017. The increase in net interest margin was due to a 36 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 \$975,000 for the nine months ended September 30, 2018 compared to \$725,000 for the nine months ended September 30, 2017. The higher provision is reflective of loan growth experienced in the Company's higher yielding commercial and consumer loan categories. As of September 30, 2018 the Company had no delinquent loans or non-performing assets.

**Noninterest Income.** Noninterest income information is as follows:

	<b>For the Nine Months Ended</b>		<b>Change</b>	
	<b>September 30, 2018</b>	<b>2017</b>	<b>Amount</b>	<b>Percent</b>
	<b>(Dollars in thousands)</b>			
<b>Noninterest income</b>				
Merchant processing income	\$3,532	\$2,467	\$ 1,065	43.2 %
Customer related fees and service charges	<u>2,322</u>	<u>1,442</u>	<u>880</u>	<u>61.0</u>
Total noninterest income	\$5,854	\$3,909	\$ 1,945	49.8 %

Merchant processing income increased due to growth in 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 average volumes.

**Noninterest Expense.** Noninterest expense information is as follows:

	<b>For the Nine Months Ended</b>		<b>Change</b>	
	<b>September 30, 2018</b>	<b>2017</b>	<b>Amount</b>	<b>Percent</b>
	<b>(Dollars in thousands)</b>			
<b>Noninterest expense</b>				
Employee compensation and benefits	\$10,230	\$ 7,180	\$ 3,050	42.5 %
Occupancy and equipment	1,287	1,155	132	11.4
Professional and consulting services	1,859	1,453	406	27.9
FDIC and regulatory assessments	235	220	15	6.8
Advertising and marketing	442	340	102	30.0
Travel and business relations	384	320	64	20.0
Data processing	1,415	1,245	170	13.7
Other operating expenses	1,039	705	334	47.4
Total noninterest expense	\$16,891	\$12,618	\$ 4,273	33.9 %

Employee compensation and benefits increased due to a one-time compensation related charge of \$1.2 million for the recent passing of our Executive Chairman, 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 costs was due primarily to additional costs related to being a public company and costs related to certain strategic projects. The increase in other operating expenses was due primarily to additional public relations and SEC related costs.

**Income Tax Expense.** We recorded an income tax expense of \$2.1 million for the nine months ended September 30, 2018, reflecting an effective tax rate of 26.8%, compared to \$1.7 million, or 36.6%, for the nine months ended September 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.

Changes in Interest Rates (Basis Points)	At September 30, 2018	
	Estimated 12-Months Net Interest Income	Change
	(Dollars in thousands)	
400	\$ 38,090	7,088
300	36,035	5,033
200	34,198	3,196
100	32,461	1,459
0	31,002	—
(100)	29,066	(1,936)
(200)	26,115	(4,887)

**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 September 30, 2018.

Changes in Interest Rates (Basis Points)	At September 30, 2018	
	Economic Value of Equity	Change
	(Dollars in thousands)	
400	\$ 133,399	250
300	132,929	(220)
200	133,018	(131)
100	133,159	10
0	133,149	—
(100)	128,234	(4,915)
(200)	115,479	(17,670)

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 September 30, 2018, cash and cash equivalents totaled \$39.8 million.

At September 30, 2018, through pledging of our securities, we had the ability to borrow a total of \$123.3 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 \$16.6 million. At September 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 September 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 September 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 September 30, 2018, Esquire Bank was classified as “well capitalized.”

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

	For Capital Adequacy Purposes	Actual
	Minimum Capital with Conservation Buffer	At September 30, 2018
	“Well Capitalized”	
<b><u>Tier 1 Leverage Ratio</u></b>		
Bank	5.00 %	13.40 %
<b><u>Tier 1 Risk-based Capital Ratio</u></b>		
Bank	8.00 %	17.78 %
<b><u>Common Equity Tier 1 Capital Ratio</u></b>		
Bank	6.50 %	17.78 %
<b><u>Total Risk-based Capital Ratio</u></b>		
Bank	10.00 %	18.92 %

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.

As a result of the recently enacted Economic Growth, Regulatory Relief, and Consumer Protection Act, the Federal Reserve Board is required to amend its small bank holding company and savings and loan holding company policy statement to provide that holding companies with consolidated assets of less than \$3 billion that are (i) not engaged in significant nonbanking activities, (ii) do not conduct significant off-balance sheet activities, and (iii) do not have a material amount of SEC-registered debt or equity securities, other than trust preferred securities, that contribute to an organization’s complexity, will no longer be subject to regulatory capital requirements, effective no later than November 2018.

In addition, as a result of the legislation, the federal banking agencies are required to develop a “Community Bank Leverage Ratio” (the ratio of a bank’s tangible equity capital to average total consolidated assets) for financial institutions with assets of less than \$10 billion. A “qualifying community bank” that exceeds this ratio will be deemed to be in compliance with all other capital and leverage requirements, including the capital requirements to be considered “well capitalized” under Prompt Corrective Action statutes. The federal banking agencies may consider a financial institution’s risk profile when evaluating whether it qualifies as a community bank for purposes of the capital ratio requirement. The federal banking agencies must set the minimum capital for the new Community Bank Leverage Ratio at not less than 8% and not more than 10%. A financial institution can elect to be subject to this new definition.

**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 September 30, 2018.

**Contractual Maturities as of September 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	\$ 555	\$ 1,030	\$ 1,053	\$ 1,834	\$ 4,472
Time deposits	28,429	1,786	—	—	30,215
<b>Total</b>	<b>\$ 28,984</b>	<b>\$ 2,816</b>	<b>\$ 1,053</b>	<b>\$ 1,834</b>	<b>\$ 34,687</b>

**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 September 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 September 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 September 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**

<b>Exhibit Number</b>	<b>Description</b>
3.1	<a href="#">Articles of Incorporation of Esquire Financial Holdings, Inc. (1)</a>
3.3	<a href="#">Amended and Restated Bylaws of Esquire Financial Holdings, Inc. (2)</a>
31.1	<a href="#">Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
31.2	<a href="#">Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
32	<a href="#">Written Statement of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
101.0	The following materials for the quarter ended September 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 3.3 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: November 14, 2018

/s/ Andrew C. Sagliocca

Andrew C. Sagliocca  
President and Chief Executive Officer

Date: November 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 (EX-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: November 14, 2018

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

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## Section 3: EX-31.2 (EX-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: November 14, 2018

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

## Section 4: EX-32 (EX-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 September 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: November 14, 2018

/s/ Andrew C. Sagliocca

Andrew C. Sagliocca  
President and Chief Executive Officer

Date: November 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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