Section 1: 10-Q (10-Q)

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2019

OR

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

For the transition period from ____________ to ____________

Commission File No. 001-38131

Esquire Financial Holdings, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Maryland **(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)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $0.01 par value	ESQ	The Nasdaq Stock Market LLC

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	☐	Accelerated filer	☒
Non-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, 2019, there were 7,541,670 outstanding shares of the issuer’s common stock.

Esquire Financial Holdings, Inc.
Form 10-Q

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

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

	September 30, 2019	December 31, 2018
ASSETS		
Cash and cash equivalents	$ 61,676	$ 30,562
Securities available-for-sale, at fair value	139,165	145,698
Securities, restricted, at cost	2,665	2,583
Loans	533,949	468,101
Less: allowance for loan losses	(6,741)	(5,629)
Loans, net	527,208	462,472
Premises and equipment, net	2,872	2,694
Accrued interest receivable	3,159	3,855
Other assets	22,993	16,035
Total assets	$ 759,738	$ 663,899
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Demand	$ 225,740	$ 212,721
Savings, NOW and money market	398,812	335,283
Time	19,959	20,417
Total deposits	644,511	568,421
Secured borrowings	87	89
Accrued expenses and other liabilities	8,237	2,615
Total liabilities	$ 652,835	$ 571,125
Commitments and Contingencies	—	—
Stockholders' equity:		
Preferred stock, par value $0.01; authorized 2,000,000 shares; no shares issued and outstanding at September 30, 2019 and December 31, 2018	—	—
Common stock, par value $0.01; authorized 15,000,000 shares; issued and outstanding 7,541,670 shares at September 30, 2019 and 7,532,723 shares at December 31, 2018	75	75
Additional paid-in capital	89,398	88,539
Retained earnings	17,044	6,774
Accumulated other comprehensive gain (loss)	386	(2,614)
Total stockholders' equity	106,903	92,774
Total liabilities and stockholders' equity	$ 759,738	$ 663,899

See accompanying condensed notes to interim condensed consolidated financial statements.

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2019	2018	2019	2018
Interest income:				
Loans	$ 8,312	$ 6,432	$23,524	$17,378
Securities	950	1,035	3,073	2,906
Interest earning deposits and other	236	153	706	470
Total interest income	9,498	7,620	27,303	20,754
Interest expense:				
Savings, NOW and money market deposits	625	291	1,665	580
Time deposits	125	41	375	140
Borrowings	1	12	4	21
Total interest expense	751	344	2,044	741
Net interest income	8,747	7,276	25,259	20,013
Provision for loan losses	425	450	1,250	975
Net interest income after provision for loan losses	8,322	6,826	24,009	19,038
Noninterest income:				
Merchant processing income	3,284	1,300	7,994	3,532
Customer related fees and service charges	191	500	653	2,322
Total noninterest income	3,475	1,800	8,647	5,854
Noninterest expense:				
Employee compensation and benefits	3,817	4,161	10,841	10,230
Occupancy and equipment	517	429	1,399	1,287
Professional and consulting services	816	547	2,146	1,859
FDIC and regulatory assessments	40	79	211	235
Advertising and marketing	230	146	592	442
Travel and business relations	136	116	372	384
Data processing	638	485	1,857	1,415
Other operating expenses	410	367	1,175	1,039
Total noninterest expense	6,604	6,330	18,593	16,891
Net income before income taxes	5,193	2,296	14,063	8,001
Income tax expense	1,376	614	3,793	2,140
Net income	$ 3,817	$ 1,682	$10,270	$ 5,861
Earnings per share				
Basic	$ 0.52	$ 0.23	$ 1.39	$ 0.80
Diluted	$ 0.49	$ 0.22	$ 1.32	$ 0.76

See accompanying condensed notes to interim condensed consolidated financial statements

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2019	2018	2019	2018
Net income	$3,817	$ 1,682	$ 10,270	$ 5,861
Other comprehensive income (loss):				
Unrealized gains (losses) arising during the period on securities available-for-sale	650	(776)	4,138	(3,347)
Reclassification adjustment for net gains included in net income	—	—	—	—
Tax effect	(184)	212	(1,138)	916
Total other comprehensive income (loss)	466	(564)	3,000	(2,431)
Total comprehensive income	$4,283	$ 1,118	$ 13,270	$ 3,430

See accompanying condensed notes to interim condensed consolidated financial statements.

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

	Preferred shares	Common shares	Preferred stock	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive gain	Total stockholders' equity
Balance at July 1, 2019	—	7,536,723	$ —	$ 75	$ 89,129	$ 13,227	$ (80)	$ 102,351
Net income	—	—	—	—	—	3,817	—	3,817
Other comprehensive income	—	—	—	—	—	—	466	466
Exercise of stock options, net of repurchases	—	4,947	—	—	—	—	—	—
Stock compensation expense	—	—	—	—	269	—	—	269
Balance at September 30, 2019	—	7,541,670	$ —	$ 75	$ 89,398	$ 17,044	$ 386	$ 106,903

	Preferred shares	Common shares	Preferred stock	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Total stockholders' equity
Balance at July 1, 2018	—	7,445,723	$ —	$ 74	$ 87,460	$ 2,219	$ (3,257)	$ 86,496
Net income	—	—	—	—	—	1,682	—	1,682
Other comprehensive loss	—	—	—	—	—	—	(564)	(564)
Stock compensation expense	—	—	—	—	881	—	—	881
Balance at September 30, 2018	—	7,445,723	$ —	$ 74	$ 88,341	$ 3,901	$ (3,821)	$ 88,495

	Preferred shares	Common shares	Preferred stock	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive gain	Total stockholders' equity
Balance at January 1, 2019	—	7,532,723	$ —	$ 75	$ 88,539	$ 6,774	$ (2,614)	$ 92,774
Net income	—	—	—	—	—	10,270	—	10,270
Other comprehensive income	—	—	—	—	—	—	3,000	3,000
Exercise of stock options, net of repurchases	—	8,947	—	—	50	—	—	50
Stock compensation expense	—	—	—	—	809	—	—	809
Balance at September 30, 2019	—	7,541,670	$ —	$ 75	$ 89,398	$ 17,044	$ 386	$ 106,903

	Preferred shares	Common shares	Preferred stock	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Total stockholders' equity
Balance at January 1, 2018	—	7,326,536	$ —	$ 73	$ 86,660	$ (1,960)	$ (1,390)	$ 83,383
Net income	—	—	—	—	—	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
Balance at September 30, 2018	—	7,445,723	$ —	$ 74	$ 88,341	$ 3,901	$ (3,821)	$ 88,495

See accompanying condensed notes to interim condensed consolidated financial statements.

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

	For the Nine Months Ended September 30, 2019	For the Nine Months Ended September 30, 2018
Cash flows from operating activities:		
Net income	$ 10,270	$ 5,861
Adjustments to reconcile net income to net cash used in operating activities:		
Net cash used in operating activities:		
Provision for loan losses	1,250	975
Depreciation	368	304
Stock compensation expense	809	1,304
Net amortization:		
Securities	359	339
Loans	284	296
Right of use asset	272	—
Changes in other assets and liabilities:		
Accrued interest receivable	696	(1,572)
Other assets	(5,311)	(3,391)
Operating lease liability	(213)	—
Accrued expenses and other liabilities	2,778	3,243
Net cash provided by operating activities	11,562	7,359
Cash flows from investing activities:		
Net change in loans	(66,270)	(89,211)
Purchases of securities available-for-sale	(9,918)	(40,844)
Principal repayments on securities available-for-sale	20,230	18,394
Purchase of securities, restricted	(82)	(220)
Purchase of equity investment without readily determinable fair value	—	(2,410)
Purchases of premises and equipment	(546)	(374)
Net cash used in investing activities	(56,586)	(114,665)
Cash flows from financing activities:		
Net increase in deposits	76,090	103,697
Decrease in secured borrowings	(2)	(6)
Exercise of stock options	50	378
Net cash provided by financing activities	76,138	104,069
Increase (decrease) in cash and cash equivalents	31,114	(3,237)
Cash and cash equivalents at beginning of the period	30,562	43,077
Cash and cash equivalents at end of the period	$ 61,676	$ 39,840
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$ 2,048	$ 730
Taxes	3,016	1,955
Noncash transactions:		
Right of use asset obtained in exchange for lease liability	3,640	—

See accompanying condensed notes to interim condensed consolidated financial statements.

ESQUIRE FINANCIAL HOLDINGS, INC.
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1 — Basis of Presentation and Summary of Significant Accounting Policies

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, 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, 2018 and 2017. Operating results for the three and nine months ended September 30, 2019 are not necessarily indicative of the results that may be expected for the year ending December 31, 2019 or any other period. Certain balances in the prior year financial statements were reclassified to conform to current presentation. The reclassifications had no effect on prior year net income or stockholders' equity.

Subsequent Events

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

Loss Contingencies

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

New Accounting Pronouncements

On February 25, 2016, the FASB established Topic 842, Leases, by issuing Accounting Standards Update (ASU) No. 2016-02, which requires lessees to recognize leases on-balance sheet and disclose key information about leasing arrangements. Topic 842 was subsequently amended by ASU No. 2018-01, Land Easement Practical Expedient for Transition to Topic 842; ASU No. 2018-10, Codification Improvements to Topic 842, Leases; and ASU No. 2018-11, Targeted Improvements. The new standard establishes a right-of-use model (ROU) that requires a lessee to recognize a ROU asset and lease liability on the balance sheet for all leases with a term longer than 12 months.

The new standard was adopted by the Company on January 1, 2019 utilizing the modified retrospective transition approach where it was applied to all leases existing at the date of initial application. Upon adoption, we recognized a ROU asset, presented within other assets on the Consolidated Statement of Financial Condition, and a lease liability, presented within accrued expenses and other liabilities on the Consolidated Statement of Financial Condition, of approximately $3.1 million and $3.6 million, respectively.

In transition, we elected the 'package of practical expedients', which permitted the Company not to reassess under the new standard our prior conclusions about lease identification, lease classification and initial direct costs. Management did not elect the use-of-hindsight or the practical expedient pertaining to land easements; the latter not being applicable to us.

The new standard also provided practical expedients for an entity's ongoing accounting. Management elected the short-term lease recognition exemption for all leases that qualify. This means, for those leases with an initial term of 12 months or less, the Company did not recognize ROU assets or lease liabilities, and this included not recognizing ROU assets or lease liabilities for existing short-term leases of those assets in transition.

In recognizing ROU lease assets and related lease liabilities, we exclude variable and non-lease components (such as taxes, insurance, and common area maintenance costs) and expense these costs as incurred. At lease commencement date, the lease payments over the expected term are discounted using our incremental borrowing rate referenced to the Federal Home Loan Bank advance rates of a similar term to determine the present value of our lease obligation and ROU asset to be recorded on the Statement of Financial Condition. Lease expense is then recognized on a straight-line basis.

The Company has committed to rent premises used in business operations under non-cancelable operating leases that have renewal options for additional 3-5 year terms which were not considered in determining our ROU asset or lease liability as renewal is not reasonably certain.

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 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. At its July 17, 2019 public meeting, FASB issued a proposal to delay the effective date of ASU 2016-13 for certain entities, including SEC filers classified as smaller reporting companies. On October 16, 2019, FASB voted for the delay, the revised effective date for adoption for the Company, which is classified as a smaller reporting company, is January 1, 2023. Due to this change in effective date, the Company plans to adopt ASU 2016-13 on January 1, 2023, using the required modified retrospective method with a cumulative effect adjustment as of the beginning of the reporting period. The Company has gathered the necessary data and continues to prepare for the implementation of this standard.

NOTE 2 — Debt Securities

Available-for-Sale Securities

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
September 30, 2019				
Mortgage-backed securities – agency	$ 25,541	$ 609	$ (93)	$ 26,057
Collateralized mortgage obligations (CMO's) – agency	113,085	449	(426)	113,108
Total available-for-sale	$ 138,626	$ 1,058	$ (519)	$139,165
December 31, 2018				
Mortgage-backed securities – agency	$ 27,384	$ 15	$ (724)	$ 26,675
Collateralized mortgage obligations (CMO's) – agency	121,913	32	(2,922)	119,023
Total available-for-sale	$ 149,297	$ 47	$ (3,646)	$145,698

Mortgage-backed securities include all residential pass-through certificates guaranteed by FHLMC, FNMA, or GNMA and the CMO's are backed by government agency pass-through certificates. The 2019 and 2018 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). As actual maturities may differ from contractual

maturities because certain borrowers have the right to call or prepay certain obligations, these securities are not considered to have a single maturity date.

There were no sales or calls of securities for the three and nine months ended September 30, 2019 and 2018.

At September 30, 2019, securities having a fair value of $114.8 million were pledged to the Federal Home Loan Bank of New York (FHLB) for borrowing capacity totaling $109.7 million. At December 31, 2018, securities having a fair value of $120.7 million were pledged to the FHLB for borrowing capacity totaling $115.0 million. At September 30, 2019 and December 31, 2018, the Company had no outstanding FHLB advances.

At September 30, 2019, securities having a fair value of $24.3 million were pledged to the Federal Reserve Bank of New York (FRB) for borrowing capacity totaling $23.6 million. At December 31, 2018, securities having a fair value of $25.0 million were pledged to the FRB for borrowing capacity totaling $24.2 million. At September 30, 2019 and December 31, 2018, the Company had no outstanding FRB borrowings.

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

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(In thousands)					
September 30, 2019						
Mortgage-backed securities – agency	$ —	$ —	$ 9,926	$ (93)	$ 9,926	$ (93)
CMO’s – agency	10,459	(85)	31,489	(341)	41,948	(426)
Total temporarily impaired securities	$10,459	$ (85)	$ 41,415	$ (434)	$ 51,874	$ (519)
December 31, 2018						
Mortgage-backed securities - agency	$ 9,528	$ (99)	$ 15,497	$ (625)	$ 25,025	$ (724)
CMO's - Agency	19,184	(73)	85,775	(2,849)	104,959	(2,922)
Total temporarily impaired securities	$28,712	$ (172)	$101,272	$ (3,474)	$129,984	$ (3,646)

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, 2019, 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, 2019.

No impairment charges were recorded for the three and nine months ended September 30, 2019 and 2018.

NOTE 3 — Loans

The composition of loans by class is summarized as follows:

	September 30, 2019	December 31, 2018
	(In thousands)	
1 – 4 family residential	$ 49,214	$ 56,043
Commercial	247,931	191,828
Multifamily	136,799	136,537
Commercial real estate	49,125	33,145
Construction	6,450	5,921
Consumer	43,911	43,675
Total Loans	533,430	467,149
Deferred costs and unearned premiums, net	519	952
Allowance for loan losses	(6,741)	(5,629)
Loans, net	$ 527,208	$ 462,472

The following tables present the activity in the allowance for loan losses by class for the three months ending September 30, 2019 and 2018:

	1-4 Family Residential	Commercial	Multifamily	Commercial Real Estate	Construction	Consumer	Total
				(In thousands)			
September 30, 2019							
Allowance for loan losses:							
Beginning balance	$ 372	$ 3,843	$ 920	$ 406	$ 161	$ 731	$6,433
Provision (credit) for loan losses	(16)	230	19	123	1	68	425
Recoveries	—	—	—	—	—	—	—
Loans charged-off	—	—	—	—	—	(117)	(117)
Total ending allowance balance	$ 356	$ 4,073	$ 939	$ 529	$ 162	$ 682	$6,741
September 30, 2018							
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)
Total ending allowance balance	$ 419	$ 2,821	$ 911	$ 379	$ 142	$ 557	$5,229

The following tables present the activity in the allowance for loan losses by class for the nine months ending September 30, 2019 and 2018:

	1-4 Family Residential	Commercial	Multifamily	Commercial Real Estate	Construction	Consumer	Total
				(In thousands)			
September 30, 2019							
Allowance for loan losses:							
Beginning balance	$ 407	$ 3,110	$ 952	$ 357	$ 149	$ 654	$5,629
Provision (credit) for loan losses	(51)	982	(13)	172	13	147	1,250
Recoveries	—	—	—	—	—	—	—
Loans charged-off	—	(19)	—	—	—	(119)	(138)
Total ending allowance balance	$ 356	$ 4,073	$ 939	$ 529	$ 162	$ 682	$6,741
September 30, 2018							
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	$ 419	$ 2,821	$ 911	$ 379	$ 142	$ 557	$5,229

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, 2019 and December 31, 2018:

	1-4 Family Residential	Commercial	Multifamily	Commercial Real Estate	Construction	Consumer	Total
				(In thousands)			
September 30, 2019							
Allowance for loan losses:							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Collectively evaluated for impairment	356	4,073	939	529	162	682	6,741
Total ending allowance balance	$ 356	$ 4,073	$ 939	$ 529	$ 162	$ 682	$ 6,741
Loans:							
Loans individually evaluated for impairment	$ —	$ —	$ —	$ —	$ —	$ 1,076	$ 1,076
Loans collectively evaluated for impairment	49,214	247,931	136,799	49,125	6,450	42,835	532,354
Total ending loans balance	$ 49,214	$ 247,931	$ 136,799	$ 49,125	$ 6,450	$ 43,911	$533,430

	1-4 Family Residential	Commercial	Multifamily	Commercial Real Estate	Construction	Consumer	Total
				(In thousands)			
December 31, 2018							
Allowance for loan losses:							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Collectively evaluated for impairment	407	3,110	952	357	149	654	5,629
Total ending allowance balance	$ 407	$ 3,110	$ 952	$ 357	$ 149	$ 654	$ 5,629
Loans:							
Loans individually evaluated for impairment	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Loans collectively evaluated for impairment	56,043	191,828	136,537	33,145	5,921	43,675	467,149
Total ending loans balance	$ 56,043	$ 191,828	$ 136,537	$ 33,145	$ 5,921	$ 43,675	$467,149

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

The following tables provide an analysis of the impaired loans by segment as of September 30, 2019. There was no related allowance recorded on any impaired loans as of September 30, 2019. There were no impaired loans as of December 31, 2018:

	September 30, 2019	
	Recorded Investment	Unpaid Principal Balance
	(In thousands)	
1-4 family residential	$ —	$ —
Commercial	—	—
Multifamily	—	—
Commercial real estate	—	—
Construction	—	—
Consumer	1,076	1,076
Total	$ 1,076	$ 1,076

	Three months ended September 30,				Nine months ended September 30,			
	2019		2018		2019		2018	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	(In thousands)							
1-4 family residential	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Commercial	—	—	—	—	—	—	—	—
Multifamily	—	—	—	—	—	—	—	—
Commercial real estate	—	—	—	—	—	—	—	—
Construction	—	—	—	—	—	—	—	—
Consumer	717	—	—	—	239	—	—	—
Total	$ 717	$ —	$ —	$ —	$ 239	$ —	$ —	$ —

Nonperforming Loans

Nonperforming loans include loans 90 days past due and still accruing and nonaccrual loans. At September 30, 2019 the Company had $1.1 million in nonperforming consumer loans. At December 31, 2018, the Company did not have any nonperforming loans.

The following tables present the aging of the recorded investment in past due loans by class of loans as of September 30, 2019 and December 31, 2018:

	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Loans Not Past Due	Total
	(In thousands)					
September 30, 2019						
1 – 4 family residential	$ —	$ —	$ —	$ —	$ 49,214	$ 49,214
Commercial	—	—	—	—	247,931	247,931
Multifamily	—	—	—	—	136,799	136,799
Commercial real estate	—	—	—	—	49,125	49,125
Construction	—	—	—	—	6,450	6,450
Consumer	326	—	—	326	43,585	43,911
Total	$ 326	$ —	$ —	$ 326	$ 533,104	$533,430

	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Loans Not Past Due	Total
	(In thousands)					
December 31, 2018						
1 – 4 family residential	$ —	$ —	$ —	$ —	$ 56,043	$ 56,043
Commercial	—	—	—	—	191,828	191,828
Multifamily	—	—	—	—	136,537	136,537
Commercial real estate	—	—	—	—	33,145	33,145
Construction	—	—	—	—	5,921	5,921
Consumer	—	40	—	40	43,635	43,675
Total	$ —	$ 40	$ —	$ 40	$ 467,109	$467,149

Credit Quality Indicators

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

The Company uses the following definitions for risk ratings:

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

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

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

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

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

	Pass	Special Mention	Substandard	Doubtful
	(In thousands)			
September 30, 2019				
1 – 4 family residential	$ 49,214	$ —	$ —	$ —
Commercial	243,520	4,271	140	—
Multifamily	136,799	—	—	—
Commercial real estate	49,125	—	—	—
Construction	6,450	—	—	—
Consumer	42,835	—	1,076	—
Total	$527,943	$ 4,271	$ 1,216	$ —

	Pass	Special Mention	Substandard	Doubtful
	(In thousands)			
December 31, 2018				
1 – 4 family residential	$ 56,043	$ —	$ —	$ —
Commercial	182,482	9,166	180	—
Multifamily	136,537	—	—	—
Commercial real estate	33,145	—	—	—
Construction	5,921	—	—	—
Consumer	43,675	—	—	—
Total	$457,803	$ 9,166	$ 180	$ —

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, 2019 and December 31, 2018. Furthermore, there were no loans modified during the three and nine months ended September 30, 2019 and 2018 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.

NOTE 4 — Noninterest Income

Descriptions of revenue-generating activities that are within the scope of Accounting Standards Codification (ASC) 606, Revenue from Contracts with Customers, and are presented in the Consolidated Statements of Income as components of noninterest income, are as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2019	2018	2019	2018
	(In thousands)			
Noninterest income				
Customer related fees and service charges				
Administrative service income	$ 107	$ 425	$ 395	$ 2,077
Merchant processing income				
Merchant services income	3,124	1,214	7,585	3,284
ACH income	160	86	409	248
Other	84	75	258	245
Total noninterest income	$ 3,475	$ 1,800	$ 8,647	$ 5,854

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 primarily from the management of qualified settlement funds (QSFs), which are funds from settled mass torts and class action lawsuits. Our performance obligations with the QSFs are outlined in court approved orders which includes ensuring funds are invested into safe investment vehicles such as U.S. treasuries and FDIC insured products. 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 independent sales organization (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 clearing and settling credit and debit transactions on behalf of the merchants. The Company recognizes revenue monthly once it summarizes and computes all revenue and expenses applicable to each ISO, which is our performance obligation.

- ACH income – We provide ACH services for merchants and other commercial customers. Contracts are entered into with third parties that require 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 ACH's on behalf of the customers. 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 based on the total volume of transactions processed that month for a given customer.

- Other – The other category includes revenue from service charges on deposit accounts, debit card interchange fees, and certain loan related fees where revenue is recognized as performance obligations are satisfied.

NOTE 5 — Share-Based Payment Plans

The Company issues incentive and nonqualified 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 granted by the Compensation Committee of the Board of Directors.

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 and nonvested restricted shareholders do not have rights to the accrued dividends until vested.

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

There were no stock options granted during the three and nine months ended September 30, 2019 and the three months ended September 30, 2018. 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:

	Nine months ended September 30, 2018
Risk-Free Interest Rate	2.54 %
Expected Term	84 months
Expected Stock Price Volatility	21.0 %
Dividend Yield	0.00 %
Weighted Average Fair Value	$ 5.63

The following table presents a summary of the activity related to options as of September 30, 2019:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)
September 30, 2019			
Outstanding at beginning of year	919,175	$ 13.39	
Granted	—	—	
Exercised	(14,000)	12.50	
Forfeited	—	—	
Outstanding at period end	905,175	$ 13.41	6.12
Vested or expected to vest	905,175	$ 13.41	6.12
Exercisable at period end	691,504	$ 12.71	5.77

The Company recognized compensation expense related to options of $129 thousand and $563 thousand for the three months ended September 30, 2019 and 2018, respectively. The Company recognized compensation expense related to options of $392 thousand and $880 thousand for the nine months ended September 30, 2019 and 2018, respectively. At September 30, 2019, unrecognized compensation cost related to nonvested options was approximately $786 thousand and is expected to be recognized over a weighted average period of 1.73 years. The intrinsic value for outstanding options and for options vested or expected to vest was $10.3 million and $8.4 million for exercisable options at September 30, 2019.

The following table presents a summary of the activity related to restricted stock as of September 30, 2019:

	Shares	Weighted Average Grant Date Fair Value
September 30, 2019		
Outstanding at beginning of year	148,500	$ 22.56
Granted	—	—
Vested	—	—
Outstanding at period end	148,500	$ 22.56

The Company recognized compensation expense related to restricted stock of $140 thousand and $317 thousand for the three months ended September 30, 2019 and 2018, respectively. The Company recognized compensation expense related to restricted stock of $417 thousand and $424 thousand for the nine months ended September 30, 2019 and 2018, respectively. As of September 30, 2019, there was $2.7 million of total unrecognized compensation cost related to nonvested shares granted under the plan. The cost is expected to be recognized over a weighted-average period of 4.92 years.

NOTE 6 — Earnings per Share

The factors used in the earnings per share computation follow:

	Three months ended At September 30,		Nine months ended At September 30,	
	2019	2018	2019	2018
	(Dollars in thousands, except per share data)			
Basic				
Net income	$ 3,817	$ 1,682	$ 10,270	$ 5,861
Weighted average common shares outstanding	7,391,611	7,377,701	7,387,196	7,370,573
Basic earnings per share	$ 0.52	$ 0.23	$ 1.39	$ 0.80
Diluted				
Net income	$ 3,817	$ 1,682	$ 10,270	$ 5,861
Weighted average shares outstanding for basic earnings per share	7,391,611	7,377,701	7,387,196	7,370,573
Add: Dilutive effects of share based awards	406,701	408,762	385,284	352,156
Average shares and dilutive potential common shares	7,798,312	7,786,463	7,772,480	7,722,729
Diluted earnings per share	$ 0.49	$ 0.22	$ 1.32	$ 0.76

Share-based awards totaling 42,500 and 298,181 shares of common stock were not considered in computing diluted earnings per common share for the three months ended September 30, 2019 and September 30, 2018, respectively, because they were anti-dilutive. Share-based awards totaling 42,500 and 707,397 shares of common stock were not considered in computing diluted earnings per common share for the nine months ended September 30, 2019 and September 30, 2018, respectively, because they were anti-dilutive.

NOTE 7 — Leases

The Company adopted ASU 2016-02 on January 1, 2019. As a result of adoption, the Company recognized operating lease assets and corresponding lease liabilities related to its office facilities and retail branch. The operating lease assets represent the Company's right to use an underlying asset for the lease term, and the lease liability represents the Company's obligation to make lease payments over the lease term.

The operating lease asset and lease liability are determined at the commencement date of the lease based on the present value of the lease payments. As most of our leases do not provide an implicit rate, the Company used its incremental borrowing rate, the rate of interest to borrow on a collateralized basis for a similar term, at the lease commencement date.

The Company made a policy election to exclude the recognition requirements of ASU 2016-02 to short-term leases, those leases with original terms of 12 months or less. Short-term lease payments are recognized in the income statement on a straight-line basis over the lease term. Certain leases may include one or more options to renew. The exercise of lease renewal options is typically at the Company's discretion, and are included in the operating lease liability if it is reasonably certain that the renewal option will be exercised. Certain real estate leases may contain lease and non-lease components, such as common area maintenance charges, real estate taxes, and insurance, which are generally accounted for separately and are not included in the measurement of the lease liability since they are generally able to be segregated. The Company does not sublease any of its leased properties. The Company does not lease properties from any related parties.

As of September 30, 2019, ROU lease assets and related lease liabilities were $2.8 million and $3.4 million, respectively. The Company has entered into an additional lease that had not commenced as of September 30, 2019, which provides for the right of use of additional space at its Jericho headquarters for a term of 7 years at a total cost of $0.7 million.

Maturities of the Company's operating lease liabilities at September 30, 2019 are as follows:

	Year ending December 31, (In thousands)
2019 [(a)]	$ 150
2020	563
2021	605
2022	620
2023	636
Thereafter	1,946
Total operating lease payments	$ 4,520
Less: payments for leases not yet commenced	660
Less: interest	433
Present value of operating lease liabilities	$ 3,427

(a) Excluding nine months ended September 30, 2019

	As of and for the nine months ended September 30, 2019 (Dollars in thousands)
Operating lease cost	$ 359
Cash paid for operating lease liability	301
Weighted-average remaining lease term	7.11 years
Weighted-average discount rate	3.28 %

NOTE 8 — Fair Value Measurements

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

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

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

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

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

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

	Fair Value Measurements Using		
	Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(In thousands)	
September 30, 2019			
Assets			
Available-for-sale securities			
Mortgage-backed securities – agency	$ —	$ 26,057	$ —
CMO's – agency	—	113,108	—
Total	$ —	$ 139,165	$ —
December 31, 2018			
Assets			
Available-for-sale securities			
Mortgage-backed securities – agency	$ —	$ 26,675	$ —
CMO's – agency	—	119,023	—
Total	$ —	$ 145,698	$ —

There were no transfers between Level 1 and Level 2 during the three and nine months ended September 30, 2019 and 2018. There were no assets measured on a nonrecurring basis as of September 30, 2019 and December 31, 2018.

The following tables present the carrying amounts and fair values (represents exit price) of financial instruments at September 30, 2019 and December 31, 2018:

	Fair Value Measurement at September 30, 2019, Using:				
	Carrying Value	(Level 1)	(Level 2)	(Level 3)	Total
			(In thousands)		
Financial Assets:					
Cash and cash equivalents	$ 61,676	$ 669	$ 61,007	$ —	$ 61,676
Securities available-for-sale	139,165	—	139,165	—	139,165
Securities, restricted, at cost	2,665	N/A	N/A	N/A	N/A
Loans, net	527,208	—	—	531,031	531,031
Accrued interest receivable	3,159	—	386	2,773	3,159
Financial Liabilities:					
Time deposits	19,959	—	19,946	—	19,946
Demand and other deposits	624,552	624,552	—	—	624,552
Secured borrowings	87	—	87	—	87
Accrued interest payable	11	—	11	—	11

	Fair Value Measurement at December 31, 2018, Using:				
	Carrying Value	(Level 1)	(Level 2)	(Level 3)	Total
	(In thousands)				
Financial Assets:					
Cash and cash equivalents	$ 30,562	$ 659	$ 29,903	$ —	$ 30,562
Securities available-for-sale	145,698	—	145,698	—	145,698
Securities, restricted, at cost	2,583	N/A	N/A	N/A	N/A
Loans, net	462,472	—	—	464,144	464,144
Accrued interest receivable	3,855	—	368	3,487	3,855
Financial Liabilities:					
Time deposits	20,417	—	20,377	—	20,377
Demand and other deposits	548,004	548,004	—	—	548,004
Secured borrowings	89	—	89	—	89
Accrued interest payable	15	—	15	—	15

NOTE 9 — Accumulated Other Comprehensive Loss

The following presents changes in accumulated other comprehensive loss by component, net of tax for the three and nine months ending September 30, 2019 and 2018:

	Three months ended At September 30,		Nine months ended At September 30,	
	2019	2018	2019	2018
	(In thousands)			
Unrealized Losses on Available-for-Sale Securities				
Beginning balance	$ (80)	$ (3,257)	$ (2,614)	$ (1,390)
Other comprehensive income (loss) before reclassifications, net of tax	466	(564)	3,000	(2,431)
Amounts reclassified from accumulated other comprehensive income	—	—	—	—
Net current period other comprehensive income (loss)	466	(564)	3,000	(2,431)
Ending balance	$ 386	$ (3,821)	$ 386	$ (3,821)

There were no reclassifications out of accumulated other comprehensive loss for the three and nine months ended September 30, 2019 and 2018.

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, 2019 and December 31, 2018 and results of operations for the three and nine months ended September 30, 2019 and 2018 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, 2018 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 nonperforming 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 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 the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement.

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

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

Loans for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired. Troubled debt restructurings are separately identified for impairment disclosures and are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a troubled debt restructuring is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral. For troubled debt restructurings that subsequently default, the Company determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses.

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

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

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

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, noninterest income and noninterest expense. Noninterest income currently consists primarily of merchant processing income and customer related fees and charges. Noninterest 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, 2019 and December 31, 2018

Assets. Our total assets were $759.7 million at September 30, 2019, an increase of $95.8 million, or 14.4%, from $663.9 million at December 31, 2018, primarily due to increases in loans of $65.8 million, or 14.1%, cash and cash equivalents of $31.1 million, or 101.8%, offset by a decrease in securities of $6.5 million, or 4.5%.

Loans. At September 30, 2019, loans were $533.9 million, or 82.8% of total deposits, compared to $468.1 million, or 82.4% of total deposits, at December 31, 2018. The growth in loans was primarily driven by increases in commercial loans. Commercial loans increased $56.1 million, or 29.2%, to $247.9 million at September 30, 2019 from $191.8 million at December 31, 2018.

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

	September 30, 2019		December 31, 2018	
	Amount	Percent	Amount	Percent
	(Dollars in thousands)			
Attorney-Related Loans				
Commercial Attorney-Related:				
Working capital lines of credit	$127,824	51.9 %	$112,742	53.3 %
Case cost lines of credit	55,159	22.4	37,054	17.6
Term loans	28,136	11.5	26,851	12.7
Total Commercial Attorney-Related	211,119	85.8	176,647	83.6
Consumer Attorney-Related:				
Post-settlement consumer loans	34,234	13.9	33,576	15.9
Structured settlement loans	833	0.3	1,137	0.5
Total Consumer Attorney-Related	35,067	14.2	34,713	16.4
Total Attorney-Related Loans	$246,186	100.0 %	$211,360	100.0 %

At September 30, 2019, our Attorney-Related loans, which include commercial loans to law firms and consumer lending to plaintiffs/claimants and attorneys, totaled $246.2 million, or 46.2% of our total loan portfolio, compared to $211.4 million at December 31, 2018. The balance of Attorney-Related loans can fluctuate based on paydowns and draws of lines of credit. We remain focused on prudently growing our Attorney-Related loan portfolio.

Securities. Securities available for sale decreased $6.5 million, or 4.5%, to $139.2 million at September 30, 2019 from $145.7 million at December 31, 2018, driven by purchases of $9.9 million and unrealized gains of $4.1 million, offset by paydowns of $20.2 million and net amortization of $0.3 million.

Funding. Total deposits increased $76.1 million, or 13.4%, to $644.5 million at September 30, 2019 from $568.4 million at December 31, 2018. 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 $624.6 million at September 30, 2019, or 96.9% of total deposits at that date, compared to $548.0 million or 96.4% of total deposits at December 31, 2018.

At September 30, 2019, we had the ability to borrow a total of $109.7 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 $23.6 million. At September 30, 2019, we also had $17.5 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, 2019.

Equity. Total stockholders' equity increased $14.1 million, or 15.2%, to $106.9 million at September 30, 2019, from $92.8 million at December 31, 2018.

Asset Quality. Nonperforming assets, consisting of several nonaccrual consumer loans, totaled $1.1 million as of September 30, 2019. Nonperforming assets as a percentage of total assets was 0.14%. There were no nonperforming assets as of December 31, 2018. The allowance for loan losses was $6.7 million, or 1.26% of total loans, as compared to $5.6 million, or 1.20% of total loans at December 31, 2018. The increase in the allowance as a percentage of loans was primarily related to loan growth in the commercial, commercial real estate and consumer loan categories. These nonperforming loans as of September 30, 2019 represent several deceased claimants in the NFL post-settlement consumer loan portfolio and a missed lien payment by a law firm on a post-settlement loan. For a discussion of risk factors relating to consumer post-settlement loans, please refer to Item 1A. Risk Factors.

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,					
	2019			2018		
	(Dollars in thousands)					
	Average Balance	Interest	Average Yield/Cost	Average Balance	Interest	Average Yield/Cost
INTEREST EARNING ASSETS						
Loans	$528,328	$ 8,312	6.24 %	$416,004	$ 6,432	6.13 %
Securities, includes restricted stock	146,408	950	2.57 %	157,635	1,035	2.60 %
Interest earning cash	45,688	236	2.05 %	33,777	153	1.80 %
Total interest earning assets	720,424	9,498	5.23 %	607,416	7,620	4.98 %
NONINTEREST EARNING ASSETS	34,267			14,803		
TOTAL AVERAGE ASSETS	$754,691			$622,219		
INTEREST BEARING LIABILITIES						
Savings, NOW, Money Markets	$381,533	$ 625	0.65 %	$327,548	$ 291	0.35 %
Time deposits	19,902	125	2.49 %	17,555	41	0.93 %
Total interest bearing deposits	401,435	750	0.74 %	345,103	332	0.38 %
Short-term borrowings	1	—	— %	1,131	7	2.46 %
Secured borrowings	88	1	6.22 %	273	5	7.27 %
Total interest bearing liabilities	401,524	751	0.74 %	346,507	344	0.39 %
NONINTEREST BEARING LIABILITIES						
Demand deposits	240,502			183,864		
Other liabilities	8,785			4,708		
Total noninterest bearing liabilities	249,287			188,572		
Stockholders' equity	103,880			87,140		
TOTAL AVG. LIABILITIES AND EQUITY	$754,691			$622,219		
Net interest income		$ 8,747			$ 7,276	
Net interest spread			4.49 %			4.58 %
Net interest margin			4.82 %			4.75 %

	For the Nine Months Ended September 30,					
	2019			2018		
	(Dollars in thousands)					
	Average Balance	Interest	Average Yield/Cost	Average Balance	Interest	Average Yield/Cost
INTEREST EARNING ASSETS						
Loans	$498,989	$ 23,524	6.30 %	$380,918	$ 17,378	6.10 %
Securities, includes restricted stock	151,557	3,073	2.71 %	149,556	2,906	2.60 %
Interest earning cash	41,326	706	2.28 %	40,249	470	1.56 %
Total interest earning assets	691,872	27,303	5.28 %	570,723	20,754	4.86 %
NONINTEREST EARNING ASSETS	30,281			11,556		
TOTAL AVERAGE ASSETS	$722,153			$582,279		
INTEREST BEARING LIABILITIES						
Savings, NOW, Money Markets	$356,812	$ 1,665	0.62 %	$281,768	$ 580	0.28 %
Time deposits	20,034	375	2.50 %	27,126	140	0.69 %
Total interest bearing deposits	376,846	2,040	0.72 %	308,894	720	0.31 %
Short-term borrowings	1	—	— %	382	6	2.10 %
Secured borrowings	88	4	6.08 %	275	15	7.29 %
Total interest bearing liabilities	376,935	2,044	0.73 %	309,551	741	0.32 %
NONINTEREST BEARING LIABILITIES						
Demand deposits	238,485			184,382		
Other liabilities	7,676			3,117		
Total noninterest bearing liabilities	246,161			187,499		
Stockholders' equity	99,057			85,229		
TOTAL AVG. LIABILITIES AND EQUITY	$722,153			$582,279		
Net interest income		$ 25,259			$ 20,013	
Net interest spread			4.55 %			4.54 %
Net interest margin			4.88 %			4.69 %

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, 2019 vs. 2018			For the Nine Months Ended September 30, 2019 vs. 2018		
	Increase (Decrease) due to		Total Increase	Increase (Decrease) due to		Total Increase
	Volume	Rate	(Decrease)	Volume	Rate	(Decrease)
	(Dollars in thousands)					
Interest earned on:						
Loans	$ 1,765	$ 115	$ 1,880	$ 5,549	$ 597	$ 6,146
Securities, includes restricted stock	(73)	(12)	(85)	39	128	167
Interest earning cash	59	24	83	13	223	236
Total interest income	1,751	127	1,878	5,601	948	6,549
Interest paid on:						
Savings, NOW, Money Markets	55	279	334	188	897	1,085
Time deposits	6	78	84	(45)	280	235
Total deposits	61	357	418	143	1,177	1,320
Short-term borrowings	(7)	—	(7)	(6)	—	(6)
Secured borrowings	(3)	(1)	(4)	(9)	(2)	(11)
Total interest expense	51	356	407	128	1,175	1,303
Change in net interest income	$ 1,700	$ (229)	$ 1,471	$ 5,473	$ (227)	$ 5,246

Comparison of Operating Results for the Three Months Ended September 30, 2019 and 2018

General. Net income increased $2.1 million, or 126.9%, to $3.8 million for the three months ended September 30, 2019 from $1.7 million for the three months ended September 30, 2018. The increase resulted from a $1.5 million increase in net interest income and a $1.7 million increase in noninterest income, which was partially offset by a $274 thousand increase in noninterest expense.

Interest Income. Interest income increased $1.9 million, or 24.6%, to $9.5 million for the three months ended September 30, 2019 from $7.6 million for the three months ended September 30, 2018. This was primarily attributable to an increase in loan interest income, which increased $1.9 million, or 29.2%, to $8.3 million for the three months ended September 30, 2019 from $6.4 million for the three months ended September 30, 2018.

The increase in interest income on loans was due to an increase in the average balance of loans during the quarter ended September 30, 2019 of $112.3 million or 27.0% as well as an 11 basis point increase in the average rate of loans. The increase in the average rate of loans is due to volume increases in higher yielding loan categories.

Interest Expense. Interest expense increased $407 thousand, or 118.3%, to $751 thousand for the three months ended September 30, 2019 from $344 thousand for the three months ended September 30, 2018, primarily due to increases in rates of deposits. The average rate we paid on interest bearing deposits increased 36 basis points to 0.74% for the three months ended September 30, 2019 compared to 0.38% for the three months ended September 30, 2018, driven by increases in short-term rates.

Net Interest Income. Net interest income increased $1.5 million, or 20.2%, to $8.7 million for the three months ended September 30, 2019 from $7.3 million for the three months ended September 30, 2018, primarily due to an increase in average interest earning assets. Our net interest rate spread decreased 9 basis points to 4.49% for the three months ended September 30, 2019 from 4.58% for the three months ended September 30, 2018, while our net interest margin increased 7 basis points to 4.82% for the three months ended September 30, 2019 from 4.75% for the three months ended September 30, 2018. The increase in net interest margin was due to a 25 basis point increase in the average yield earned on interest earning assets, primarily driven by an increase in loan yields, partially offset by an increase in our cost of funds.

Provision for Loan Losses. Our provision for loan losses was $425 thousand for the three months ended September 30, 2019 compared to $450 thousand for the three months ended September 30, 2018. The provisions recorded resulted in an allowance for loan losses of $6.7 million, or 1.26% of total loans at September 30, 2019, compared to $5.6 million, or 1.20% of total loans at December 31, 2018. The provision is reflective of growth in the loan portfolio and charge-offs.

Noninterest Income. Noninterest income information is as follows:

	For the Three Months Ended September 30,		Change	
	2019	2018	Amount	Percent
	(Dollars in thousands)			
Noninterest income				
Merchant processing income	$3,284	$1,300	$ 1,984	152.6 %
Customer related fees and service charges	191	500	(309)	(61.8)
Total noninterest income	$3,475	$1,800	$ 1,675	93.1 %

Merchant processing income increased due to expansion of our sales channels through our ISO business partners, increases in the number of merchants and additional fee allocation arrangements with our ISOs. Volumes increased 58.9% to $3.2 billion for the three months ended September 30, 2019 compared to $2.0 billion for the three months ended September 30, 2018. Additionally, our fee income per transaction increased 3.7 basis points, or 62.1%, to 9.7 basis points as compared to the three months ended September 30, 2018. Customer related fees and service charges, consisting primarily of administrative service payments (“ASP”) on off-balance sheet funds, declined by $309 thousand or 61.8% compared to the three months ended September 30, 2018. ASP fee income is impacted the volume of off-balance sheet funds, the duration of these funds, and short-term interest rates.

Noninterest Expense. Noninterest expense information is as follows:

	For the Three Months Ended September 30,		Change	
	2019	2018	Amount	Percent
	(Dollars in thousands)			
Noninterest expense				
Employee compensation and benefits	$3,817	$4,161	$ (344)	(8.3)%
Occupancy and equipment	517	429	88	20.5
Professional and consulting services	816	547	269	49.2
FDIC and regulatory assessments	40	79	(39)	(49.4)
Advertising and marketing	230	146	84	57.5
Travel and business relations	136	116	20	17.2
Data processing	638	485	153	31.5
Other operating expenses	410	367	43	11.7
Total noninterest expense	$6,604	$6,330	$ 274	4.3 %

Excluding a one-time pretax compensation charge relating to the passing of our former Chairman totaling $1.2 million in the third quarter of 2018, noninterest expense increased $1.4 million for the third quarter of 2019. Employee compensation and benefits costs increased due to an increase in the number of employees as well as the impact of year end salary increases. Professional and consulting costs increased due to our IT enterprise-wide architecture assessments and other pre-development IT costs. Data processing costs were higher due to increased processing volume primarily driven by our core banking platforms as well as additional costs related to certain system implementations.

Income Tax Expense. We recorded an income tax expense of $1.4 million for the three months ended September 30, 2019, reflecting an effective tax rate of 26.5%, compared to $614 thousand, or 26.7%, for the three months ended September 30, 2018.

Comparison of Operating Results for the Nine Months Ended September 30, 2019 and 2018

General. Net income increased $4.4 million, or 75.2%, to $10.3 million for the nine months ended September 30, 2019 from $5.9 million for the nine months ended September 30, 2018. The increase resulted from a $5.2 million increase in net interest income and a $2.8 million increase in noninterest income, which was partially offset by a $1.7 million increase in noninterest expense.

Interest Income. Interest income increased $6.5 million, or 31.6%, to $27.3 million for the nine months ended September 30, 2019 from $20.8 million for the nine months ended September 30, 2018. This was primarily attributable to an increase in loan interest income, which increased $6.1 million, or 35.4%, to $23.5 million for the nine months ended September 30, 2019 from $17.4 million for the nine months ended September 30, 2018.

The increase in interest income on loans was due to an increase in the average balance of loans during the nine months ended September 30, 2019 of $118.1 million or 31.0% as well as a 20 basis point increase in the average rate of loans. The increase in the average rate of loans is due to volume increases in higher yielding loan categories. Securities interest income also increased due to an increase in the average balance of securities during the nine months ended September 30, 2019 of $2.0 million, or 1.3% and a 11 basis point increase in the average rate of securities when compared to the first nine months of 2018.

Interest Expense. Interest expense increased $1.3 million, or 175.8%, to $2.0 million for the nine months ended September 30, 2019 from $741 thousand for the nine months ended September 30, 2018, primarily due to increases in rates of deposits. The average rate we paid on interest bearing deposits increased 41 basis points to 0.72% for the nine months ended September 30, 2019 compared to 0.31% for the nine months ended September 30, 2018, driven by increases in short-term rates.

Net Interest Income. Net interest income increased $5.2 million, or 26.2%, to $25.3 million for the nine months ended September 30, 2019 from $20.0 million for the nine months ended September 30, 2018, primarily due to an increase in average interest earning assets and rising rates. Our net interest margin increased 19 basis points to 4.88% for the nine months ended September 30, 2019 from 4.69% for the nine months ended September 30, 2018. The increase in net interest margin was due to a 42 basis point increase in the average yield earned on interest earning assets, primarily driven by an increase in loan yields, partially offset by an increase in our cost of funds.

Provision for Loan Losses. Our provision for loan losses was $1.3 million for the nine months ended September 30, 2019 compared to $975 thousand for the nine months ended September 30, 2018. The higher provision is reflective of growth and charge-offs as well as the composition of the loan portfolio.

Noninterest Income. Noninterest income information is as follows:

	For the Nine Months Ended September 30,		Change	
	2019	2018	Amount	Percent
	(Dollars in thousands)			
Noninterest income				
Merchant processing income	$ 7,994	$ 3,532	$ 4,462	126.3 %
Customer related fees and service charges	653	2,322	(1,669)	(71.9)
Total noninterest income	$ 8,647	$ 5,854	$ 2,793	47.7 %

Merchant processing income increased due to growth in our sales channels through our ISO business partners, increases in the number of merchants and additional fee allocation arrangements with our ISOs. Volumes increased 69.6% to $8.6 billion for the nine months ended September 30, 2019 compared to $5.1 billion for the nine months ended September 30, 2018. Additionally, our fee income per transaction increased 2.3 basis points, or 36.4%, to 8.8 basis points as compared to the nine months ended September 30, 2018. Customer related fees and service charges, consisting primarily of administrative service payments ("ASP") on off-balance sheet funds, declined by $1.7 million or 71.9%

compared to the nine months ended September 30, 2018. ASP fee income is impacted the volume of off-balance sheet funds, the duration of these funds, and short-term interest rates.

Noninterest Expense. Noninterest expense information is as follows:

	For the Nine Months Ended September 30,		Change	
	2019	2018	Amount	Percent
	(Dollars in thousands)			
Noninterest expense				
Employee compensation and benefits	$10,841	$10,230	$ 611	6.0 %
Occupancy and equipment	1,399	1,287	112	8.7
Professional and consulting services	2,146	1,859	287	15.4
FDIC and regulatory assessments	211	235	(24)	(10.2)
Advertising and marketing	592	442	150	33.9
Travel and business relations	372	384	(12)	(3.1)
Data processing	1,857	1,415	442	31.2
Other operating expenses	1,175	1,039	136	13.1
Total noninterest expense	$18,593	$16,891	$ 1,702	10.1 %

Excluding a one-time pretax compensation charge relating to the passing of our former Chairman totaling $1.2 million in the third quarter of 2018, noninterest expense increased $2.9 million for the nine months ended September 30 2019. Employee compensation and benefits costs increased due to an increase in the number of employees as well as the impact of year end salary increases. Data processing costs were higher due to increased processing volume primarily driven by our core banking platforms as well as additional costs related to certain system implementations. Professional and consulting costs increased due to our IT enterprise-wide architecture assessments and other pre-development IT costs.

Income Tax Expense. We recorded an income tax expense of $3.8 million for the nine months ended September 30, 2019, reflecting an effective tax rate of 27.0%, compared to $2.1 million, or 26.7%, for the nine months ended September 30, 2018.

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.

Changes in Interest Rates (Basis Points)	At September 30, 2019 Estimated 12-Months Net Interest Income	Change
	(Dollars in thousands)	
400	$ 46,974	9,515
300	44,376	6,917
200	41,945	4,486
100	39,751	2,292
0	37,459	—
(100)	34,257	(3,202)
(200)	31,988	(5,471)

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, 2019.

Changes in Interest Rates (Basis Points)	At September 30, 2019 Economic Value of Equity	Change
	(Dollars in thousands)	
400	$ 148,967	22,593
300	144,297	17,923
200	139,851	13,477
100	134,844	8,470
0	126,374	—
(100)	110,729	(15,645)
(200)	93,214	(33,160)

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, 2019, cash and cash equivalents totaled $61.7 million.

At September 30, 2019, through pledging of our securities, we had the ability to borrow a total of $109.7 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 $23.6 million. At September 30, 2019, we also had $17.5 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, 2019.

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, 2019, 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.

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

	"Well Capitalized"	For Capital Adequacy Purposes Minimum Capital with Conservation Buffer	Actual At September 30, 2019
Total Risk-based Capital Ratio			
Bank	10.00 %	10.50 %	18.08 %
Tier 1 Risk-based Capital Ratio			
Bank	8.00 %	8.50 %	16.90 %
Common Equity Tier 1 Capital Ratio			
Bank	6.50 %	7.00 %	16.90 %
Tier 1 Leverage Ratio			
Bank	5.00 %	4.00 %	13.11 %

The federal banking agencies proposed a rule to establish for institutions with assets of less than $10 billion that meet other specified criteria a "community bank leverage ratio" (the ratio of a bank's tangible equity capital to average total consolidated assets) of 9% that such institutions may elect to utilize in lieu of the generally applicable leverage and risk-based capital requirements noted above. A "qualifying community bank" with capital exceeding 9% will be considered compliant with all applicable regulatory capital and leverage requirements, including the requirement to be "well capitalized." The rule was adopted in final form, effective January 1, 2020.

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, 2019.

	Contractual Maturities as of September 30, 2019				
	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	$ 560	$ 1,220	$ 1,280	$ 1,460	$ 4,520
Time deposits	17,962	1,997	—	—	19,959
Total	$ 18,522	$ 3,217	$ 1,280	$ 1,460	$ 24,479

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 Statements of Financial Condition. 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, 2019. 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, 2019, 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, 2019, 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 except for the risk factor included below:

Potential fraud by our post-settlement consumer loan customers who are claimants or others related to the NFL Concussion Settlement Program could increase our actual loan losses which would decrease earnings.

On December 10, 2018, the United States District Court for the Eastern District of Pennsylvania (the "Court") appointed a special investigator in the NFL Concussion Injury Litigation (Case No. 12-md-2323) to ensure the integrity of the NFL Concussion Settlement Program, the efficient processing of valid claims, and impose appropriate sanctions if wrongdoing is found in response to allegations of fraudulent claims. Additionally, on May 8, 2019, the Court modified the rules regarding qualifying physicians by limiting NFL claimants to utilizing doctors in their immediate area (a range of 150 miles from the claimant's home address). We believe that these Court rulings, including other administrative processes enacted by the claim's administrator, have extended the duration of our assets which may increase our credit risk. Although we have not encountered any such fraud at this time within our portfolio, if it is determined that any of our NFL loan customers or others committed fraud when filing their application to the NFL Concussion Settlement Program or to Esquire Bank for the related loan, we may experience credit losses, which could have an adverse effect on our operating results. We ceased the NFL loan origination program in December 2017 and our gross NFL consumer loan exposure as of September 30, 2019 is approximately $30.5 million.

As of September 30, 2019, we have received payoffs on approximately 20% of our NFL claimant loans as compared to the overall payoffs for claim registrations with the NFL claims administrator of approximately 4.8%. Our weighted average remaining maturity of the NFL portfolio is approximately 2.2 years as of September 30, 2019, excluding those loans on non-accrual. If processing of claims for our portfolio extends beyond our maturity for these loans due to the aforementioned fraud or the additional administrative processes, portfolio delinquencies could increase in the future.

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

a) Not applicable.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit Number	Description
3.1	Articles of Incorporation of Esquire Financial Holdings, Inc. (1)
3.3	Amended and Restated Bylaws of Esquire Financial Holdings, Inc. (2)
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Written Statement of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.0	The following materials for the quarter ended September 30, 2019, 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 8, 2019

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

Date: November 8, 2019

/s/ Michael Lacapria
Michael Lacapria
Senior Vice President and Chief Financial Officer

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Section 2: EX-31.1 (EX-31.1)

Exhibit 31.1

Certification of Chief 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13-a-15(f) and 15d-15(f)) 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 the entity, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) 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

d) 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 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:

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 8, 2019

/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 Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Michael Lacapria, 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13-a-15(f) and 15d-15(f)) 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 the entity, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) 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

d) 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 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:

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 8, 2019	/s/ Michael Lacapria
	Michael Lacapria
	Senior Vice President and Chief Financial Officer

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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 Michael Lacapria, Senior Vice President and Chief Financial Officer of the Company, each certify in his capacity as an officer of the Company that they have reviewed the quarterly report on Form 10-Q for the quarter ended September 30, 2019 (the "Report") and that to the best of their 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 8, 2019	/s/ Andrew C. Sagliocca
	Andrew C. Sagliocca
	President and Chief Executive Officer
Date: November 8, 2019	/s/ Michael Lacapria
	Michael Lacapria
	Senior Vice President and Chief Financial Officer

The purpose of this statement is solely to comply with Title 18, Chapter 63, Section 1350 of the United States Code, as amended by Section 906 of the Sarbanes-Oxley Act of 2002.

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

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