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UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF LOUISIANA

IN RE: CHINESE-MANUFACTURED DRYWALL PRODUCTS LIABILITY LITIGATION	**MDL NO. 2047** **SECTION: L**
THIS DOCUMENT RELATES TO: ***ALL CASES***	**JUDGE FALLON** **MAG. JUDGE WILKINSON**

****

<u>YANCE LAW FIRM'S MOTION TO IMMEDIATELY TRANSFER ATTORNEY FEE QUALIFIED SETTLEMENT FUND TO A DIFFERENT DEPOSITORY BANK OR BACK INTO THE COURT REGISTRY</u>

Comes now, the undersigned counsel and moves the Court for an Order to immediately transfer each and every Attorney Fee Qualified Settlement Fund established in this action to a different Depository Bank or back into the Court Registry, because of 1) Esquire Bank's incredibly small size and 2) its multi-faceted conflicts of interest, as both points are described in the memorandum in support filed contemporaneously herewith.

Respectfully submitted,

/s/ R. Tucker Yance
R. TUCKER YANCE
Ala. State Bar #- ASB-9775-H71Y
YANCE LAW FIRM, LLC
169 Dauphin Street Suite 318
Mobile, AL 36602
(251) 432-8003
(251) 432-8009 FAX
rty@yancelaw.com

CERTIFICATE OF SERVICE

I hereby certify that the above and foregoing motion has been served upon Plaintiffs' Liaison Counsel Russ M. Herman and Defendants' Liaison Counsel Kerry Miller, by e-mail and upon all parties by electronically uploading the same to File & ServeXpress in accordance with Pre-Trial Order No. 6, and that the foregoing was electronically filed with the Clerk of the Court of the United States District Court for the Eastern District of Louisiana by using the CM/ECF System, which will send a notice of electronic filing in accordance with the procedures established in MDL 2047 on this 18th day of May, 2018.

/s/ R. Tucker Yance
R. TUCKER YANCE
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UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF LOUISIANA

IN RE: CHINESE-MANUFACTURED DRYWALL PRODUCTS LIABILITY LITIGATION	**MDL NO. 2047**
	SECTION: L
THIS DOCUMENT RELATES TO: ***ALL CASES***	**JUDGE FALLON** **MAG. JUDGE WILKINSON**

****

YANCE LAW FIRM'S MEMORANDUM IN SUPPORT OF MOTION TO IMMEDIATELY TRANSFER ATTORNEY FEE QUALIFIED SETTLEMENT FUND TO A DIFFERENT DEPOSITORY BANK OR BACK INTO THE COURT REGISTRY

Comes now, the undersigned counsel and submits *Yance Law Firm's Memorandum in Support of Motion to Immediately Transfer Attorney Fee Qualified Settlement Fund To a Different Depository Bank or Back Into the Court Registry*. The undersigned's motion filed contemporaneously herewith moves the Court for an Order to immediately transfer each and every Attorney Fee Qualified Settlement Fund established in this action to a different Depository Bank or back into the Court Registry, because of 1) Esquire Bank's incredibly small size and 2) its multi-faceted conflicts of interest. In support of this motion, the movant states as follows:

1. Pursuant to multiple Court Orders (Docs. 17064 thru 17084) signed on September 9, 2013, this Court authorized the creation of numerous Qualified Settlement Funds appointing Esquire Bank as the Depository Bank for the QSFs upon motion to do so by Liaison Counsel Russ M. Herman and Lead Counsel Arnold Levin filed on August 19, 2013 (Doc. 17009). Numerous Attorney Fee Qualified Settlement Funds ("QSFs") are among the QSFs established by the Court on said date.

2. As of February 1, 2016, the Court ordered all the Attorney Fee QSFs to be consolidated into one Attorney Fee QSF (Doc. 20022).
3. Esquire Bank should no longer serve as the Depository Bank for the Attorney Fee QSF for multiple reasons.
4. First, as an initial major concern, Esquire Bank is unreasonably small in relation to the approximately 200 million dollars of attorney fees deposited therein, and extraordinarily small in relation to the dozens or hundreds of banks in existence that could provide the service.
5. According to the most recent Form 10-K Annual Report filed with the Securities and Exchange Commission the TOTAL deposits reported by Esquire Bank on its balance sheet equal a mere 448.4 million dollars. (See Ex. A- Annual Report p. 39- note all referenced page numbers to all exhibits herein are the page numbers printed at the bottom of each page, which often differ from the page of the PDF file itself). The undersigned counsel has had a difficult time finding any other bank with SEC filings showing total deposit figures that low.
6. Just by way of comparison, a large bank like JP Morgan reports total deposits of 1.4 trillion dollars, and is thus three thousand times larger than Esquire Bank. (Ex. B- Excerpt from JP Morgan Annual Report)
7. A large regional bank in the southeast such as Regions Bank reports total deposits of 96 billion dollars and is thus 213 times larger than Esquire Bank (Ex. C- Excerpt from Regions Annual Report).
8. Mid-size regional banks well known in Louisiana, Mississippi and Alabama such as Iberia Bank and Hancock/Whitney Bank report total deposits of 21.4 billion dollars and

20.8 billion dollars respectively, and are thus 46 times larger than Esquire Bank (Ex. D- Excerpt from Iberia Annual Report and Ex. E- Excerpt from Hancock/Whitney Annual Report).

9. Even a small local bank such as Home Bank that services South Louisiana and Western Mississippi reports total deposits of 1.8 billion dollars and is thus 4 times larger than Esquire Bank (Ex. F- Excerpt from Home Bank Annual Report).

10. When you couple the eye-opening size comparison between Esquire Bank and other banks with the fact that the Attorney Fee QSF being held and managed there is extraordinarily large compared to the overall size of the bank as a whole (a number that is 44% the size of the total deposits reported on its balance sheet) it is clear that Esquire Bank is not an appropriate bank to hold and/or manage the QSF regardless of whether or not the QSF funds are being held via an on or off balance sheet Insured Cash Sweep (ICS) or other similar vehicle.

11. However, the troubling analysis does not stop at the size of the bank. Esquire Bank is far from a traditional bank. Despite the fact that it holds itself out as a "national bank," it only has one operating branch in the entire nation (located in Garden City, NY). (Ex. A- pp. 8, 12). It is a bank that was started by lawyers, for lawyers and is founded upon new-age financing instruments such as attorney case cost financing, working lines of credit for attorneys, attorney fee advances, and other loan instruments, most of which are secured in large part by attorney case inventories and undistributed settlement funds. (Ex. A- intro pp.1-2 body pp. 1-36). Esquire Bank, by its own admission has a very limited track record of success, and recognizes this and its new-age attorney financing business model

as significant risk factors affecting its chances to succeed as a bank in the future. (Ex A- pp. 21-22).

12. While the financing services Esquire Bank offers may be beneficial to the plaintiff's bar in general, a bank with such a modernistic approach to banking and lack of track record is not an appropriate place to entrust such a large amount of funds earned by and belonging to such a large number of people. A traditional bank with reasonable size and long track record would be much more appropriate under the circumstances.

13. Unfortunately, there also exists multi-faceted conflicts of interest pertaining to Esquire Bank continuing to serve as the Depository Bank.

14. As this Court is already aware, Liaison Counsel in this litigation and Co-Chair of the Fee Committee, Russ Herman, serves on the Board of Directors of Esquire Bank. In fact, Mr. Herman is one of the longest standing Members of the Board of Directors of Esquire Bank and has been serving since shortly after the bank's creation. Mr. Herman is a significant shareholder of Esquire Bank owning a stake therein currently valued at more than 1.4 million dollars. (Ex. G- Esquire Schedule 14A Proxy Statement pp. 9-19)

15. At the time Esquire Bank was appointed by this Court as the Depository Bank in 2013, it was a privately held company with limited publicly available financial and operating information. However, just this past summer (June 2017), Esquire Bank's holding company engaged in an initial public offering ("IPO") and now the stock is publicly traded on the Nasdaq stock exchange under the Ticker symbol "ESQ" . (Ex. H- Esquire IPO Prospectus).

16. As can be seen from its numerous SEC filings associated with the IPO, Esquire Bank only had a mere 290 million dollars in deposits reported on its balance sheet in 2014 (the

year after Esquire Bank was appointed by the Court in this case) and 383 million dollars in deposits at the time of the IPO. (Ex. H- p. 10)

17. The Attorney Fee QSF deposited with Esquire Bank appears to have been a major factor in marketing their stock for sale to the public in their IPO. If the entire Attorney Fee QSF was placed in "on-balance sheet" deposit accounts at the time of the IPO, the QSF accounted for approximately 51% of the total deposits advertised to the public. (Ex. H- p.10). If the entire Attorney Fee QSF was put in "off-balance sheet" sweep accounts with Esquire, the QSF accounted for 99.5% of their off-balance sheet sweeps they highlighted in their "Investment Highlights" section of their IPO Free Writing Prospectus presentation and confirmed in their full Prospectus. (Ex. I- Esquire IPO Free Writing Prospectus- p. 3, see also Ex. H- p.74). If the QSF is comprised of a combination of both on-balance sheet and off-balance sheet accounts, the net effect is still the same- the Attorney Fee QSF clearly seems to have been an extraordinarily major component of the Bank's overall financial picture at the time they advertised their stock for sale to the public.

18. It is worth pointing out, Esquire Bank appears to have paid a near zero interest rate on the subject $200 million dollar QSF while holding it for more than four years.

19. The majority of the subject $200 million was paid into Court near the end of 2013, and this Court ordered the Clerk of Court to fund the QSFs in January of 2014 (Doc. 17398), with a more specific funding clarification in February 2014 (Doc. 17426).

20. On June 6, 2016, Court-appointed CPA, Phillip Garret signed an affidavit attaching an "Attorney Fee Reconciliation" showing that as of February 29, 2016, the total interest that had been earned by the deposited attorney fees in an entire two-year period totaled a

mere $83,711.98. (Ex. J- Garrett Attorney Fee Reconciliation printed from Doc. 20290-5 p. 18). This equates to an approximate annual percentage rate of 0.02%. Although Esquire apparently only paid 0.02% on the Attorney Fee QSFs, it appears to have paid 0.50% on other QSFs in this litigation- 25 times the rate it paid on the Attorney Fee QSFs. (See Esquire Monthly Statement entitled "QSF Money Market" dated 9-30-16 for account # ************82). At 0.50% the Attorney fee QSFs would have earned approximately $2 million dollars instead of $87,711.98 during that time frame, and would have earned around $4 million dollars by now.

21. It is also worth noting as a comparison that the Treasury Bill rate on a 5 year T-Bill during that time period averaged around 1.5%- therefore 75 times higher than the interest rate being earned at Esquire Bank. At 1.5%, the Attorney Fee QSFs would have earned over 11 million dollars by now.

22. In its Initial Public Offering prospectus, Esquire boasted about its very low "cost of deposits", or to put it in layman's terms- Esquire doesn't pay much interest on deposits. It also very clearly boasted about its business model and how the legal settlement process and the delays inherent therein provide multiple "loan and deposit opportunities" and how those opportunities are "Funded with Core Low Cost Settlement Escrow and Commercial Operating Deposits from law firms, claims administrators, lien resolution firms, courts, etc." (Ex. I- pp. 4-16, Ex. H- pp. 68-81, see also Ex. A pp. 3-8).

23. In fact, it has come to the undersigned counsel's attention that Esquire Bank, while paying a near zero interest rate on the Attorney Fee QSFs in this case (0.02%), is actively lending money to attorneys who one day expect to receive a portion of those attorney fees in this case, in the form of loans, attorney fee advances, attorney lines of credit and/or

other financing instruments secured by each borrowing attorney's portion of the very cash in the very QSFs this Court appointed Esquire to hold and manage. Esquire is typically charging these attorneys approximately "prime plus two and a half" (i.e. around 7%) on these instruments.

24. Consequently, whenever the 200 million dollars of attorney fees are finally paid in this case, not only does it appear Esquire will be parting with a large portion of its business just by the mere size of the QSF in relation to the bank as a whole, it appears it will be parting with this very attractive interest rate spread on these unique cash-secured loans. Clearly, Esquire has a very significant financial incentive to hold onto the cash in the QSFs as long as possible.

25. This incentive to hold on to this 200 million dollar QSF appears to be magnified by the fact that Esquire just recently held its initial public offering at $14 per share and it is now trading at around $24 per share (an approximately 71% gain in stock price since the IPO less than a year ago). (Ex. H p.1 and see publicly available stock price as of today). Although any depository bank appointed by any court would likely rather hold onto a $200 million dollar deposit rather than see it disbursed, the situation with Esquire is exceedingly different. It would only make sense that Esquire would be extraordinarily eager to hold onto this QSF as long as possible since a) the QSF is so large in relation to the overall size of the business as advertised to investors in the IPO and Annual Report, b) it is engaged in unique attorney lending activity secured by the cash in the QSF, and thus c) the concern about an adverse effect on the overall financial picture and thus the stock price of the bank once the QSF is paid out appears much greater than it would be if the QSF were deposited with a much larger bank with a much longer track record, a more

traditional banking business model and without the unique attorney loans against the cash in the QSFs it were appointed by the Court to hold.

26. One natural defensive response to all of this might be to say "it doesn't matter what a depository bank *wants* when it comes to how long it holds an attorney fee QSF, because when a court orders the bank to disburse it, it must disburse the funds regardless of the bank's wishes." Unfortunately this is where the conflict gets deeper.

27. Esquire Bank, in its IPO and Annual Report has been quite brazen about the fact that there are "well-known" mass tort litigators on its board of directors and that Esquire intends to continue to "leverage" those contacts to attract deposits- including landing more mass tort business and scoring more court-appointed settlement deposits (Ex. I- pp. 4, 5, 6, 7, 10, 12, 16, Ex. H- p. 3, 6, 69, 70, 74, 81, Ex A- pp. 3-11).

28. It clearly was not happenstance that Russ Herman was serving on the Board of Directors at the time he asked this Court to appoint Esquire Bank as the Depository Bank in this case. Instead, that move fits squarely within Esquire Bank's advertised business strategy.

29. Russ Herman, as Liaison Counsel in this litigation and Co-Chair of the Fee Committee controls to a large degree the speed with which the attorney fee phase of this case proceeds. As a long-standing member of the Esquire Bank Board of Directors being paid approximately fifty to one hundred thousand dollars per year in salary and stock options to serve, Mr. Herman has a significant interest in seeing to it that Esquire is profitable and maintains and/or grows its stock price. (Ex. H- p. 105, Ex. G- p.40). This is especially true since the IPO took place less than a year ago and experienced a 71% jump in price. As a 1.4 million dollar shareholder, he has a significant personal financial incentive to see

Esquire Bank prosper and maintain and/or grow its stock price. (see Ex. G, p.9- note the # of Herman shares and multiply by current stock price).

30. Even assuming Mr. Herman has not allowed his director-related fiduciary duties, responsibilities, or feelings of obligation to Esquire stockholders, or his own personal financial interests as an Esquire stockholder affect his decisions regarding the speed with which he pushes the attorney fee process forward in this matter, there is clearly a conflict of interest that does exist, particularly given the unique circumstances surrounding Esquire Bank as described above. This conflict of interest should be eliminated immediately, and Mr. Herman should be the first one in line asking for it to be eliminated so as to avoid any APPEARANCE of impropriety.

31. This is particularly true given the fact that Mr. Herman has been the subject of court filings by other counsel in this litigation regarding allegedly inexplicable delays in the Fee Committee Recommendation process. (Docs. 21319 and 21325). The undersigned has also been a party to conversations with other counsel in this litigation during which there has been lots of pondering and bewilderment about why it seems Mr. Herman and Mr. Levin seem disinterested in and even resistant to moving the attorney fee issue to final resolution in this case. Moreover, it is undisputed that many if not most attorneys have been working on this case for nine (9) years; the case settled six (6) years ago; the 200 million dollars in attorney fees have been sitting in the QSF accounts for more than four (4) years while many, if not an "overwhelming most" clients whose cases derived these attorney fees have been fully paid, remediated, and compensated pursuant to the various settlement agreements for much of that entire four-year period, yet we, the attorneys remain unpaid.

32. Finally, if Mr. Herman, Mr. Levin, and/or their firms have participated in, benefitted from, received funds from, and/or executed any loans, attorney fee advances, attorney lines of credit and/or other financing instruments provided to them by Esquire Bank and/or any other bank or financial institution that is holding or has ever held any of the settlement proceeds, attorney fees, or QSFs in this action or any other mass tort or class action in which they have had a leadership role, they should be required to disclose to the Court and all counsel in this litigation the complete terms and conditions of such instruments and/or arrangements including but not limited to interest rates, principal amounts, credit limits, balances owed, collateral, and all other terms and conditions.

33. The payment of attorney fees in this case has been plagued by an inordinate amount of delay while the funds are earning a near zero return. The circumstances and conflicts surrounding Esquire Bank have no place in any legal matter, particularly one as plagued with delay as this one.

WHEREFORE, undersigned counsel moves the Court for an Order to immediately transfer each and every Attorney Fee Qualified Settlement Fund ("QSF") established in this action to a different Depository Bank or back into the Court Registry until final disbursement.

Respectfully submitted,

/s/ R. Tucker Yance
R. TUCKER YANCE
Ala. State Bar #- ASB-9775-H71Y
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169 Dauphin Street Suite 318
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(251) 432-8003
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rty@yancelaw.com

CERTIFICATE OF SERVICE

I hereby certify that the above and foregoing memorandum has been served upon Plaintiffs' Liaison Counsel Russ M. Herman and Defendants' Liaison Counsel Kerry Miller, by e-mail and upon all parties by electronically uploading the same to File & ServeXpress in accordance with Pre-Trial Order No. 6, and that the foregoing was electronically filed with the Clerk of the Court of the United States District Court for the Eastern District of Louisiana by using the CM/ECF System, which will send a notice of electronic filing in accordance with the procedures established in MDL 2047 on this 18th day of May, 2018.

/s/ R. Tucker Yance
R. TUCKER YANCE
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ESQUIRE FINANCIAL HOLDINGS, INC.

'17

ANNUAL REPORT

EXHIBIT A

SHAREHOLDER
Letter

OUR FELLOW SHAREHOLDER,

2017 was a transformational year for Esquire as we successfully completed our initial public offering ("IPO") on the NASDAQ, trading under our symbol "ESQ". The IPO, coupled with the strong performance of our common stock to date, is a testament to our unique and attractive business model in the market. Our ongoing commitment to the litigation and small business (merchant) communities on a national basis has been and continues to be the foundation for our success. Through the combined efforts of our Board of Directors, management team and employees, we delivered outstanding financial results and record earnings in 2017. In the face of rising interest rates and an extremely competitive banking landscape, we grew our adjusted net income[1] by 53%, driven by impressive loan growth of 25% and a 34% increase in fee income. We believe there are three key paths to the Company's continued success—our unique niche in the legal and small business communities nationally; a strong net interest margin supported by stable low cost deposits; and a diversified revenue mix that includes fee-based income. Our "branchless" low cost deposit model coupled with our unique revenue stream will continue to drive our efficiency ratio below industry standards, while future investments in technology and talent will allow us to scale our model and support growth. ***Our goal is to transform Esquire into a top performing fintech institution in the industry.*** Our Company is at a true inflection point for scalability and profitability to achieve this goal. With excess capital as a foundation supported by a diverse list of new institutional investors, we anticipate continued earnings growth throughout 2018 driven by robust commercial, consumer and small business loan pipelines, as well as our merchant services and other fee related income.

Esquire's strong loan growth and significant increase in fee income in 2017 demonstrate our focus and dedication to this unique business model. At Esquire, we remain true to our commitment to serve the litigation and small business communities nationally through a simple yet innovative approach to banking—***listen to the customer's needs and tailor products and services around those needs.*** This model continues to set Esquire apart from other institutions who offer a "one product fits all" model. The litigation community is the foundation for our impressive loan growth, increased loan yields, and low cost core deposits, representing more than 70% of our deposit base. This foundation is supported by a strong distribution network anchored by our founders, board members, investors, trial bar associations, sales teams, senior management and current customer base. We also remained steadfast in growing our merchant services platform on a national basis. We provide dynamic and flexible merchant services solutions to small business owners, differentiating us from larger institutions. Our merchant services platform has grown to approximately 18,000 small businesses generating $3.3 million in fee-based income for 2017 and representing $28 million in core low cost deposits at year end. These small business customers represent a significant opportunity for future growth in fee income, core deposits and enhanced lending opportunities.

The continued success of our unique model anchored by our recent IPO has been the key component to delivering outstanding financial results and record earnings in 2017. Adjusted net income[1] increased 53% to $4.3 million or $0.69 per diluted common share. This was driven by a $70.4 million or 25% increase in loans to $349 million and a 34% increase in total fee income to $5.5 million. Our net interest margin was an enviable 4.43%, driven by higher yielding commercial and consumer loans and funded with low cost core deposits. Our fee income represented 22% of total revenue, driven by merchant services and customer related fees. Our diligent approach to underwriting is evident in our strong asset quality with no non-performing assets and an allowance for loan losses representing 1.22% of total loans. We anticipate strong loan growth in 2018,

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[1]Excludes the impact of a $683 thousand revaluation of our net deferred tax asset as a result of the new federal tax legislation. Reported or GAAP net income was $3.6 million for the year ended 2017.

focusing on our attorney-based products and services as well as our commercial real estate lending. Our pipeline of merchant opportunities also remains strong. Both loan and fee income opportunities should continue to enhance earnings in 2018. As a foundation for future growth, we successfully raised $26.3 million in common stock (net proceeds) from our IPO, increasing stockholders' equity to $83.4 million, representing a consolidated equity to assets ratio of 15.63%.

Our "branchless" low cost core deposits, representing our primary funding source for growth, totaled $448.5 million, a 21% increase from 2016, with an impressive cost of funds of 0.13% (including demand deposits). These stable funds are primarily driven by our commercial law firm customers' operating and escrow deposits, representing more than 70% of our total deposit base. We continue to prudently manage growth in deposits, utilizing commercial customer sweep programs for our mass tort and class action business banking. These programs remain strong with off-balance sheet funds totaling $478 million at December 31, 2017, generating increases in customer related fees. These funds, coupled with the successful IPO, will continue to be a source of funding for our future growth.

In 2017, we had our grand opening of the new Corporate Headquarters in Jericho, New York, consolidating all departments in one location to effectively and efficiently service a growing customer base. We re-engineered our Information Technology and Lending Departments to support our future growth, hiring a seasoned Chief Technology Officer and Chief Lending Officer as well as additional staff in each area. We have launched various technology initiatives including, but not limited to, our Salesforce based management information, sales and lending platform. The combination of our unique revenue streams, low cost core deposits, lean infrastructure and current and future technology initiatives should continue to increase our returns, making Esquire a premier top performing fintech institution in the industry.

With 2018 upon us, we remain focused on enhancing our strong brand recognition in the legal and small business communities we serve nationally, maintaining a strong net interest margin supported by stable low cost deposits, and continually diversifying our revenue stream into stable fee-based income. With capital as our foundation, we will continue to maintain strong credit standards and invest in talent and infrastructure to support long term growth. We are optimistic about the bank's future in the face of a variety of challenges that face the industry including, but not limited to: competitive market forces from other institutions and finance companies; the current interest rate environment; new and complex regulatory requirements; and other factors including cybersecurity and terrorism that remain concerns for us.

Despite these challenges, we believe in our unique business model, the industries we serve, our clients, our Board of Directors, and our employees. We want to thank each member of the Board of Directors for their enduring service and stewardship throughout the years. We also want to thank our motivated and talented employees who embody the spirit and reputation of our bank.

Finally, on behalf of the Board of Directors, management and our employees, we want to thank our distinguished Shareholders for their trust, confidence and investment in our Company. We thank you for this distinct honor to lead an exceptional Company.

Dennis Shields
Executive Chairman of the Board

Andrew C. Sagliocca
President & Chief Executive Officer

Esquire Financial Holdings, Inc.

FORM 10-K

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 2017

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 Number: **001-38131**

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

Maryland	**27-5107901**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
100 Jericho Quadrangle, Suite 100, Jericho, New York	**11753**
(Address of principal executive offices)	(Zip code)

(516) 535-2002
(Registrant's telephone number including area code)

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

Title of each class	Name of exchange on which registered
Common Stock, $0.01 par value	**The NASDAQ Stock Market**

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ☐ No ☒

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 reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a 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 ☒

The aggregate value of the voting and non-voting common stock held by non-affiliates of the registrant, computed by reference to the closing price of the common stock of $15.00 as of June 30, 2017, was $83.8 million.

As of March 23, 2018 there were 7,445,723 shares outstanding of the registrant's common stock.

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the Proxy Statement for the 2018 Annual Meeting of Stockholders. (Part III)

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TABLE OF CONTENTS

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PART I

ITEM 1. Business

Forward Looking Statements

This annual report contains forward-looking statements within the meaning of the federal securities laws. These forward-looking statements reflect our current views with respect to, among other things, future events and our financial performance. These statements are often, but not always, made through the use of words or phrases 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 are not historical facts, and are based on current expectations, estimates and projections about our industry, management's beliefs and certain assumptions made by management, many of which, by their nature, are inherently uncertain and beyond our control. Accordingly, we caution you that any such forward-looking statements are not guarantees of future performance and are subject to risks, assumptions, estimates and uncertainties that are difficult to predict. Although we believe that the expectations reflected in these forward-looking statements are reasonable as of the date made, actual results may prove to be materially different from the results expressed or implied by the forward-looking statements.

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

- our ability to manage our operations under the current economic conditions nationally and in our market area;
- adverse changes in the financial industry, securities, credit and national local real estate markets (including real estate values);
- risks related to a high concentration of loans secured by real estate located in our market area;
- risks related to a high concentration of loans and deposits dependent upon the legal and "litigation" market;
- the impact of any potential strategic transactions;
- our ability to enter new markets successfully and capitalize on growth opportunities;
- significant increases in our loan losses, including as a result of our inability to resolve classified and non-performing assets or reduce risks associated with our loans, and management's assumptions in determining the adequacy of the allowance for loan losses;
- interest rate fluctuations, which could have an adverse effect on our profitability;
- external economic and/or market factors, such as changes in monetary and fiscal policies and laws, including the interest rate policies of the Board of Governors of the Federal Reserve System ("FRB"), 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 (ISOs) 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 Act and 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 annual report.

The foregoing factors should not be construed as exhaustive and should be read in conjunction with other cautionary statements that are included in this annual report. 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.

Esquire Financial Holdings, Inc.'s electronic filings with the SEC, including the Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to these reports filed or furnished pursuant to Sections 13(a) or 15(d) of the Exchange Act, as amended, are made available at no cost in the Investor Relations section of the Company's website, www.esquirebank.com, as soon as reasonably practicable after the Company files such material with, or furnishes it to, the SEC. The Company's SEC filings are also available through the SEC's website at www.sec.gov.

Our Company

Esquire Financial Holdings, Inc. ("Esquire Financial" or the "Company") is a bank holding company headquartered in Jericho, New York and registered under the Bank Holding Company Act of 1956, as amended (the "BHC Act"). 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 (a subset of the New York metropolitan market). We believe these activities, primarily anchored by our legal community focus, generate a stable source of low cost core deposits and a diverse asset base to support our overall operations. Our commercial and consumer loans tailored to the litigation market ("Attorney-Related Loans") enhance our overall yield on our loan portfolio, enabling us to earn attractive risk-adjusted net interest margins. Additionally, our merchant processing activities generate a relatively stable source of fee income. We believe our unique and dynamic business model distinguishes us from other banks and non-bank financial services companies in the markets in which we operate as demonstrated by comparing our performance metrics for the years ended 2017 and 2016.

For the years ended December 31, 2017 and 2016:

- Our net income increased 29.1% to $3.6 million or $0.58 per diluted share.
- We had a net interest margin of 4.43%, an increase from 4.25%, stabilized by a low cost of funds of 0.13% on our deposits.
- Our loans increased 25.3%, or $70.4 million, to $349.0 million, with no non-performing loans and solid asset quality metrics.
- Our noninterest income increased 33.7% to $5.5 million, which represented 21.7% of our total revenue at December 31, 2017, primarily driven by our merchant services platform.
- As of December 31, 2017, our total assets, loans, deposits and stockholders' equity totaled $533.6 million, $349.0 million, $448.5 million and $83.4 million, respectively.

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

We remain true to our commitment to serve the litigation community and our commercial customers through our tailored and innovative products and solutions. Our relationships within the litigation community are a key contributor to our loan growth, strong loan yields, and low cost core deposits. The litigation community represented more than 70% of our deposit base at December 31, 2017. In addition to our lending activities, we have also remained steadfast in growing our merchant services platform. We provide dynamic and flexible merchant services solutions to small business owners. Our merchant services platform has grown to approximately 18,000 small businesses at December 31, 2017, which generated most of our noninterest income and which represented 21.7% of our revenue for the year ended December 31, 2017. We believe merchant services represents a significant opportunity for future growth in fee income, core deposits and enhanced lending opportunities.

Our low cost average core deposits (deposits, excluding time deposits), representing our primary funding source for loan growth, totaled $361.7 million at December 31, 2017 resulting in a total cost of deposits of 0.13%. These stable low cost funds are driven by our attorney operating and escrow deposits, representing more than 70% of our total deposit base at December 31, 2017. We intend to continue to prudently manage growth in deposits, utilizing customer sweep programs for our mass tort and class action business banking programs. We do not have traditional "brick and mortar" branches to support our deposit growth. Instead, we rely on our robust attorney network to gather deposits and our customers utilize on-line cash management technology to manage their operating and escrow accounts as well as their business banking needs across the country.

Market Area

We define the market area for our legal community products as law firms practicing within the United States, United States territories and United States commonwealths, and we serve the litigation industry on a nationwide basis. For traditional community banking products and services, our primary market area is the New York metropolitan area, specifically Nassau and New York (Manhattan) Counties in New York and secondarily throughout the state of New York. As a Visa and MasterCard member, we provide merchant services for small businesses located throughout the United States through relationships with third party ISOs.

We have established our niche in the litigation market through the strategic development of a business model that understands our market's unique needs and provides access to our target customers. We have designed unique, value added products and services for our current and potential customers and created a distribution network with direct access to the market through the experience and networks of our Board, Advisory Board, attorney stockholders and certain members of management. A number of our directors, Advisory Board members and investors are well-known, influential market figures and active members of some of the leading litigation law firms in the nation and national and state bar associations as well as other industry leading companies such as plaintiff financing and structured settlement services. In addition, we have established informal affiliations or relationships with key industry organizations such as New York State Trial Lawyers Association, Consumer Attorneys of California, Florida Justice Association, and a number of other state trial attorney associations. Through our current law firm clients and other relationships, we believe we have access to thousands of trial attorneys.

Our traditional community banking market area has a diversified economy typical of most urban population centers, with the majority of employment provided by services, wholesale/retail trade, finance/insurance/real estate ("FIRE") and construction. Services account for the largest employment sector across the two primary market area counties, while wholesale/retail trade accounts for the second largest employment sector in Nassau and New York Counties. New York City is one of the premier financial centers in the world, and thus FIRE is the third largest employment sector in New York County. As of June 30, 2017 (the latest date for which information is available), New York County's $1.1 trillion deposit market was much larger than the $72.8 billion deposit market in Nassau County.

Competition

The bank and non-bank financial services industries in our markets and surrounding areas is highly competitive. We compete with a wide range of regional and national banks located in our market areas as well as non-bank commercial finance companies on a nationwide basis. We experience competition in both lending and attracting funds as well as merchant processing services from commercial banks, savings associations, credit unions, consumer finance companies, pension trusts, mutual funds, insurance companies, mortgage bankers and brokers, brokerage and investment banking firms, non-bank lenders, government agencies and certain other non-financial institutions. Many of these competitors have more assets, capital and lending limits, and resources than we do and may be able to conduct more intensive and broader-based promotional efforts to reach both commercial and individual customers. Competition for deposit products can depend heavily on pricing because of the ease with which customers can transfer deposits from one institution to another.

Competition for Attorney-Related Loans is derived primarily from eight to ten nationally-oriented financial companies that specialize in this market. Some of these companies are focused exclusively on loans to law firms, while others offer loans to plaintiffs as well. While some overlap exists between the litigation market loan products offered by Esquire Bank and these companies (primarily lines of credit, case-cost and post-settlement commercial loans), there are a number of critical differences that management believes give Esquire Bank a competitive advantage:

- Esquire Bank can offer more competitive rates on loans compared to specialty finance companies because its cost of funds is much lower than the funding costs for these non-bank competitors;
- the non-bank companies are not able to offer deposit products or business services such as remote deposit capture or letters of credit, or debit cards; and
- non-banks cannot offer products uniformly across the country because they are not national banks.

Lending Activities

Our strategy is to maintain a loan portfolio that is broadly diversified by type and location. Within this general strategy, we intend to focus our growth in Attorney-Related Loans, which include commercial and consumer lending to attorneys, law firms and plaintiffs/claimants where we have expertise and market insights. As of December 31, 2017, these product lines in aggregate totaled $154.8 million (or 44.5% of our loan portfolio). As of December 31, 2017, our commercial Attorney-Related Loans, which consist of working capital lines of credit, case cost lines of credit, term loans and post-settlement commercial and other commercial attorney-related loans (“Commercial Attorney-Related Loans”), totaled $127.7 million, or 82.5% of our total attorney-related loan portfolio and 36.7% of our loan portfolio. As of December 31, 2017, our consumer Attorney-Related Loans, which consist of post-settlement consumer loans and structured settlement loans (“Consumer Attorney-Related Loans”), totaled $27.2 million, or 17.5% of our total Attorney-Related Loan portfolio and 7.8% of our loan portfolio. With respect to our Attorney-Related Loan portfolio, we seek out customers on a nationwide basis.

At December 31, 2017, approximately 49.4% of the Commercial Attorney-Related Loans outstanding had been extended to customers in New York followed by 11.2% extended to customers in Texas. Our current Loan Policy limits the percentage of out-of-state loans to 25% per loan type in any one state other than New York.

As of December 31, 2017, our total real estate loans, which consist of 1 – 4 family loans, commercial real estate loans, multifamily loans and construction loans, totaled $179.8 million (or 51.7% of our loan portfolio). The majority of our real estate secured loans are in the areas surrounding the New York metropolitan area. We anticipate continuing to focus on the commercial and personal credit needs of businesses and individuals in these markets.

The following is a discussion of our major types of lending activity:

Commercial Loans and Lines of Credit (“Commercial”). Commercial loans are originated to local small to mid-size businesses to provide short-term financing for inventory, receivables, the purchase of supplies, or other operating needs arising during the normal course of business and loans made to our qualified merchant customers. In addition, specialized and tailored commercial loans are offered to attorneys and law firms nationally. At December 31, 2017, commercial loans (excluding Commercial Attorney-Related Loans of $127.7 million) totaled $8.7 million (or 2.5% of total loans). All commercial loans are originated internally and represented 39.2% of our total loans at December 31, 2017.

Commercial Attorney-Related Loans. The following is a summary of the specialized commercial loan products we offer to meet the needs of the litigation community. Commercial Attorney-Related Loans are made to attorneys and law firms and the outstanding loan balances are included in the loan balance for commercial loans as noted above. A unique aspect of our underwriting involves advances of loan proceeds against a "borrowing base," which typically consists of the inventory of litigation cases for the firm. We complement this with traditional commercial underwriting. See "— Credit Risk Management" below. Generally, the maximum amount a customer may borrow at any time is fixed as a percentage of the borrowing base outstanding at any time.

- *Working Capital Lines of Credit ("WC LOC").* WC LOCs are unsecured business lines of credit offered to law firms for general corporate purposes, including meeting cash flow needs, advertising, financing the purchase of fixed assets, or other reasons. The balance of such loans was $96.1 million at December 31, 2017 (or 62.1% of total Attorney-Related Loans).

- *Case Cost Lines of Credit.* Case Cost Lines of Credit ("Case Cost LOC") are unsecured business lines of credit that are tied to the costs of contingency cases and totaled $24.4 million at December 31, 2017 (or 15.8% of total Attorney-Related Loans). Contingency case costs include court filing fees, investigative costs, expert witness fees, deposition costs, and other costs. Recovery of case costs is derived from gross settlement proceeds from the settled case. In our experience, an average case can take two to four years to litigate and law firms are prevented from charging their clients any interest for the out-of-pocket litigation costs, which amounts to an interest-free loan provided to the client. Thus, instead of using the law firm's cash flow, law firms use Case Cost LOCs to finance litigation cash flows because the finance charges can be charged against the settlement proceeds. Case Cost LOCs are not contingent loans, meaning that their repayment is not dependent on a favorable case settlement. In the event of an unfavorable outcome for the borrower, the loans are repaid from the cash flows of the law firm.

- *Term Loans.* Term loans are short-term unsecured business loans originated to law firms for general corporate purposes. These loans are offered to law firms at the same terms as those offered to other types of businesses. Term loans to law firms totaled $7.1 million at December 31, 2017 (or 4.6% of total Attorney-Related Loans).

- *Post-Settlement Commercial and Other Commercial Attorney-Related Loans.* Post-settlement commercial loans are bridge loans secured by proceeds from non-appealable, settled cases. Other commercial attorney-related loans consist of both secured and unsecured loans to law firms and attorneys. Post-settlement commercial and other commercial attorney-related loans totaled $68,000 at December 31, 2017.

Consumer Loans. Consumer loans are primarily post-settlement consumer and structured settlement loans made to plaintiffs and claimants as described below. Consumer loans are also originated to individuals for debt consolidation, home repairs, home improvement or other consumer purchases. Consumer loans are both secured and unsecured. At December 31, 2017, total consumer loans were $31.9 million (or 9.2% of total loans). We believe that our post-settlement consumer loans to claimants should increase based upon recent mass tort settlements including, but not limited to, the World Trade Center Victims Compensation Fund and the NFL Concussion case ("NFL").

The following is a summary of the specialized Consumer Attorney-Related Loan products we offer to meet the needs of the litigation market. Consumer Attorney-Related Loans, which consist of post-settlement consumer and structured settlement loans, are consumer loans made to individual plaintiffs/claimants and the outstanding loan balances are included in the loan balance for consumer loans as noted above.

- *Post-Settlement Consumer Loans.* Post-settlement consumer loans are generally bridge loans to individuals secured by proceeds from settled cases. These loans generally meet the "life needs" of claimants in various litigation matters due to the delay between the time of settlement and actual payment of the settlement. These delays are primarily due to various administrative matters in the case. The balance of post-settlement consumer loans to individuals was $25.7 million at December 31, 2017. NFL loans represented $21.8 million or 85.3% of our total post-settlement loans as of December 31, 2017.

- *Structured Settlement Loans.* Structured settlement loans are structured such that the annuity provider (a highly rated insurance company) is directed by the court, at the request of the borrower, to deposit the borrower's payments into an account designated by us. Loan payments are then automatically deducted from the annuity payment. At December 31, 2017, structured loans in our loan portfolio totaled $1.4 million.

Real Estate Loans. The majority of our real estate secured loans are in the areas surrounding the New York metropolitan area.

Multifamily. Multifamily loans are the largest component of the real estate loan portfolio and totaled $98.4 million (or 28.3% of total loans) at December 31, 2017. The multifamily loan portfolio consists of loans secured by apartment buildings and mixed-use buildings (predominantly residential income producing) in our primary market area. We originate and purchase multifamily loans. Whether originated or purchased, all loans are independently underwritten by Esquire Bank utilizing the same underwriting criteria and approved by the Directors Loan Committee or in accordance with our Board established approval authorities.

1 – 4 Family Residential. Mortgage loans are primarily secured by 1 – 4 family cash flowing investment properties ($51.6 million as of December 31, 2017) in our market area. The residential mortgage loan portfolio includes 1 – 4 family income producing investment properties, primary and secondary owner occupied residences, investor coops and condos. The majority of residential mortgages are originated internally, although we do purchase residential mortgages from time to time. Purchased loans are subject to all the asset quality and documentary precautions normally used when originating a loan.

Commercial Real Estate ("CRE"). CRE loans totaled $24.8 million (or 7.1% of total loans) at December 31, 2017 and consisted primarily of loans secured by hospitality properties (44.8% of the CRE portfolio), mixed use properties (33.2% of the CRE portfolio) and warehouses (13.3% of the CRE portfolio), with the remainder comprised of condo associations and office/retail properties. Owner-occupied loans represented 18.8% of the CRE portfolio at December 31, 2017. We both originate and purchase CRE loans. All loans are independently underwritten by us utilizing the same underwriting criteria, and approved by the Directors Loan Committee.

Construction Loans. Construction loans are originated on an opportunistic basis and totaled $5 million (or 1.5% of total loans) at December 31, 2017.

Merchant Services Activities

We provide merchant services as an acquiring bank through the third-party or ISO business model in which we process credit and debit card transactions on behalf of merchants. This model is designed to shift some of the risk from merchant losses resulting from chargebacks, fraud, non-compliance issues or even insolvency to the ISO. In an ISO model, the bank and the ISO jointly enter into the merchant agreement with each merchant. We believe that this model provides an added layer of protection against losses from merchants since losses that are not absorbed by a merchant would be the liability of the ISO payable from reserves posted by the ISO or other funds the bank owes to the ISO. Even with this recourse, Esquire Bank is ultimately liable for losses from actions of merchants and those of ISOs. To date, Esquire Bank has not incurred any losses from its merchant services activities.

We entered into the merchant processing business as an acquiring bank in 2012 in an effort to increase our noninterest income revenue and to provide cross selling opportunities for other business banking products and services. For the year ended December 31, 2017, merchant processing revenues were approximately $3.3 million and represented most of our noninterest income, which was 21.7% of our total revenue and represented an increase of 33.7% over the comparable prior year period. At December 31, 2017, we had agreements with 22 ISOs, we serviced approximately 18,000 merchants, and for the year ended December 31, 2017, we processed $3.8 billion in card volume. We intend to continue to expand our merchant processing business.

Under the ISO model, Esquire Bank and the ISO determine the appropriate amount of merchant reserves, which is generally based on the nature of the merchant's business, its chargeback and refund history, processing volumes and the merchant's financial health. The ISO performs an underwriting and risk management review, although Esquire Bank itself also reviews and underwrites every application and performs separate risk monitoring and management to ensure conformance with Esquire Bank's internal underwriting policies. As of December 31, 2017, we had contractual arrangements with three payment processors or clearing agents, TSYS, JetPay and TriSource, which are utilized by Esquire Bank and our ISOs to authorize, process and obtain settlement for card transactions.

We have implemented a comprehensive risk mitigation program for our merchant services business which includes detailed policies and procedures applicable to both ISOs and merchants pertaining to due diligence, risk and underwriting and Bank Secrecy Act compliance, among other things. Our Merchant Acquiring and Risk Policy establishes authorities and guidelines for the Bank to acquire merchant servicing arrangements with ISOs, agent banks, direct merchants and through merchant portfolio acquisitions. Such guidelines include initial and ongoing due diligence requirements and approval authorities. All merchants, regardless of how the merchant is acquired, must meet our Merchant Credit/Underwriting Policy requirements. In addition, credit approval requirements and authorities for approving merchants and ISOs are clearly defined in our Merchant Acquiring and Risk Policy.

Our Merchant Acquiring and Risk Policy establishes stringent requirements related to the due diligence conducted initially and on an ongoing basis, requirements for the ISO contract, our responsibilities and the ISO's responsibilities in connection with the sponsorship and other matters. In the event of a potential loss and in accordance with the terms of the ISO Merchant Agreement, we can take the following actions to collect: charge the merchant account; charge the merchant reserve account; charge the ISO reserve account; deduct from the ISO monthly residual on an ongoing basis until fully recovered; and may, if utilized recover through chargeback insurance.

In exchange for the liabilities and costs assumed by ISOs, we receive reduced revenue on our merchant servicing portfolio than direct merchant service providers that do not obtain such indemnification and administrative support. For the year ended December 31, 2017, we received a blended rate of approximately eight basis points for merchant processing, compared to direct merchant service providers that may receive two to three times that rate for a portfolio with similar risk characteristics. However, we believe that our acquiring bank model represents less risk for Esquire Bank.

Deposit Funding

Deposits are our primary source of funds to support our earning assets and growth. We offer depository products, including checking, savings, money market and certificates of deposit with a variety of rates. Deposits are insured by the FDIC up to statutory limits. Our unique low cost core deposit model is primarily driven by escrow and operating accounts from law firms and other litigation settlements on a national basis, representing more than 70% of the $448.5 million in total deposits at December 31, 2017. Our core deposits (excluding time deposits) represent 94.0% of our total deposits at December 31, 2017. Our total cost of deposits is 0.13% at December 31, 2017, anchored by our noninterest bearing demand deposits and attorney escrow funds representing 42.6% and 33.5%, respectively, of total deposits. We require deposit balances associated with our commercial loan arrangements and cash management relationships maintained by our commercial lending. We do not use a traditional "brick and mortar" branch network to support our deposit growth and have only one branch, located in Garden City, New York. The vast majority of our customers utilize our on-line cash management technology to manage their operating and escrow accounts across the country. We continue to experience significant growth in our mass tort business banking with off-balance sheet sweeps totaling $478.0 million at December 31, 2017.

Deposits have traditionally been our primary source of funds for use in lending and investment activities and we do not utilize borrowings as a significant funding source. Besides generating deposits from law firms and litigation settlements, we also generate deposits from our merchant services platform and other local businesses, individuals through client referrals and other relationships and through our single retail branch. We believe we have a very stable core deposit base due primarily to the litigation market strategy as we strongly encourage and are successful in having law firm borrowers maintain their operating and escrow banking relationship with us. Our low cost of funds is due to our deposit composition consisting of approximately 94.0% in transaction accounts at December 31, 2017. Our deposit strategy primarily focuses on developing borrowing and other service orientated relationships with customers rather than competing with other institutions on rate. We have established deposit concentration thresholds to avoid the possibility of dependence on any single depositor base for funds.

Credit Risk Management

We control credit risk both through disciplined underwriting of each transaction, as well as active credit management processes and procedures to manage risk and minimize loss throughout the life of a transaction. We seek to maintain a broadly diversified loan portfolio in terms of type of customer, type of loan product, geographic area and industries in which our business customers are engaged. We have developed tailored underwriting criteria and credit management processes for each of the various loan product types we offer our customers.

Underwriting. In evaluating each potential loan relationship, we adhere to a disciplined underwriting evaluation process including but not limited to the following:

- understanding the customer's financial condition and ability to repay the loan;
- verifying that the primary and secondary sources of repayment are adequate in relation to the amount and structure of the loan;
- observing appropriate loan to value guidelines for collateral secured loans;
- maintaining our targeted levels of diversification for the loan portfolio, both as to type of borrower and geographic location of collateral; and
- ensuring that each loan is properly documented with perfected liens on collateral.

Commercial Loans. These loans are typically made on the basis of the borrower's ability to make repayments from the cash flow of the borrower's business and the collateral securing these loans may fluctuate in value. Our commercial loans are originated based on the identified cash flow of the borrower and on the underlying collateral provided by the borrower. Most often, this collateral consists of the case inventory of the law firm (borrowing base) and, to a lesser extent, accounts receivable or equipment.

- *Commercial Attorney-Related Loans (working capital lines of credit, case cost lines of credit, and term loans).* We perform the underwriting criteria typical for commercial business loans (generally, but not limited to three years of tax returns, three years of financial data, cash flows, partner guarantees, partner personal financials and credit history, background checks, etc.). We also review the firm's case inventory to ascertain the value of their future receivables. Typically, at least three years of successful experience in plaintiff practice are required. Working capital lines of credit and case cost lines of credit are floating rate, prime-based loans. The proceeds of a Case Cost loan can only be used against case expenses. These loans are subject to a general security agreement evidenced by UCC-1 filing on all assets of the borrower, including but not limited to case inventory, accounts receivable, fixtures and deposits where applicable. A key component of the underwriting process is an evaluation of the pending cases of an applicant law firm to determine the probability and amount of future settlements. These loans are based on a borrowing base that was developed by us whereby a law firm's case inventory is segmented into various stages and evaluated.

Consumer Loans. Consumer loans primarily consist of our Consumer Attorney-Related Loans, which include post-settlement consumer loans and structured settlement loans. Other consumer loans originated to individuals for debt consolidation, home repairs, home improvement or other consumer purchases, are generally dependent on the credit quality of the individual borrower and may be secured or unsecured. To ensure the value of the settlement amount and likelihood and timeframe of payout, we require an executed settlement agreement or an affidavit of attorney attesting to the existence of an accepted offer. Post-settlement consumer loans are generally for one year terms with extensions granted based on acceptable supporting documentation regarding case status and viability, at Esquire Bank's discretion. Structured settlement loans are generally for terms of three, five or seven years. As the settlements are court ordered, the risks of settlements being renegotiated after we have made the loans are minimal.

- *Post-Settlement Consumer Loans.* Post-settlement consumer loans are fully-secured by the proceeds from the settlement and are generated from our internal sales force or from third party brokers. An executed settlement agreement is a prerequisite for such loans, and the loan-to-value ("LTV") ratio is generally limited to 50% of the net settlement amount due to the borrower.

- *Structured Settlement Loans.* Structured settlement loans are structured such that the annuity provider (a highly rated insurance company) is directed by the court, at the request of the borrower, to deposit the borrower's payments into an account designated by us. Loan payments are then automatically deducted from the annuity payment.

1 – 4 Family Residential Loans. Residential mortgage loans are originated or purchased for both primary and secondary residences, generally with fixed rates and 30-year or 15-year terms. Adjustable-rate mortgages ("ARMs") are purchased or originated as 1 year ARMs, 5/1 ARMs, or 7/1 ARMs. We perform an extensive credit history review for each borrower. Second homes or investment properties are subject to additional requirements. Debt-to-income ("DTI") and debt service coverage, if applicable, ratios generally conform to industry standards for conforming loans. Flood insurance, title insurance and fire/hazard insurance are mandatory for all applications, as appropriate.

Commercial Real Estate and Multifamily Loans. Loans secured by commercial and multifamily real estate generally have larger balances and involve a greater degree of risk than 1 – 4 family residential mortgage loans. Of primary concern in commercial and multifamily real estate lending is the borrower's creditworthiness and the feasibility and cash flow potential of the project. Payments on loans secured by income properties often depend on successful operation and management of the properties. As a result, repayment of such loans may be subject to a greater extent than residential real estate loans, to adverse conditions in the real estate market or the economy.

In approving a commercial or multifamily real estate loan, we consider and review a global cash flow analysis of the borrower and consider the net operating income of the property, the borrower's expertise, credit history and profitability and the value of the underlying property. Maximum LTV ratios are 80% of appraised value and we generally require that the properties securing these real estate loans have minimum debt service ratios (the ratio of earnings before debt service to debt service) of 115%. Loan terms are fifteen years or less with the option to extend another five years and amortization is based on a 25 – 30 year schedule or less. An environmental phase one report is obtained when the possibility exists that hazardous materials may have existed on the site, or the site may have been impacted by adjoining properties that handled hazardous materials. To monitor cash flows on income properties, we require borrowers and loan guarantors, if any, to provide annual financial statements on commercial and multifamily real estate loans.

Construction Loans. Construction lending involves additional risks when compared with permanent residential lending because funds are advanced upon the security of the project, which is of uncertain value prior to its completion. This type of lending also typically involves higher loan principal amounts and is often concentrated with a small number of builders. In addition, generally during the term of a construction loan, interest may be funded by the borrower or disbursed from an interest reserve set aside from the construction loan budget. These loans often involve the disbursement of substantial funds with repayment substantially dependent on the success of the ultimate project and the ability of the borrower to sell or lease the property or obtain permanent take-out financing, rather than the ability of the borrower or guarantor to repay principal and interest. Our construction loans are based upon estimates of costs and values associated with the completed project. Underwriting is focused on the borrowers' financial strength, credit history and demonstrated ability to produce a quality product and effectively market and manage their operations.

Loan Approval Authority. Our lending activities follow written, non-discriminatory, underwriting standards and loan origination procedures established by our Board of Directors and management. We have established several levels of lending authority that have been delegated by the Board of Directors to the Directors Loan Committee, the Chief Lending Officer and other personnel in accordance with the Lending Authority in the Loan Policy. Authority limits are based on the total exposure of the borrower and are conditioned on the loan conforming to the policies contained in the Loan Policy. Any Loan Policy exceptions are fully disclosed to the approving authority.

Loans to One Borrower. In accordance with loans-to-one-borrower regulations, the Bank is generally limited to lending no more than 15% of its unimpaired capital and unimpaired surplus to any one borrower or borrowing entity. This limit may be increased by an additional 10% for loans secured by readily marketable collateral having a market value, as determined by reliable and continuously available price quotations, at least equal to the amount of funds outstanding. To qualify for this additional 10% the bank must perfect a security interest in the collateral and the collateral must have a market value at all times of at least 100% of the loan amount that exceeds the 15% general limit. At December 31, 2017, our regulatory limit on loans-to-one borrower was $10.2 million.

Management understands the importance of concentration risk and continuously monitors to ensure that portfolio risk is balanced between such factors as loan type, industry, geography, collateral, structure, maturity and risk rating, among other things. Our Loan Policy establishes detailed concentration limits and sub limits by loan type and geography.

Ongoing Credit Risk Management. In addition to the tailored underwriting process described above, we perform ongoing risk monitoring and review processes for all credit exposures. Although we grade and classify our loans internally, we have an independent third party professional firm perform regular loan reviews to confirm loan classifications. We strive to identify potential problem loans early in an effort to aggressively seek resolution of these situations before the loans create a loss, record any necessary charge-offs promptly and maintain adequate allowance levels for probable loan losses incurred in the loan portfolio.

In general, whenever a particular loan or overall borrower relationship is downgraded to pass-watch or substandard based on one or more standard loan grading factors, our credit officers engage in active evaluation of the asset to determine the appropriate resolution strategy. Management regularly reviews the status of the watch list and classified assets portfolio as well as the larger credits in the portfolio.

In addition to our general credit risk management processes, we employ additional risk management processes and procedures for our commercial loans to law firms. We require borrowing base updates at least annually and also engage in active review and monitoring of the borrowing base collateral itself, including field audits.

Investments

We manage our investments primarily for liquidity purposes, with a secondary focus on returns. Substantially all of our investments are classified as available-for-sale and can be used to collateralize Federal Home Loan Bank of New York (FHLB) borrowings, FRB borrowings, public funds deposits or other borrowings. At December 31, 2017, our investment portfolio had a fair value of $128.8 million, and consisted primarily of U.S. Government Agency collateralized mortgage obligations and mortgage-backed securities.

Our investment objectives are primarily to provide and maintain liquidity, establish an acceptable level of interest rate risk, to provide a use of funds when demand for loans is weak and to generate a favorable return. Our board of directors has the overall responsibility for the investment portfolio, including approval of our investment policy. The Asset Liability Committee (ALCO) and management are responsible for implementation of the investment policy and monitoring our investment performance. The Board of Directors reviews the status of our investment portfolio monthly.

We are required to maintain an investment in FHLB stock, which investment is based primarily on the level of our FHLB borrowings. Additionally, we are required to maintain an investment in Federal Reserve Bank of New York stock equal to six percent of our capital and surplus. While we have the authority under applicable law to invest in derivative securities, we had no investments in derivative securities at December 31, 2017.

Borrowings

We maintain diverse funding sources including borrowing lines at the FHLB, two financial institutions and the Federal Reserve Bank discount window. Although we do not utilize borrowings as a significant funding source, we have from time to time utilized advances from the FHLB to supplement our supply of investable funds. The FHLB functions as a central reserve bank providing credit for its member financial institutions. As a member, we are required to own capital stock in the FHLB and are authorized to apply for advances on the security of such stock and certain of our whole first mortgage loans and other assets (principally securities which are obligations of, or guaranteed by, the United States), provided certain standards related to creditworthiness have been met. Advances are made under several different programs, each having its own interest rate and range of maturities. Depending on the program, limitations on the amount of advances are based either on a fixed percentage of an institution's net worth or on the Federal Home Loan Bank's assessment of the institution's creditworthiness. As of December 31, 2017, we had $103.4 million of available borrowing capacity with the FHLB. We also had an available line of credit with the Federal Reserve Bank of New York discount window of $19.4 million. The other borrowing lines are maintained primarily for contingency funding sources. No amounts were outstanding on any of the aforementioned lines as of December 31, 2017.

Personnel

As of December 31, 2017, we had 61 full-time employees, none of whom are represented by a collective bargaining unit. We believe we have a good working relationship with our employees.

Subsidiaries

Esquire Bank, National Association is the sole subsidiary of Esquire Financial Holdings, Inc. and there are no subsidiaries of Esquire Bank, National Association.

Supervision and Regulation

General

Esquire Bank is a national bank organized under the laws of the United States of America and its deposits are insured to applicable limits by the Deposit Insurance Fund (the "DIF"). The lending, investment, deposit-taking, and other business authority of Esquire Bank is governed primarily by federal law and regulations and Esquire Bank is prohibited from engaging in any operations not authorized by such laws and regulations. Esquire Bank is subject to extensive regulation, supervision and examination by, and the enforcement authority of, the Office of the Comptroller of the Currency (the "OCC"), and to a lesser extent by the FDIC, as its deposit insurer, as well as by the FRB. Esquire Bank is also subject to federal financial consumer protection and fair lending laws and regulations of the Consumer Financial Protection Bureau, though the OCC is responsible for examining and supervising the bank's compliance with these laws. The regulatory structure establishes a comprehensive framework of activities in which a national bank may engage and is primarily intended for the protection of depositors, customers and the DIF. The regulatory structure gives the regulatory agencies extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes.

Esquire Financial Holdings, Inc. is a bank holding company, due to its control of Esquire Bank, and is therefore subject to the requirements of the BHC Act and regulation and supervision by the FRB. The Company files reports with and is subject to periodic examination by the FRB.

Any change in the applicable laws and regulations, whether by the OCC, the FDIC, the FRB or through legislation, could have a material adverse impact on Esquire Bank and the Company and their operations and the Company's stockholders.

The Dodd-Frank Act made extensive changes in the regulation of insured depository institutions. Among other things, the Dodd-Frank Act (i) created a new Consumer Financial Protection Bureau as an independent bureau to assume responsibility for the implementation of the federal financial consumer protection and fair lending laws and regulations, a function previously assigned to prudential regulators; (although institutions of less than $10 billion in assets, such as Esquire Bank, continue to be examined for compliance with consumer protection and fair lending laws and regulations by, and be subject to the primary enforcement authority of their primary federal bank regulator rather than the Consumer Financial Protection Bureau); (ii) directed changes in the way that institutions are assessed for deposit insurance; (iii) mandated the revision of regulatory capital requirements; (iv) codified the FRB's long-standing policy that a bank holding company must serve as a source of financial and managerial strength for its subsidiary banks; (v) required regulations requiring originators of certain securitized loans to retain a percentage of the risk for the transferred loans; (vi) stipulated regulatory rate-setting for certain debit card interchange fees; (vii) repealed restrictions on the payment of interest on commercial demand deposits; (viii) enacted the so-called Volcker Rule, which general prohibits banking organizations from engaging in proprietary trading and from investing in, sponsoring or having certain relationships with hedge funds and (ix) contained a number of reforms related to mortgage originations.

Many of the provisions of the Dodd-Frank Act had delayed effective dates and/or required the issuance of implementing regulations. The regulatory process is ongoing and the impact on operations cannot yet be fully assessed. However, the Dodd-Frank Act has, and will likely continue to cause increased regulatory burden, compliance costs and interest expense for the Company and Esquire Bank.

What follows is a summary of some of the laws and regulations applicable to Esquire Bank and Esquire Financial Holdings. The summary is not intended to be exhaustive and is qualified in its entirety by reference to the actual laws and regulations.

Esquire Bank, National Association

Loans and Investments

National banks have authority to originate and purchase any type of loan, including commercial, commercial real estate, residential mortgages or consumer loans. Aggregate loans by a national bank to any single borrower or group of related borrowers are generally limited to 15% of Esquire Bank's capital and surplus, plus an additional 10% if secured by specified readily marketable collateral.

Federal law and OCC regulations limit Esquire Bank's investment authority. Generally, a national bank is prohibited from investing in corporate equity securities for its own account other than companies through which the bank conducts its business. Under OCC regulations, a national bank may invest in investment securities up to specified limits depending upon the type of security. "Investment securities" are generally defined as marketable obligations that are investment grade and not predominantly speculative in nature. The OCC classifies investment securities into five different types and, depending on its type, a national bank may have the authority to deal in and underwrite the security. The OCC has also permitted national banks to purchase certain noninvestment grade securities that can be reclassified and underwritten as loans.

Lending Standards

The federal banking agencies adopted uniform regulations prescribing standards for extensions of credit that are secured by liens or interests in real estate or made for the purpose of financing permanent improvements to real estate. Under these regulations, all insured depository institutions, such as Esquire Bank, must adopt and maintain written policies establishing appropriate limits and standards for extensions of credit that are secured by liens or interests in real estate or are made for the purpose of financing permanent improvements to real estate. These policies must establish loan portfolio diversification standards, prudent underwriting standards (including loan-to-value limits) that are clear and measurable, loan administration procedures, and documentation, approval and reporting requirements. The real estate lending policies must reflect consideration of the federal bank regulators' Interagency Guidelines for Real Estate Lending Policies that have been adopted.

Federal Deposit Insurance

Deposit accounts at Esquire Bank are insured by the FDIC's DIF. Effective July 22, 2010, the Dodd-Frank Act permanently raised the deposit insurance available on all deposit accounts to $250,000 with a retroactive effective date of January 1, 2008.

Under the FDIC's risk-based assessment system, insured institutions were assigned a risk category based on supervisory evaluations, regulatory capital levels and certain other factors. An institution's rate depended upon the category to which it is assigned, and certain adjustments specified by FDIC regulations. Institutions deemed less risky pay FDIC assessments. The Dodd-Frank Act required the FDIC to revise its procedures to base its assessments upon each insured institution's total assets less tangible equity instead of deposits. The FDIC finalized a rule, effective April 1, 2011, that set the assessment range at 2.5 to 45 basis points of total assets less tangible equity. Effective July 1, 2016, the FDIC adopted changes that eliminated the risk categories and base assessments for most banks on financial measures and supervisory ratings derived from statistical modeling estimating the probability of failure over three years. In conjunction with the DIF reserve ratio achieving 1.5%, the assessment range (inclusive of possible adjustments) was also reduced for most banks to 1.5 basis points to 30 basis points of total assets less tangible equity.

The FDIC may adjust its assessment scale uniformly, except that no adjustment can deviate more than two basis points from the base scale without notice and comment. No insured institution may pay a dividend if in default of the federal deposit insurance assessment.

The FDIC may terminate deposit insurance upon a finding that an institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC. We do not know of any practice, condition or violation that might lead to termination of Esquire Bank's deposit insurance.

In addition to the FDIC assessments, the Financing Corporation (FICO) is authorized to impose and collect, through the FDIC as collection agent, assessments for anticipated payments, issuance costs and custodial fees on bonds issued by the FICO in the 1980s to recapitalize the now defunct Federal Savings and Loan Insurance Corporation. The bonds issued by the FICO are due to mature in 2017 through 2019.

Capitalization

Federal regulations require FDIC insured depository institutions, including national banks, to meet several minimum capital standards: a common equity Tier 1 capital to risk-based assets ratio, a Tier 1 capital to risk-based assets ratio, a total capital to risk-based assets and a Tier 1 capital to total assets leverage ratio. The existing capital requirements were effective January 1, 2015 and are the result of a final rule implementing regulatory amendments based on recommendations of the Basel Committee on Banking Supervision and certain requirements of the Dodd-Frank Act.

The capital standards require the maintenance of common equity Tier 1 capital, Tier 1 capital and total capital to risk-weighted assets of at least 4.5%, 6% and 8%, respectively, and a leverage ratio of at least 4% Tier 1 capital. Common equity Tier 1 capital is generally defined as common stockholders' equity and retained earnings. Tier 1 capital is generally defined as common equity Tier 1 and Additional Tier 1 capital. Additional Tier 1 capital generally includes certain noncumulative perpetual preferred stock and related surplus and minority interests in equity accounts of consolidated subsidiaries. Total capital includes Tier 1 capital (common equity Tier 1 capital plus Additional Tier 1 capital) and Tier 2 capital. Tier 2 capital is comprised of capital instruments and related surplus meeting specified requirements, and may include cumulative preferred stock and long-term perpetual preferred stock, mandatory convertible securities, intermediate preferred stock and subordinated debt. Also included in Tier 2 capital is the allowance for loan and lease losses limited to a maximum of 1.25% of risk-weighted assets and, for institutions that have exercised an opt-out election regarding the treatment of Accumulated Other Comprehensive Income ("AOCI"), up to 45% of net unrealized gains on available-for-sale equity securities with readily determinable fair market values. Institutions that have not exercised the AOCI opt-out have AOCI incorporated into common equity Tier 1 capital (including unrealized gains and losses on available-for-sale-securities). We exercised the opt-out election regarding the treatment of AOCI. Calculation of all types of regulatory capital is subject to deductions and adjustments specified in the regulations.

In determining the amount of risk-weighted assets for purposes of calculating risk-based capital ratios, a bank's assets, including certain off-balance sheet assets (e.g., recourse obligations, direct credit substitutes, residual interests), are multiplied by a risk weight factor assigned by the regulations based on perceived risks inherent in the type of asset. Higher levels of capital are required for asset categories believed to present greater risk. For example, a risk weight of 0% is assigned to cash and U.S. government securities, a risk weight of 50% is generally assigned to prudently underwritten first lien 1 – 4 family residential mortgages, a risk weight of 100% is assigned to commercial and consumer loans, a risk weight of 150% is assigned to certain past due loans and a risk weight of between 0% to 600% is assigned to permissible equity interests, depending on certain specified factors.

In addition to establishing the minimum regulatory capital requirements, the regulations limit capital distributions and certain discretionary bonus payments to management if the institution does not hold a "capital conservation buffer" consisting of 2.5% of common equity Tier 1 capital to risk-weighted assets above the amount necessary to meet its minimum risk-based capital requirements. The capital conservation buffer requirement is being phased in beginning January 1, 2016 at 0.625% of risk-weighted assets and increasing each year until fully implemented at 2.5% on January 1, 2019.

On November 2, 2012, the OCC notified Esquire Bank that it had established minimum capital ratios for Esquire Bank requiring Esquire Bank to maintain, commencing December 1, 2012, a Tier 1 leverage capital ratio of 9.0%, a Tier 1 risk-based capital ratio of 11.0% and a total risk-based capital to risk-weighted assets ratio of 13.0%.

Safety and Soundness Standards

Each federal banking agency, including the OCC, has adopted guidelines establishing general standards relating to internal controls, information and internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, asset quality, earnings, compensation, fees and benefits and information security standards. In general, the guidelines require appropriate systems and practices to identify and manage the risks and exposures specified in the guidelines. The guidelines prohibit excessive compensation as an unsafe and unsound practice and describe compensation as excessive when the amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director, or principal stockholder. The FDIC also has issued guidance on risks banks may face from third party relationships (e.g. relationships under which the third party provides services to the bank). The guidance generally requires the bank to perform adequate due diligence on the third party, appropriately document the relationship, and perform adequate oversight and auditing, in order to the limit the risks to the bank.

Prompt Corrective Regulatory Action

Federal law requires that federal bank regulatory authorities take “prompt corrective action” with respect to institutions that do not meet minimum capital requirements. For these purposes, the statute establishes five capital tiers: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized.

National banks that have insufficient capital are subject to certain mandatory and discretionary supervisory measures. For example, a bank that is “undercapitalized” (i.e. fails to comply with any regulatory capital requirement) is subject to growth limitations and is required to submit a capital restoration plan; a holding company that controls such a bank is required to guarantee that the bank complies with the restoration plan. A “significantly undercapitalized” bank is subject to additional restrictions. National banks deemed by the OCC to be “critically undercapitalized” are subject to the appointment of a receiver or conservator.

The final rule that increased regulatory capital standards also adjusted the prompt corrective action tiers as of January 1, 2015 to conform to the new capital standards. The various categories now incorporate the newly adopted common equity Tier 1 capital requirement, an increase in the Tier 1 to risk-based assets requirement and other changes. Under the revised prompt corrective action requirements, insured depository institutions are required to meet the following in order to qualify as “well capitalized:” (1) a common equity Tier 1 risk-based capital ratio of 6.5% (new standard); (2) a Tier 1 risk-based capital ratio of 8% (increased from 6%); (3) a total risk-based capital ratio of 10% (unchanged) and (4) a Tier 1 leverage ratio of 5% (unchanged).

Dividends

Under federal law and applicable regulations, a national bank may generally declare a cash dividend, without approval from the OCC, in an amount equal to its year-to-date net income plus the prior two years’ net income that is still available for cash dividend. Cash dividends exceeding those amounts require application to and approval by the OCC. To pay a cash dividend, a national bank must also maintain an adequate capital conservation buffer under the capital rules discussed above.

Transactions with Affiliates and Insiders

Sections 23A and 23B of the Federal Reserve Act govern transactions between a national bank and its affiliates, which includes the Company. The FRB has adopted Regulation W, which implements and interprets Sections 23A and 23B, in part by codifying prior FRB interpretations.

An affiliate of a bank is any company or entity that controls, is controlled by or is under common control with the bank. A subsidiary of a bank that is not also a depository institution or a "financial subsidiary" under federal law is not treated as an affiliate of the bank for the purposes of Sections 23A and 23B; however, the OCC has the discretion to treat subsidiaries of a bank as affiliates on a case-by-case basis. Section 23A limits the extent to which a bank or its subsidiaries may engage in "covered transactions" with any one affiliate to 10% of the bank's capital stock and surplus. There is an aggregate limit of 20% of the bank's capital stock and surplus for such transactions with all affiliates. The term "covered transaction" includes, among other things, the making of a loan to an affiliate, a purchase of assets from an affiliate, the issuance of a guarantee on behalf of an affiliate and the acceptance of securities of an affiliate as collateral for a loan. All such transactions are required to be on terms and conditions that are consistent with safe and sound banking practices and no transaction may involve the acquisition of any "low quality asset" from an affiliate. Certain covered transactions, such as loans to or guarantees on behalf of an affiliate, must be secured by collateral in amounts ranging from 100 to 130 percent of the loan amount, depending upon the type of collateral. In addition, Section 23B requires that any covered transaction (and specified other transactions) between a bank and an affiliate must be on terms and conditions that are substantially the same, or at least as favorable, to the bank, as those that would be provided to a non-affiliate.

A bank's loans to its executive officers, directors, any owner of more than 10% of its stock (each, an "insider") and certain entities affiliated with any such person (an insider's "related interest") are subject to the conditions and limitations imposed by Section 22(h) of the Federal Reserve Act and the FRB's Regulation O. The aggregate amount of a bank's loans to any insider and the insider's related interests may not exceed the loans-to-one-borrower limit applicable to national banks. Aggregate loans by a bank to its insiders and insiders' related interests may not exceed the bank's unimpaired capital and unimpaired surplus. With certain exceptions, such as education loans and certain residential mortgages a bank's loans to its executive officers, may not exceed the greater of $25,000 or 2.5% of the bank's unimpaired capital and unimpaired surplus, but in no event more than $100,000. Regulation O also requires that any loan to an insider or a related interest of an insider be approved in advance by a majority of the board of directors of the bank, with any interested director not participating in the voting, if the loan, when aggregated with any existing loans to that insider or the insider's related interests, would exceed the lesser or $500,000 or 5% of the bank's unimpaired capital and surplus. Generally, such loans must be made on substantially the same terms as, and follow credit underwriting procedures that are no less stringent than, those that are prevailing at the time for comparable transactions with other persons and must not present more than a normal risk of collectability. An exception is made for extensions of credit made pursuant to a benefit or compensation plan of a bank that is widely available to employees of the bank and that does not give any preference to insiders of the bank over other employees of the bank.

Enforcement

The OCC has extensive enforcement authority over national banks to correct unsafe or unsound practices and violations of law or regulation. Such authority includes the issuance of cease and desist orders, assessment of civil money penalties and removal of officers and directors. The OCC may also appoint conservator or receiver for a national bank under specified circumstances, such as where (i) the bank's assets are less than its obligations to creditors, (ii) the bank is likely to be unable to pay its obligations or meet depositors' demands in the normal course of business or (iii) a substantial dissipation of bank assets or earnings has occurred due to a violation of law of regulation or unsafe or unsound practices.

Federal Reserve System

Under FRB regulations, Esquire Bank is required to maintain reserves at the Federal Reserve Bank against its transaction accounts, including checking and NOW accounts. The regulations currently require that reserves of 3% be maintained against aggregate transaction accounts over $16.0 million and 10% against that portion of total transaction accounts in excess of $122.3 million. The first $16.0 million of otherwise reservable balances are exempted from the reserve requirements. The Bank is in compliance with these requirements. The requirements are adjusted annually by the FRB. The FRB began paying interest on reserves in 2008, currently 1.50%.

Examinations and Assessments

Esquire Bank is required to file periodic reports with and is subject to periodic examination by the OCC. Federal regulations generally require periodic on-site examinations for all depository institutions. Esquire Bank is required to pay an annual assessment to the OCC to fund the agency's operations.

Community Reinvestment Act and Fair Lending Laws

Under the CRA, Esquire Bank has a continuing and affirmative obligation consistent with its safe and sound operation to help meet the credit needs of its entire community, including low and moderate income neighborhoods. The CRA does not establish specific lending requirements or programs for financial institutions nor does it limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community. The CRA requires the OCC to assess its record of meeting the credit needs of its community and to take that record into account in its evaluation of certain applications by Esquire Bank. For example, the regulations specify that a bank's CRA performance will be considered in its expansion (e.g., branching or merger) proposals and may be the basis for approving, denying or conditioning the approval of an application. As of the date of its most recent OCC evaluation, Esquire Bank was rated "satisfactory" with respect to its CRA compliance.

USA PATRIOT Act and Money Laundering

Esquire Bank is subject to the federal Bank Secrecy Act (the "BSA"), which incorporates several laws, including the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, or the USA PATRIOT Act and related regulations. The USA PATRIOT Act gives the federal government powers to address money laundering and terrorist threats through enhanced domestic security measures, expanded surveillance powers, increased information sharing, and broadened anti-money laundering requirements. By way of amendments to the Bank Secrecy Act, Title III of the USA PATRIOT Act implemented measures intended to encourage information sharing among bank regulatory agencies and law enforcement bodies. Further, certain provisions of Title III impose affirmative obligations on a broad range of financial institutions, including banks, thrifts, brokers, dealers, credit unions, money transfer agents and parties registered under the Commodity Exchange Act.

Among other things, Title III of the USA PATRIOT Act and the related regulations require:

- Establishment of anti-money laundering compliance programs that includes policies, procedures, and internal controls; the appointment of an anti-money laundering compliance officer; a training program; and independent testing;
- Filing of certain reports to FinCEN and law enforcement that are designated to assist in the detection and prevention of money laundering and terrorist financing activities;
- Establishment of a program specifying procedures for obtaining and maintaining certain records from customers seeking to open new accounts, including verifying the identity of customers;
- In certain circumstances, compliance with enhanced due diligence policies, procedures and controls designed to detect and report money-laundering, terrorist financing and other suspicious activity;
- Monitoring account activity for suspicious transactions; and
- A heightened level of review for certain high risk customers or accounts.

The USA PATRIOT Act also includes prohibitions on correspondent accounts for foreign shell banks and requires compliance with record keeping obligations with respect to correspondent accounts of foreign banks.

The bank regulatory agencies have increased the regulatory scrutiny of the Bank Secrecy Act and anti-money laundering programs maintained by financial institutions. Significant penalties and fines, as well as other supervisory orders may be imposed on a financial institution for non-compliance with these requirements. In addition, the federal bank regulatory agencies must consider the effectiveness of financial institutions engaging in a merger transaction in combating money laundering activities.

Esquire Bank has adopted policies and procedures to comply with these requirements.

Privacy Laws

Esquire Bank is subject to a variety of federal and state privacy laws, which govern the collection, safeguarding, sharing and use of customer information. For example, the Gramm-Leach-Bliley Act requires all financial institutions offering financial products or services to retail customers to provide such customers with the financial institution's privacy policy and provide such customers the opportunity to "opt out" of the sharing of certain personal financial information with unaffiliated third parties. It also requires banks to safeguard personal information of consumer customers. Some state laws also protect the privacy of information of state residents and require adequate security for such data.

Merchant Services

Esquire Bank is also subject to the rules of Visa, MasterCard and other payment networks in which it participates. If Esquire Bank fails to comply with such rules, the networks could impose fines or require us to stop providing merchant services for cards under such network's brand or routed through such network.

Other Regulations

Esquire Bank's operations are also subject to federal laws applicable to credit transactions, such as:

- The Truth-In-Lending Act, governing disclosures of credit terms to consumer borrowers;
- The Real Estate Settlement Procedures Act, requiring that borrowers for mortgage loans for 1 – 4 family residential real estate receive various disclosures, including good faith estimates of settlement costs, lender servicing and escrow account practices, and prohibiting certain practices that increase the cost of settlement services;
- The Home Mortgage Disclosure Act, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;
- The Equal Credit Opportunity Act and other fair lending laws, prohibiting discrimination on the basis of race, religion, sex and other prohibited factors in extending credit;
- The Fair Credit Reporting Act, governing the use of credit reports on consumers and the provision of information to credit reporting agencies;
- Unfair or Deceptive Acts or Practices laws and regulations;
- The Fair Debt Collection Act, governing the manner in which consumer debts may be collected by collection agencies; and
- The rules and regulations of the various federal agencies charged with the responsibility of implementing such federal laws.

The operations of Esquire Bank are further subject to the:

- The Truth in Savings Act, which specifies disclosure requirements with respect to deposit accounts;
- The Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records;
- The Electronic Funds Transfer Act and Regulation E promulgated thereunder, which govern automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of automated teller machines and other electronic banking services; and
- The Check Clearing for the 21st Century Act (also known as "Check 21"), which gives "substitute checks," such as digital check images and copies made from that image, the same legal standing as the original paper check.

Holding Company Regulation

The Company, as a bank holding company controlling Esquire Bank, is subject to regulation and supervision by the FRB under the BHCA. The Company is periodically examined by, required to submit reports to the FRB and is required to comply with the FRB's rules and regulations. Among other things, the FRB has authority to restrict activities by a bank holding company that are deemed to pose a serious risk to the subsidiary bank. The FRB has historically imposed consolidated capital adequacy guidelines for bank holding structured similar, but not identical, to those of the OCC for national banks. The Dodd-Frank Act directed the FRB to issue consolidated capital requirements for depository institution holding companies that are no less stringent, both quantitatively and in terms of components of capital, than those applicable to institutions themselves. The previously discussed final rule regarding regulatory capital requirements implemented the Dodd-Frank Act as to bank holding company capital standards. Consolidated regulatory capital requirements identical to those applicable to the subsidiary banks applied to bank holding companies as of January 1, 2015. However, the FRB exempts from the consolidated capital requirements bank holding companies with less than $1 billion in assets, unless otherwise directed in specific cases. Consequently, the Company is not currently subject to the consolidated holding company capital requirements.

The policy of the FRB is that a bank holding company must serve as a source of financial and managerial strength to its subsidiary banks by providing capital and other support in times of distress. The Dodd-Frank Act codified the source of strength policy.

Under the prompt corrective action provisions of federal law, a bank holding company parent of an undercapitalized subsidiary bank is required to guarantee, within specified limits, the capital restoration plan that is required of an undercapitalized bank. If an undercapitalized bank fails to file an acceptable capital restoration plan or fails to implement an accepted plan, the FRB may prohibit the bank holding company parent of the undercapitalized bank from paying dividends or making any other capital distribution.

As a bank holding company, the Company is required to obtain the prior approval of the FRB to acquire more than 5% of a class of voting securities of any additional bank or bank holding company or to acquire all or substantially all, the assets of any additional bank or bank holding company. In evaluating acquisition application, the FRB evaluates factors such as the financial condition, management resources and future prospects of the parties, the convenience and needs of the communities involved and competitive factors. In addition, bank holding companies may generally only engage in activities that are closely related to banking as determined by the FRB. Bank holding companies that meet certain criteria may opt to become a financial holding company and thereby engage in a broader array of financial activities.

FRB policy is that a bank holding company should pay cash dividends only to the extent that the company's net income for the past two years is sufficient to fund the dividends and the prospective rate of earnings retention is consistent with the company's capital needs, asset quality and overall financial condition. In addition, FRB guidance sets forth the supervisory expectation that bank holding companies will inform and consult with Federal Reserve Bank staff in advance of issuing a cash dividend that exceeds earnings for the quarter and should inform the Federal Reserve Bank and should eliminate, defer or significantly reduce dividends if (i) net income available to stockholders for the past four quarters, net of dividends previously paid during that period, is not sufficient to fully fund the dividends, (ii) prospective rate of earnings retention is not consistent with the bank holding company's capital needs and overall current and prospective financial condition, or (iii) the bank holding company will not meet, or is in danger of not meeting, its minimum regulatory capital adequacy ratios.

A bank holding company is required to give the FRB prior written notice of any repurchase or redemption of its outstanding equity securities if the gross consideration for repurchase or redemption, when combined with the net consideration paid for all such repurchases or redemptions during the preceding 12 months, will be equal to 10% or more of the company's consolidated net worth. The FRB may disapprove such a repurchase or redemption if it determines that the proposal would constitute an unsafe and unsound practice or violate a law or regulation. Such notice and approval is not required for a bank holding company that meets certain qualitative criteria. However, FRB guidance generally provides for bank holding company consultation with Federal Reserve Bank staff prior to engaging in a repurchase or redemption of a bank holding company's stock, regardless of whether a formal written notice is required.

The above FRB requirements may restrict a bank holding company's ability to pay dividends to stockholders or engage in repurchases or redemptions of its shares.

Acquisition of Control of the Company. Under the Change in Bank Control Act, no person may acquire control of a bank holding company such as the Company unless the FRB has been prior written notice and has not issued a notice disapproving the proposed acquisition. In evaluating such notices, the FRB takes into consideration such factors as the financial resources, competence, experience and integrity of the acquirer, the future prospects the bank holding company involved and its subsidiary bank and the competitive effects of the acquisition. Control, as defined under federal law, means ownership, control of or holding irrevocable proxies representing more than 25% of any class of voting stock, control in any manner of the election of a majority of the company's directors, or a determination by the regulator that the acquiror has the power to direct, or directly or indirectly to exercise a controlling influence over, the management or policies of the institution. Acquisition of more than 10% of any class of a bank holding company's voting stock constitutes a rebuttable presumption of control under the regulations under certain circumstances including where, is the case with the Company, the issuer has registered securities under Section 12 of the Securities Exchange Act of 1934.

Federal Securities Laws

Esquire Financial Holdings, Inc.'s common stock is registered with the Securities and Exchange Commission. Consequently, Esquire Financial Holdings, Inc. is subject to the information, proxy solicitation, insider trading and other restrictions and requirements of the SEC under the Securities Exchange Act of 1934.

Emerging Growth Company Status

The Jumpstart Our Business Startups Act (the "JOBS Act"), which was enacted in April 2012, has made numerous changes to the federal securities laws to facilitate access to capital markets. Under the JOBS Act, a company with total annual gross revenues of less than $1.07 billion during its most recently completed fiscal year qualifies as an "emerging growth company." Esquire Financial Holdings, Inc. qualifies as an emerging growth company under the JOBS Act.

An "emerging growth company" may choose not to hold stockholder votes to approve annual executive compensation (more frequently referred to as "say-on-pay" votes) or executive compensation payable in connection with a merger (more frequently referred to as "say-on-golden parachute" votes). An emerging growth company also is not subject to the requirement that its auditors attest to the effectiveness of the company's internal control over financial reporting, and can provide scaled disclosure regarding executive compensation. Finally, an emerging growth company may elect to comply with new or amended accounting pronouncements in the same manner as a private company, but must make such election when the company is first required to file a registration statement. Such an election is irrevocable during the period a company is an emerging growth company. Esquire Financial Holdings, Inc. has elected to comply with new or amended accounting pronouncements in the same manner as a public company.

A company loses emerging growth company status on the earlier of: (i) the last day of the fiscal year of the company during which it had total annual gross revenues of $1.07 billion or more; (ii) the last day of the fiscal year of the issuer following the fifth anniversary of the date of the first sale of common equity securities of the company pursuant to an effective registration statement under the Securities Act of 1933; (iii) the date on which such company has, during the previous three-year period, issued more than $1.0 billion in non-convertible debt; or (iv) the date on which such company is deemed to be a "large accelerated filer" under Securities and Exchange Commission regulations (generally, at least $700 million of voting and non-voting equity held by non-affiliates).

Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act of 2002 is intended to improve corporate responsibility, to provide for enhanced penalties for accounting and auditing improprieties at publicly traded companies and to protect investors by improving the accuracy and reliability of corporate disclosures pursuant to the securities laws. We have policies, procedures and systems designed to comply with these regulations, and we review and document such policies, procedures and systems to ensure continued compliance with these regulations.

ITEM 1A. Risk Factors

The material risks that management believes affect the Company are described below. You should carefully consider the risks as described below, together with all of the information included herein. The risks described below are not the only risks the Company faces. Additional risks not presently known also may have a material adverse effect on the Company's results of operations and financial condition.

Risks Related to Our Business

We have a limited operating history and have recently experienced significant growth, which makes it difficult to forecast our revenue and evaluate our business and future prospects.

We have only been in existence since 2006, and in 2015, 2016 and 2017, we experienced significant growth following our initial public offering, a capital raise and the conversion from a savings and loan holding company with a savings bank subsidiary to a bank holding company with a national bank subsidiary. As a result of our limited operating history and recent accelerated growth, in particular in our merchant services business, our ability to forecast our future results of operations and plan for and model future growth is limited and subject to a number of uncertainties. We have encountered and will continue to encounter risks and uncertainties frequently experienced by growing companies in the financial services industry, such as the risks and uncertainties described herein. Accordingly, we may be unable to prepare accurate internal financial forecasts and our results of operations in future reporting periods may be below the expectations of investors. If we do not address these risks successfully, our results of operations could differ materially from our estimates and forecasts or the expectations of our stockholders, causing our business to suffer and our stock price to decline.

Because we intend to continue to increase our commercial loans, our credit risk may increase.

At December 31, 2017, our commercial loans totaled $136.4 million, or 39.2% of our total loans, including $127.7 million of Commercial Attorney-Related Loans, which represented 93.6% of our commercial loans. We intend to increase our originations of commercial loans, including our Commercial Attorney-Related Loans, which consist of working capital lines of credit, case cost lines of credit, term loans to law firms, and post-settlement commercial and other commercial attorney-related loans. These loans generally have more risk than 1 – 4 family residential mortgage loans and commercial loans secured by real estate. Since repayment of commercial loans, including our Commercial Attorney-Related Loans, depends on the successful receipt of settlement proceeds or the successful management and operation of the borrower's businesses, repayment of such loans can be affected by adverse court decisions and adverse conditions in the local and national economy. Commercial Attorney-Related Loans present unique credit risks in that attorney or law firm revenues can be volatile depending on the number of cases, the timing of court decisions and the timing of the overall judicial process. In our experience, an average case can take two to four years to litigate. Determining the value of an attorney's or law firm's case inventory (borrowing base) is also inherently an imprecise exercise. Though repayment of case lines is not dependent on a favorable case settlement, unfavorable outcomes can ultimately impact the cash flows of the borrower. An adverse development with respect to one loan or one Commercial Attorney-Related Loan credit relationship can expose us to significantly greater risk of loss compared to an adverse development with respect to a 1 – 4 family residential mortgage loan or a commercial real estate loan.

Because we plan to continue to increase our originations of these loans, commercial loans generally have a larger average size as compared with other loans such as residential loans, and the collateral for commercial loans is generally less readily-marketable, losses incurred on a small number of commercial loans could have a disproportionate and material adverse impact on our financial condition and results of operations.

A substantial portion of our business is dependent on the prospects of the legal industry and changes in the legal industry may adversely affect our growth and profitability.

We depend on our relationships within the legal community and our products and services tailored to the legal industry account for a significant source of our revenue. As we intend to focus our growth on our Attorney-Related Loan products, changes in the legal industry, including a significant decrease in the number of litigation cases in the United States, reform of the tort industry that reduces the ability of plaintiffs to bring cases or reduces the damages plaintiffs can receive, or a significant increase in the unemployment rate for attorneys, could, individually or in the aggregate, have a material adverse effect on our profitability, financial condition and growth of our business.

A substantial portion of our loan portfolio consists of multifamily real estate loans and commercial real estate loans, which have a higher degree of risk than other types of loans.

At December 31, 2017, we had $98.4 million of multifamily loans and $24.8 million of commercial real estate loans. Multifamily and commercial real estate loans represented 35.4% of our total loan portfolio at December 31, 2017. Multifamily and commercial real estate loans are often larger and involve greater risks than other types of lending. Because payments on such loans are often dependent on the successful operation or development of the property or business involved, repayment of such loans is often more sensitive than other types of loans to adverse conditions in the real estate market or the general business climate and economy. Accordingly, a downturn in the real estate market and a challenging business and economic environment may increase our risk related to multifamily and commercial real estate loans. Unlike residential mortgage loans, which generally are made on the basis of the borrower's ability to make repayment from their employment and other income and which are secured by real property whose value tends to be more easily ascertainable, multifamily and commercial real estate loans typically are made on the basis of the borrower's ability to make repayment from the cash flow of the commercial venture. If the cash flow from business operations is reduced, the borrower's ability to repay the loan may be impaired. Due to the larger average size of each multifamily and commercial real estate loan as compared with other loans such as residential loans, as well as collateral that is generally less readily-marketable, losses incurred on a small number of multifamily and commercial real estate loans could have a material adverse impact on our financial condition and results of operations.

We expect to increase our originations of consumer loans, including post-settlement consumer and structured settlement loans, and such loans generally carry greater risk than loans secured by owner-occupied, 1 – 4 family real estate, and these risks will increase as we continue to increase originations of these types of loans.

At December 31, 2017, our consumer loans totaled $31.9 million, or 9.2% of our total loan portfolio, of which $25.7 million, or 80.7%, were post-settlement consumer loans and $1.4 million, or 4.5%, were structured settlement loans. Consumer loans typically have shorter terms, lower balances, higher yields and higher risks of default than 1 – 4 family residential loans. Consumer loan collections are dependent on the borrower's continuing financial stability and are therefore more likely to be affected by adverse personal circumstances, such as a loss of employment or unexpected medical costs. While our Consumer Attorney-Related Loans, which consist of post-settlement consumer and structured settlement loans, are typically well secured by the settlement amount, we can still be exposed to the financial stability of the borrower as a result of unforeseen rulings or administrative legal anomalies with a particular borrower's settlement that eliminate or greatly reduce their settlement amount. Additionally, we have a concentration in NFL loans which totaled $21.8 million or 85.3% of our total post-settlement loans. Furthermore, the application of various federal and state laws, including bankruptcy and insolvency laws, may limit our ability to recover on such loans. As we increase our originations of consumer loans, it may become necessary to increase our provision for loan losses in the event our losses on these loans increase, which would reduce our profits.

As a business operating in the financial services industry, our business and operations may be adversely affected in numerous and complex ways by weak economic conditions.

Our business and operations, which primarily consist of lending money to customers in the form of loans, borrowing money from customers in the form of deposits and investing in securities, are sensitive to general business and economic conditions in the United States. If the U.S. economy weakens, our growth and profitability from our lending, deposit and investment operations could be constrained. Uncertainty about the federal fiscal policymaking process, the medium and long-term fiscal outlook of the federal government, and future tax rates is a concern for businesses, consumers and investors in the United States. In addition, economic conditions in foreign countries could affect the stability of global financial markets, which could hinder U.S. economic growth. Weak economic conditions are characterized by deflation, fluctuations in debt and equity capital markets, a lack of liquidity and/or depressed prices in the secondary market for mortgage loans, increased delinquencies on mortgage, consumer and commercial loans, residential and commercial real estate price declines and lower home sales and commercial activity. The current economic environment is also characterized by interest rates at historically low levels, which impacts our ability to attract deposits and to generate attractive earnings through our investment portfolio. All of these factors are detrimental to our business, and the interplay between these factors can be complex and unpredictable. Our business is also significantly affected by monetary and related policies of the U.S. federal government and its agencies. Changes in any of these policies are influenced by macroeconomic conditions and other factors that are beyond our control. Adverse economic conditions and government policy responses to such conditions could have a material adverse effect on our business, financial condition, results of operations and prospects.

A substantial majority of our loans and operations are in New York, and therefore our business is particularly vulnerable to a downturn in the New York City economy.

Unlike larger financial institutions that are more geographically diversified, a large portion of our business is concentrated primarily in the state of New York, and in New York City in particular. As of December 31, 2017, 72.8% of our loan portfolio was in New York and our loan portfolio had concentrations of 58.5% in New York City. If the local economy, and particularly the real estate market, declines, the rates of delinquencies, defaults, foreclosures, bankruptcies and losses in our loan portfolio would likely increase. As a result of this lack of diversification in our loan portfolio, a downturn in the local economy generally and real estate market specifically could significantly reduce our profitability and growth and adversely affect our financial condition.

Interest rate shifts may reduce net interest income and otherwise negatively impact our financial condition and results of operations.

The majority of our banking assets are monetary in nature and subject to risk from changes in interest rates. Like most financial institutions, our earnings and cash flows depend to a great extent upon the level of our net interest income, or the difference between the interest income we earn on loans, investments and other interest earning assets, and the interest we pay on interest bearing liabilities, such as deposits and borrowings. Changes in interest rates can increase or decrease our net interest income, because different types of assets and liabilities may react differently, and at different times, to market interest rate changes.

When interest bearing liabilities mature or reprice more quickly, or to a greater degree than interest earning assets in a period, an increase in interest rates could reduce net interest income. Similarly, when interest earning assets mature or reprice more quickly, or to a greater degree than interest bearing liabilities, falling interest rates could reduce net interest income. Additionally, an increase in interest rates may, among other things, reduce the demand for loans and our ability to originate loans and decrease loan repayment rates. A decrease in the general level of interest rates may affect us through, among other things, increased prepayments on our loan portfolio and increased competition for deposits. Accordingly, changes in the level of market interest rates affect our net yield on interest earning assets, loan origination volume and our overall results. Although our asset-liability management strategy is designed to control and mitigate exposure to the risks related to changes in market interest rates, those rates are affected by many factors outside of our control, including governmental monetary policies, inflation, deflation, recession, changes in unemployment, the money supply, international disorder and instability in domestic and foreign financial markets.

Our small size makes it more difficult for us to compete.

Our small size makes it more difficult to compete with other financial institutions which are generally larger and can more easily afford to invest in the marketing and technologies needed to attract and retain customers. Because our principal source of income is the net interest income we earn on our loans and investments after deducting interest paid on deposits and other sources of funds, our ability to generate the revenues needed to cover our expenses and finance such investments is limited by the size of our loan and investment portfolios. In addition, we compete with many larger financial institutions and other financial companies who operate in the merchant services business. Accordingly, we are not always able to offer new products and services as quickly as our competitors. Our lower earnings also make it more difficult to offer competitive salaries and benefits. As a smaller institution, we are also disproportionately affected by the continually increasing costs of compliance with new banking and other regulations.

We may not be able to grow, and if we do we may have difficulty managing that growth.

Our business strategy is to continue to grow our assets and expand our operations, including through potential strategic acquisitions. Our ability to grow depends, in part, upon our ability to expand our market share, successfully attract core deposits, and to identify loan and investment opportunities as well as opportunities to generate fee-based income. We can provide no assurance that we will be successful in increasing the volume of our loans and deposits at acceptable levels and upon terms acceptable to us. We also can provide no assurance that we will be successful in expanding our operations organically or through strategic acquisition while managing the costs and implementation risks associated with this growth strategy.

We expect to continue to experience growth in the number of our employees and customers and the scope of our operations. Our success will depend upon the ability of our officers and key employees to continue to implement and improve our operational and other systems, to manage multiple, concurrent customer relationships, and to hire, train and manage our employees. In the event that we are unable to perform all these tasks and meet these challenges effectively, including continuing to attract core deposits, our operations, and consequently our earnings, could be adversely impacted.

We rely heavily on our management team, our board of directors and our advisory board members and our business could be adversely affected by the unexpected loss of one or more of our officers or directors.

We are led by a management team with substantial experience in the markets that we serve and the financial products that we offer. Our operating strategy focuses on providing products and services through long-term relationship managers. Additionally, we rely heavily on our directors' and our advisory board members' extensive business and personal contacts and relationships to help establish and maintain our customer base. Accordingly, our success depends in large part on the performance of our key officers and directors, as well as on our ability to attract, motivate and retain highly qualified senior and middle management. Competition for employees is intense, and the process of identifying key personnel with the combination of skills and attributes required to execute our business plan may be lengthy. We may not be successful in retaining our key employees or directors and the unexpected loss of services of one or more of our officers or directors could have a material adverse effect on our business because of their skills, knowledge of our market and financial products, years of industry experience, long-term business and customer relationships and the difficulty of finding qualified replacement personnel. If the services of any of our key personnel should become unavailable for any reason, we may not be able to identify and hire qualified persons on terms acceptable to us, which could have an adverse effect on our business, financial condition and results of operations.

Our merchants or ISOs may be unable to satisfy obligations for which we may ultimately be liable.

We are subject to the risk of our merchants or ISOs being unable to satisfy obligations for which we may ultimately be liable. If we are unable to collect amounts due from a merchant or ISO because of insolvency or other reasons, we may bear the loss for those full amounts. We manage our credit risk and attempt to mitigate our risk by obtaining reserves, both from merchants and ISOs, and through other contractual remedies. It is possible, however, that a default on such obligations by one or more of our ISOs or merchants, could, individually or in the aggregate, have a material adverse effect on our business, financial condition and results of operations.

Fraud by merchants or others could have a material adverse effect on our business and financial condition.

We may be subject to liability for fraudulent transactions initiated by merchants or others. Examples of such fraud include when a merchant or other party knowingly uses a stolen or counterfeit card to make a transaction, or if a merchant intentionally fails to deliver the merchandise or services sold in an otherwise valid transaction. Criminals are using increasingly sophisticated methods to engage in illegal activities such as counterfeiting and fraud. It is possible that incidents of fraud could increase in the future. Failure to effectively manage risk and prevent fraud would increase our chargeback liability or other liability. Increases in chargebacks or other liability could have a material adverse effect on our business, financial condition, and results of operations.

Changes in card network rules or standards could adversely affect our business.

In order to provide our merchant services, we are members of the Visa and MasterCard networks. As such, we are subject to card network rules that could subject us or our ISOs and merchants to a variety of fines or penalties that may be assessed on us, our ISOs, and our merchants. The termination of our membership, or the revocation of registration of any of our ISOs, or any changes in card network rules or standards could increase the cost of operating our merchant servicer business or limit our ability to provide merchant services to or through our customers, and could have a material adverse effect on our business, financial condition and results of operations.

Changes in card network fees could impact our operations.

From time to time, the card networks increase the fees (known as interchange fees) that they charge to acquirers and we charge to our merchants. It is possible that competitive pressures will result in us absorbing a portion of such increases in the future, which would increase our costs, reduce our profit margin and adversely affect our business and financial condition. In addition, the card networks require certain capital requirements. An increase in the required capital level would further limit our use of capital for other purposes.

We are subject to certain operational risks, including, but not limited to, customer or employee fraud and data processing system failures and errors.

Employee errors and employee and customer misconduct could subject us to financial losses or regulatory sanctions and seriously harm our reputation. Misconduct by our employees could include hiding unauthorized activities from us, improper or unauthorized activities on behalf of our customers or improper use of confidential information. It is not always possible to prevent employee errors and misconduct, and the precautions we take to prevent and detect this activity may not be effective in all cases. Employee errors could also subject us to financial claims for negligence.

We maintain a system of internal controls and insurance coverage to mitigate against operational risks, including data processing system failures and errors and customer or employee fraud. If our internal controls fail to prevent or detect an occurrence, or if any resulting loss is not insured or exceeds applicable insurance limits, it could have a material adverse effect on our business, financial condition and results of operations.

If the allowance for loan losses is not sufficient to cover actual loan losses, earnings could decrease.

Loan customers may not repay their loans according to the terms of their loans, and the collateral securing the payment of their loans may be insufficient to assure repayment. We may experience significant credit losses, which could have a material adverse effect on our operating results. Various assumptions and judgments about the collectability of the loan portfolio are made, including the creditworthiness of borrowers and the value of the real estate and other assets serving as collateral for the repayment of many loans. In determining the amount of the allowance for loan losses, management reviews the loans and the loss and delinquency experience and evaluates economic conditions.

At December 31, 2017, our allowance for loan losses as a percentage of total loans, net of unearned income, was 1.22%. The determination of the appropriate level of allowance is subject to judgment and requires us to make significant estimates of current credit risks and future trends, all of which are subject to material changes. If assumptions prove to be incorrect, the allowance for loan losses may not cover probable incurred losses in the loan portfolio at the date of the financial statements. Significant additions to the allowance would materially decrease net income. Non-performing loans may increase and non-performing or delinquent loans may adversely affect future performance. We had no non-performing loans at December 31, 2017. In addition, federal and state regulators periodically review the allowance for loan losses and may require an increase in the allowance for loan losses or recognize further loan charge-offs. Any significant increase in our allowance for loan losses or loan charge-offs as required by these regulatory agencies could have a material adverse effect on our results of operations and financial condition.

The FASB has adopted a new accounting standard that will be effective for our first fiscal year after December 15, 2019. This standard, referred to as Current Expected Credit Loss, or CECL, will require financial institutions to determine periodic estimates of lifetime expected credit losses on loans, and recognize the expected credit losses as allowances for loan losses. This will change the current method of providing allowances for loan losses that are probable, which may require us to increase our allowance for loan losses, and to greatly increase the types of data we would need to collect and review to determine the appropriate level of the allowance for loan losses. We are currently evaluating the impact this standard will have on our results of operations and financial position.

Bank regulators periodically review our allowance for loan losses and may require an increase to the provision for loan losses or further loan charge-offs. Any increase in our allowance for loan losses or loan charge-offs as required by these regulatory authorities may have a material adverse effect on our results of operations or financial condition.

Our loan portfolio is unseasoned.

With a growing and generally unseasoned loan portfolio, our credit risk may continue to increase and our future performance could be adversely affected. While we believe we have underwriting standards designed to manage normal lending risks, it is difficult to assess the future performance of our loan portfolio due to the recent origination of many of these loans. As a result, it is difficult to predict whether any of our loans will become non-performing or delinquent loans, or whether we will have any non-performing or delinquent loans that will adversely affect our future performance. At December 31, 2017, the average age of our loans was 4.42 years, 3.03 years, 3.08 years, 0.99 years, 3.17 years and 1.24 years for our 1 – 4 family residential loans, multifamily loans, commercial real estate loans, construction loans, commercial loans and consumer loans, respectively. At December 31, 2017, the average age of our loan portfolio was 2.47 years.

Changes in the valuation of our securities portfolio could hurt our profits and reduce our stockholders' equity.

Our securities portfolio may be impacted by fluctuations in market value, potentially reducing accumulated other comprehensive income and/or earnings. Fluctuations in market value may be caused by changes in market interest rates, lower market prices for securities and limited investor demand. Management evaluates securities for other-than-temporary impairment on a quarterly basis, with more frequent evaluation for selected issues. In analyzing a debt issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, industry analysts' reports and, to a lesser extent given the relatively insignificant levels of depreciation in our debt portfolio, spread differentials between the effective rates on instruments in the portfolio compared to risk-free rates. In analyzing an equity issuer's financial condition, management considers industry analysts' reports, financial performance and projected target prices of investment analysts within a one-year time frame. If this evaluation shows impairment to the actual or projected cash flows associated with one or more securities, a potential loss to earnings may occur. Changes in interest rates can also have an adverse effect on our financial condition, as our available-for-sale securities are reported at their estimated fair value, and therefore are impacted by fluctuations in interest rates. We increase or decrease our stockholders' equity by the amount of change in the estimated fair value of the available-for-sale securities, net of taxes. Declines in market value could result in other-than-temporary impairments of these assets, which would lead to accounting charges that could have a material adverse effect on our net income and capital levels. Refer to "Management's Discussion and Analysis of Financial Condition and Results of Operations — Securities Portfolio."

We may not be able to adequately measure and limit the credit risk associated with our loan portfolio, which could adversely affect our profitability.

As a part of the products and services that we offer, we make commercial and commercial real estate loans. The principal economic risk associated with each class of loans is the creditworthiness of the borrower, which is affected by the strength of the relevant business market segment, local market conditions, and general economic conditions. Additional factors related to the credit quality of commercial loans include the quality of the management of the business and the borrower's ability both to properly evaluate changes in the supply and demand characteristics affecting their market for products and services, and to effectively respond to those changes. Additional factors related to the credit quality of commercial real estate loans include tenant vacancy rates and the quality of management of the property. A failure to effectively measure and limit the credit risk associated with our loan portfolio could have an adverse effect on our business, financial condition, and results of operations.

Changes in economic conditions could cause an increase in delinquencies and nonperforming assets, including loan charge-offs, which could depress our net income and growth.

Our loan portfolio includes many real estate secured loans, demand for which may decrease during economic downturns as a result of, among other things, an increase in unemployment, a decrease in real estate values and, a slowdown in housing. If we see negative economic conditions develop in the United States as a whole or our New York market, we could experience higher delinquencies and loan charge-offs, which would reduce our net income and adversely affect our financial condition. Furthermore, to the extent that real estate collateral is obtained through foreclosure, the costs of holding and marketing the real estate collateral, as well as the ultimate values obtained from disposition, could reduce our earnings and adversely affect our financial condition.

We operate in a highly competitive industry and face significant competition from other financial institutions and financial services providers, which may decrease our growth or profits.

Consumer and commercial banking as well as merchant services are highly competitive industries. Our market area contains not only a large number of community and regional banks, but also a significant presence of the country's largest commercial banks. We compete with other state and national financial institutions, as well as savings and loan associations, savings banks, and credit unions, for deposits and loans. In addition, we compete with financial intermediaries, such as consumer finance companies, specialty finance companies, commercial finance companies, mortgage banking companies, insurance companies, securities firms, mutual funds, and several government agencies, as well as major retailers, all actively engaged in providing various types of loans and other financial services, including merchant services. Competition for Attorney-Related Loans is derived primarily from eight to ten nationally-oriented financial companies that specialize in this market. Some of these companies are focused exclusively on loans to law firms, while others offer loans to plaintiffs as well. We also face significant competition from many larger institutions, including large commercial banks and third party processors that operate in the merchant services business, and our ability to grow that portion of our business depends on us being able to continue to attract and retain ISOs and merchants. Some of these competitors may have a long history of successful operations nationally as well as in our market area and greater ties to businesses or the legal community and more expansive banking relationships, as well as more established depositor bases, fewer regulatory constraints, and lower cost structures than we do. Competitors with greater resources may possess an advantage through their ability to maintain numerous banking locations in more convenient sites, to conduct more extensive promotional and advertising campaigns, or to operate a more developed technology platform. Due to their size, many competitors may offer a broader range of products and services, as well as better pricing for certain products and services than we can offer. For example, in the current low interest rate environment, competitors with lower costs of capital may solicit our customers to refinance their loans with a lower interest rate. Further, increased competition among financial services companies due to the recent consolidation of certain competing financial institutions may adversely affect our ability to market our products and services. Technology has lowered barriers to entry and made it possible for banks and specifically finance companies to compete in our market area and for non-banks to offer products and services traditionally provided by banks.

The financial services industry could become even more competitive as a result of legislative, regulatory, and technological changes and continued consolidation. Banks, securities firms, and insurance companies can merge under the umbrella of a financial holding company, which can offer virtually any type of financial service, including banking, securities underwriting, insurance (both agency and underwriting), and merchant banking.

Our ability to compete successfully depends on a number of factors, including:

- our ability to develop, maintain, and build upon long-term customer relationships based on quality service and high ethical standards;
- our ability to attract and retain qualified employees to operate our business effectively;
- our ability to expand our market position;
- the scope, relevance, and pricing of products and services that we offer to meet customer needs and demands;
- the rate at which we introduce new products and services relative to our competitors;
- customer satisfaction with our level of service; and
- industry and general economic trends.

Failure to perform in any of these areas could significantly weaken our competitive position, which could adversely affect our growth and profitability, which, in turn, could harm our business, financial condition, and results of operations.

A lack of liquidity could adversely affect our financial condition and results of operations.

Liquidity is essential to our business. We rely on our ability to generate deposits and effectively manage the repayment and maturity schedules of our loans to ensure that we have adequate liquidity to fund our operations. An inability to raise funds through deposits, borrowings, the sale of loans and other sources could have a substantial negative effect on our liquidity. Our most important source of funds is deposits. Deposit balances can decrease when customers perceive alternative investments as providing a better risk/return tradeoff. If customers move money out of bank deposits and into other investments such as money market funds, we would lose a relatively low-cost source of funds, increasing our funding costs and reducing our net interest income and net income.

Other primary sources of funds consist of cash flows from operations, maturities and sales of investment securities, and proceeds from the issuance and sale of our equity securities to investors. Additional liquidity is provided by the ability to borrow from the Federal Home Loan Bank of New York. We also may borrow funds from third-party lenders, such as other financial institutions. Our access to funding sources in amounts adequate to finance or capitalize our activities, or on terms that are acceptable to us, could be impaired by factors that affect us directly or the financial services industry or economy in general, such as disruptions in the financial markets or negative views and expectations about the prospects for the financial services industry. Our access to funding sources could also be affected by a decrease in the level of our business activity as a result of a downturn in our markets or by one or more adverse regulatory actions against us.

Any decline in available funding could adversely impact our ability to originate loans, invest in securities, meet our expenses, or to fulfill obligations such as repaying our borrowings or meeting deposit withdrawal demands, any of which could have a material adverse impact on our liquidity, business, financial condition and results of operations.

Our ten largest deposit clients account for 29.3% of our total deposits.

As of December 31, 2017, our ten largest bank depositors accounted for, in the aggregate, 29.3% of our total deposits. As a result, a material decrease in the volume of those deposits by a relatively small number of our depositors could reduce our liquidity, in which event it could became necessary for us to replace those deposits with higher-cost deposits or FHLB borrowings, which would adversely affect our net interest income and, therefore, our results of operations.

As a bank holding company, the sources of funds available to us are limited.

Any future constraints on liquidity at the holding company level could impair our ability to declare and pay dividends on our common stock. In some instances, notice to, or approval from, the FRB may be required prior to our declaration or payment of dividends. Further, our operations are primarily conducted by our subsidiary, Esquire Bank, which is subject to significant regulation. Federal banking laws restrict the payment of dividends by banks to their holding companies, and Esquire Bank will be subject to these restrictions in paying dividends to us. Because our ability to receive dividends or loans from Esquire Bank is restricted, our ability to pay dividends to our stockholders is also restricted.

Additionally, the right of a bank holding company to participate in the assets of its subsidiary bank in the event of a bank-level liquidation or reorganization is subject to the claims of the bank's creditors, including depositors, which take priority, except to the extent that the holding company may be a creditor with a recognized claim.

Our ability to maintain our reputation is critical to the success of our business, and the failure to do so may materially adversely affect our performance.

We are a community bank, and our reputation is one of the most valuable components of our business. As such, we strive to conduct our business in a manner that enhances our reputation. This is done, in part, by recruiting, hiring, and retaining employees who share our core values of being an integral part of the communities we serve, delivering superior service to our customers, and caring about our customers and associates. If our reputation is negatively affected, by the actions of our employees or otherwise, our business and, therefore, our operating results may be materially adversely affected. Further, negative public opinion can expose us to litigation and regulatory action as we seek to implement our growth strategy, which would adversely affect our business, financial condition and results of operations.

We have lower lending limits and different lending risks than certain of our larger, more diversified competitors.

We are a community banking institution that provides banking services to the local communities in the market areas in which we operate. Our ability to diversify our economic risks is limited by our own local markets and economies. We lend primarily to individuals and to small to medium-sized businesses, which may expose us to greater lending risks than those of banks that lend to larger, better-capitalized businesses with longer operating histories. In addition, our legally mandated lending limits are lower than those of certain of our competitors that have more capital than we do. As a result of our size, at December 31, 2017, our legal lending limit was $10.2 million. Our lower lending limits may discourage borrowers with lending needs that exceed our limits from doing business with us. We may try to serve such borrowers by selling loan participations to other financial institutions; however, this strategy may not succeed.

We face risks related to our operational, technological and organizational infrastructure.

Our ability to grow and compete is dependent on our ability to build or acquire the necessary operational and technological infrastructure and to manage the cost of that infrastructure as we expand. Similar to other large corporations, operational risk can manifest itself in many ways, such as errors related to failed or inadequate processes, faulty or disabled computer systems, fraud by employees or outside persons and exposure to external events. As discussed below, we are dependent on our operational infrastructure to help manage these risks. In addition, we are heavily dependent on the strength and capability of our technology systems which we use both to interface with our customers and to manage our internal financial and other systems. Our ability to develop and deliver new products that meet the needs of our existing customers and attract new ones depends on the functionality of our technology systems. Additionally, our ability to run our business in compliance with applicable laws and regulations is dependent on these infrastructures.

We continuously monitor our operational and technological capabilities and make modifications and improvements when we believe it will be cost effective to do so. In some instances, we may build and maintain these capabilities ourselves. We also outsource some of these functions to third parties. Specifically, we depend on third parties to provide our core systems processing, essential web hosting and other internet systems, deposit processing and other processing services. In connection with our merchant services business, we (and our ISOs) rely on various third parties to provide processing and clearing and settlement services to us in connection with card transactions. If these third-party service providers experience difficulties, fail to comply with banking regulations or terminate their services and we are unable to replace them with other service providers, our operations could be interrupted. If an interruption were to continue for a significant period of time, our business, financial condition and results of operations could be adversely affected, perhaps materially. Even if we are able to replace them, it may be at a higher cost to us, which could adversely affect our business, financial condition and results of operations. We also face risk from the integration of new infrastructure platforms and/or new third party providers of such platforms into its existing businesses.

A failure in our operational systems or infrastructure, or those of third parties, could impair our liquidity, disrupt our businesses, result in the unauthorized disclosure of confidential information, damage our reputation and cause financial losses.

Our business, and in particular, our merchant services business, is partially dependent on our ability to process and monitor, on a daily basis, a large number of transactions, many of which are highly complex, across numerous and diverse markets. These transactions, as well as the information technology services we provide to clients, often must adhere to client-specific guidelines, as well as legal and regulatory standards. Due to the breadth of our client base and our geographical reach, developing and maintaining our operational systems and infrastructure is challenging, particularly as a result of rapidly evolving legal and regulatory requirements and technological shifts. Our financial, accounting, data processing or other operating systems and facilities, and, as discussed above, those the third-party service providers upon which we depend, may fail to operate properly or become disabled as a result of events that are wholly or partially beyond our control, such as a spike in transaction volume, cyber-attack or other unforeseen catastrophic events, which may adversely affect our ability to process these transactions or provide services.

The occurrence of fraudulent activity, breaches or failures of our information security controls or cybersecurity-related incidents could have a material adverse effect on our business, financial condition and results of operations.

Our operations rely on the secure processing, storage and transmission of confidential and other sensitive business and consumer information on our computer systems and networks, as well as those of our ISOs and processors. Under the card network rules and various federal and state laws, we are responsible for safeguarding such information. Although we take protective measures to maintain the confidentiality, integrity and availability of information across all geographic and product lines, and endeavor to modify these protective measures as circumstances warrant, the nature of the threats continues to evolve. As a result, our computer systems, software and networks are vulnerable to unauthorized access, loss or destruction of data (including confidential client information), account takeovers, unavailability of service, computer viruses or other malicious code, cyber-attacks and other events that could have an adverse security impact. Despite the defensive measures we take to manage our internal technological and operational infrastructure, these threats have in the past and may in the future originate externally from third parties such as foreign governments, organized crime and other hackers, and outsource or infrastructure-support providers and application developers, or may originate internally from within our organization. Given the increasingly high volume of our transactions, certain errors may be repeated or compounded before they can be discovered and rectified. In addition, security breaches or failures could result in the bank incurring liability to ISOs, members of the card network and card issuers in relation to our merchant banking business.

In particular, information pertaining to us and our customers is maintained, and transactions are executed, on the networks and systems of us, our customers and certain of our third-party partners, such as our online banking or reporting systems, ISO's customers and merchants who are part of our merchant banking business. The secure maintenance and transmission of confidential information, as well as execution of transactions over these systems, are essential to protect us and our customers against fraud and security breaches and to maintain our clients' confidence. Breaches of information security also may occur, and in infrequent cases have occurred, through intentional or unintentional acts by those having access or gaining access to our systems or our customers' or counterparties' confidential information, including employees. In addition, increases in criminal activity levels and sophistication, advances in computer capabilities, new discoveries, vulnerabilities in third-party technologies (including browsers and operating systems) or other developments could result in a compromise or breach of the technology, processes and controls that we use to prevent fraudulent transactions and to protect data about us, our customers and underlying transactions, as well as the technology used by our customers to access our systems. We cannot be certain that the security measures we or our ISOs or processors have in place to protect this sensitive data will be successful or sufficient to protect against all current and emerging threats designed to breach our systems or those of our ISOs or processors. Although we have developed, and continue to invest in, systems and processes that are designed to detect and prevent security breaches and cyber-attacks and periodically test our security, a breach of our systems, or those of our ISOs or processors, could result in losses to us or our customers; loss of business and/or customers; damage to our reputation; the incurrence of additional expenses (including the cost of notification to consumers, credit monitoring and forensics, and fees and fines imposed by the card networks); disruption to our business; our inability to grow our online services or other businesses; additional regulatory scrutiny or penalties; or our exposure to civil litigation and possible financial liability — any of which could have a material adverse effect on our business, financial condition and results of operations.

If our enterprise risk management framework is not effective at mitigating risk and loss to us, we could suffer unexpected losses and our results of operations could be materially adversely affected.

Our enterprise risk management framework seeks to achieve an appropriate balance between risk and return, which is critical to optimizing stockholder value. We have established processes and procedures intended to identify, measure, monitor, report and analyze the types of risk to which we are subject, including credit, liquidity, operational, regulatory compliance and reputational. However, as with any risk management framework, there are inherent limitations to our risk management strategies as there may exist, or develop in the future, risks that we have not appropriately anticipated or identified. If our risk management framework proves ineffective, we could suffer unexpected losses and our business and results of operations could be materially adversely affected.

Changes in accounting standards could materially impact our financial statements.

From time to time, the Financial Accounting Standards Board or the SEC may change the financial accounting and reporting standards that govern the preparation of our financial statements. Such changes may result in us being subject to new or changing accounting and reporting standards. In addition, the bodies that interpret the accounting standards (such as banking regulators, outside auditors or management) may change their interpretations or positions on how these standards should be applied. These changes may be beyond our control, can be hard to predict, and can materially impact how we record and report our financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retrospectively, or apply an existing standard differently, also retrospectively, in each case resulting in our needing to revise or restate prior period financial statements.

Risks Related to Our Industry and Regulation

Our business, financial condition, results of operations and future prospects could be adversely affected by the highly regulated environment and the laws and regulations that govern our operations, corporate governance, executive compensation and accounting principles, or changes in any of them.

As a bank holding company, we are subject to extensive examination, supervision and comprehensive regulation by various federal and state agencies that govern almost all aspects of our operations. These laws and regulations are not intended to protect our stockholders. Rather, these laws and regulations are intended to protect customers, depositors, the DIF and the overall financial stability of the U.S. These laws and regulations, among other matters, prescribe minimum capital requirements, impose limitations on the business activities in which we can engage, limit the dividend or distributions that Esquire Bank can pay to us, restrict the ability of institutions to guarantee our debt, and impose certain specific accounting requirements on us that may be more restrictive and may result in greater or earlier charges to earnings or reductions in our capital than generally accepted accounting principles would require. Compliance with these laws and regulations is difficult and costly, and changes to these laws and regulations often impose additional compliance costs. Our failure to comply with these laws and regulations, even if the failure follows good faith effort or reflects a difference in interpretation, could subject us to restrictions on our business activities, fines and other penalties, any of which could adversely affect our results of operations, capital base and the price of our securities. Further, any new laws, rules and regulations could make compliance more difficult or expensive.

Likewise, the Company operates in an environment that imposes income taxes on its operations at both the federal and state levels to varying degrees. Strategies and operating routines have been implemented to minimize the impact of these taxes. Consequently, any change in tax legislation could significantly alter the effectiveness of these strategies.

The net deferred tax asset reported on the Company's balance sheet generally represents the tax benefit of future deductions from taxable income for items that have already been recognized for financial reporting purposes. The bulk of these deferred tax assets consists of deferred loan loss deductions, deferred compensation deductions and unrealized losses on available-for-sale securities. The net deferred tax asset is measured by applying currently-enacted income tax rates to the accounting period during which the tax benefit is expected to be realized. On December 22, 2017, H.R.1 commonly known as the Tax Cuts and Jobs Act was signed into law. Among other things, the act reduces our corporate federal tax rate from 35% to 21% effective January 1, 2018. As a result we are required to remeasure, through income tax expense, our deferred tax assets and liabilities using the enacted rates. The remeasurement of our net deferred tax asset resulted in additional income tax expense of $683,000 for the year ended December 31, 2017. As of December 31, 2017, the Company's net deferred tax asset was $2.2 million.

Federal regulators periodically examine our business, and we may be required to remediate adverse examination findings.

The FRB, the OCC and the FDIC, periodically examine our business, including our compliance with laws and regulations. If, as a result of an examination, a federal banking agency were to determine that our financial condition, capital resources, asset quality, earnings prospects, management, liquidity or other aspects of any of our operations had become unsatisfactory, or that we were in violation of any law or regulation, it may take a number of different remedial actions as it deems appropriate. These actions include the power to enjoin "unsafe or unsound" practices, to require affirmative action to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced, to direct an increase in our capital, to restrict our growth, to assess civil monetary penalties against our officers or directors, to remove officers and directors and, if it is concluded that such conditions cannot be corrected or there is an imminent risk of loss to depositors, to terminate our deposit insurance and place us into receivership or conservatorship. If we become subject to any regulatory actions, it could have a material adverse effect on our business, results of operations, financial condition and growth prospects.

Legislative and regulatory actions taken now or in the future may increase our costs and impact our business, governance structure, financial condition or results of operations.

The Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act"), among other things, imposed new capital requirements on bank holding companies; changed the base for FDIC insurance assessments to a bank's average consolidated total assets minus average tangible equity, rather than upon its deposit base; permanently raised the current standard deposit insurance limit to $250,000; and expanded the FDIC's authority to raise insurance premiums. The 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") established the Consumer Financial Protection Bureau as an independent entity within the FRB, which has broad rulemaking, supervisory and enforcement authority over consumer financial products and services, including deposit products, residential mortgages, home-equity loans and credit cards and contains provisions on mortgage-related matters, such as steering incentives, determinations as to a borrower's ability to repay and prepayment penalties. Although the applicability of certain elements of the Dodd-Frank Act is limited to institutions with more than $10 billion in assets, there can be no guarantee that such applicability will not be extended in the future or that regulators or other third parties will not seek to impose such requirements on institutions with less than $10 billion in assets, such as Esquire Bank.

Compliance with the Dodd-Frank Act and its implementing regulations has and will continue to result in additional operating and compliance costs that could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

As a result of the Dodd-Frank Act and recent rulemaking, we are subject to more stringent capital requirements.

In July 2013, the U.S. federal banking authorities approved new regulatory capital rules implementing the Basel III regulatory capital reforms effecting certain changes required by the Dodd-Frank Act. The new regulatory capital requirements are generally applicable to all U.S. banks as well as to bank and saving and loan holding companies, other than "small bank holding companies" (generally bank holding companies with consolidated assets of less than $1.0 billion, such as the Company). The new regulatory capital rules not only increase most of the required minimum regulatory capital ratios, but also introduce a new common equity Tier 1 capital ratio and the concept of a capital conservation buffer. The new regulatory capital rules also expand the current definition of capital by establishing additional criteria that capital instruments must meet to be considered additional Tier 1 and Tier 2 capital. In order to be a "well-capitalized" depository institution under the new regime, an institution must maintain a common equity Tier 1 capital ratio of 6.5% or more; a Tier 1 capital ratio of 8% or more; a total capital ratio of 10% or more; and a leverage ratio of 5% or more. Institutions must also maintain a capital conservation buffer consisting of common equity Tier 1 capital. The new regulatory capital rules became effective as applied to Esquire Bank on January 1, 2015 with a phase-in period that generally extends through January 1, 2019 for many of the changes.

Additionally, on November 2, 2012, the OCC notified Esquire Bank that it had established minimum capital ratios for Esquire Bank requiring Esquire Bank to maintain, commencing December 1, 2012, a Tier 1 leverage capital ratio of 9.0%, a Tier 1 risk-based capital ratio of 11.0% and a total risk-based capital to risk-weighted assets ratio of 13.0%.

The failure to meet applicable regulatory capital requirements, including the minimum capital requirements established by the OCC, could result in one or more of our regulators placing limitations or conditions on our activities, including our growth initiatives, or restricting the commencement of new activities, and could affect customer and investor confidence, our costs of funds and FDIC insurance costs, our ability to pay dividends on our common stock, our ability to make acquisitions, and our business, results of operations and financial conditions, generally.

We are subject to the Community Reinvestment Act and fair lending laws, and failure to comply with these laws could lead to material penalties.

The Community Reinvestment Act ("CRA"), the Equal Credit Opportunity Act, the Fair Housing Act and other fair lending laws and regulations impose nondiscriminatory lending requirements on financial institutions. The Consumer Financial Protection Bureau, the United States Department of Justice and other federal agencies are responsible for enforcing these laws and regulations. A successful challenge to an institution's performance under the CRA or fair lending laws and regulations could result in a wide variety of sanctions, including the required payment of damages and civil money penalties, injunctive relief, imposition of restrictions on mergers and acquisitions activity and restrictions on expansion activity. Private parties may also have the ability to challenge an institution's performance under fair lending laws in private class action litigation.

FDIC deposit insurance assessments may continue to materially increase in the future, which would have an adverse effect on earnings.

As a member institution of the FDIC, our subsidiary, Esquire Bank, is assessed a quarterly deposit insurance premium. Failed banks nationwide have significantly depleted the insurance fund and reduced the ratio of reserves to insured deposits. The FDIC has adopted a Deposit Insurance Fund Restoration Plan, which requires the FDIC's DIF to attain a 1.35% reserve ratio by September 30, 2020. As a result of this requirement, Esquire Bank could be required to pay significantly higher premiums or additional special assessments that would adversely affect its earnings, thereby reducing the availability of funds to pay dividends to us.

Monetary policies and regulations of the Federal Reserve could adversely affect our business, financial condition and results of operations.

In addition to being affected by general economic conditions, our earnings and growth are affected by the policies of the FRB. An important function of the FRB is to regulate the money supply and credit conditions. Among the instruments used by the FRB to implement these objectives are open market purchases and sales of U.S. government securities, adjustments of the discount rate and changes in banks' reserve requirements against bank deposits. These instruments are used in varying combinations to influence overall economic growth and the distribution of credit, bank loans, investments and deposits. Their use also affects interest rates charged on loans or paid on deposits.

The monetary policies and regulations of the FRB have had a significant effect on the operating results of commercial banks in the past and are expected to continue to do so in the future. The effects of such policies upon our business, financial condition and results of operations cannot be predicted.

We face a risk of noncompliance and enforcement action with the Bank Secrecy Act and other anti-money laundering statutes and regulations.

The Bank Secrecy Act, the USA Patriot Act and other laws and regulations require financial institutions, among other duties, to institute and maintain an effective anti-money laundering program and to file reports such as suspicious activity reports and currency transaction reports. We are required to comply with these and other anti-money laundering requirements. The federal banking agencies and Financial Crimes Enforcement Network are authorized to impose significant civil money penalties for violations of those requirements and have recently engaged in coordinated enforcement efforts against banks and other financial services providers with the U.S. Department of Justice, Drug Enforcement Administration and Internal Revenue Service. We are also subject to increased scrutiny of compliance with the rules enforced by the Office of Foreign Assets Control. If our policies, procedures and systems are deemed deficient, we would be subject to liability, including fines and regulatory actions, which may include restrictions on our ability to pay dividends and the necessity to obtain regulatory approvals to proceed with certain aspects of our business plan, including our acquisition plans.

Failure to maintain and implement adequate programs to combat money laundering and terrorist financing could also have serious reputational consequences for us. Any of these results could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

The FRB may require us to commit capital resources to support Esquire Bank.

As a matter of policy, the FRB expects a bank holding company to act as a source of financial and managerial strength to a subsidiary bank and to commit resources to support such subsidiary bank. The Dodd-Frank Act codified the FRB's policy on serving as a source of financial strength. Under the "source of strength" doctrine, the FRB may require a bank holding company to make capital injections into a troubled subsidiary bank and may charge the bank holding company with engaging in unsafe and unsound practices for failure to commit resources to a subsidiary bank. A capital injection may be required at times when the holding company may not have the resources to provide it and therefore may be required to borrow the funds or raise capital. Any loans by a holding company to its subsidiary banks are subordinate in right of payment to deposits and to certain other indebtedness of such subsidiary bank. In the event of a bank holding company's bankruptcy, the bankruptcy trustee will assume any commitment by the holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank. Moreover, bankruptcy law provides that claims based on any such commitment will be entitled to a priority of payment over the claims of the institution's general unsecured creditors, including the holders of its note obligations. Thus, any borrowing that must be done by the Company to make a required capital injection becomes more difficult and expensive and could have an adverse effect on our business, financial condition and results of operations.

We could be adversely affected by the soundness of other financial institutions and other third parties we rely on.

Financial services institutions are interrelated as a result of trading, clearing, counterparty or other relationships. We have exposure to many different industries and counterparties, and routinely execute transactions with counterparties in the financial services industry, including commercial banks, brokers and dealers, investment banks and other institutional customers. Many of these transactions expose us to credit risk in the event of a default by a counterparty or client. In addition, our credit risk may be exacerbated when our collateral cannot be foreclosed upon or is liquidated at prices not sufficient to recover the full amount of the credit or derivative exposure due. Furthermore, successful operation of our merchant services business depends on the soundness of ISOs, third party processors, clearing agents and others that we rely on to conduct our merchant business. Any losses resulting from such third parties could adversely affect our business, financial condition and results of operations.

We depend on the accuracy and completeness of information about customers and counterparties.

In deciding whether to extend credit or enter into other transactions with our existing and potential customers and counterparties, we may rely on information furnished to us by or on behalf of our existing and potential customers and counterparties, including financial statements and other financial information. We also may rely on representations of our existing and potential customers and counterparties as to the accuracy and completeness of that information and, with respect to financial statements, on reports of independent auditors. In deciding whether to extend credit, we may rely upon our existing and potential customers' representations that their respective financial statements conform to U.S. generally accepted accounting principles, or GAAP, and present fairly, in all material respects, the financial condition, results of operations and cash flows of the customer. We also may rely on customer and counterparty representations and certifications, or other auditors' reports, with respect to the business and financial condition of our existing and potential customers and counterparties. Our financial condition, results of operations, financial reporting and reputation could be negatively affected if we rely on materially misleading, false, incomplete, inaccurate or fraudulent information provided by us by or on behalf of our existing or potential customers or counterparties.

Our accounting estimates and risk management processes and controls rely on analytical and forecasting techniques and models and assumptions, which may not accurately predict future events.

Our accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. Our management must exercise judgment in selecting and applying many of these accounting policies and methods so they comply with GAAP and reflect management's judgment of the most appropriate manner to report our financial condition and results. In some cases, management must select the accounting policy or method to apply from two or more alternatives, any of which may be reasonable under the circumstances, yet which may result in our reporting materially different results than would have been reported under a different alternative.

Certain accounting policies are critical to presenting our financial condition and results of operations. They require management to make difficult, subjective or complex judgments about matters that are uncertain. Materially different amounts could be reported under different conditions or using different assumptions or estimates. These critical accounting policies include the allowance for loan losses and income taxes. Because of the uncertainty of estimates involved in these matters, we may be required to do one or more of the following: significantly increase the allowance for loan losses or sustain loan losses that are significantly higher than the reserve provided; reduce the carrying value of an asset measured at fair value; or significantly increase our accrued tax liability. Any of these could have a material adverse effect on our business, financial condition or results of operations. See "Item 7 — Management's Discussion and Analysis of Financial Condition and Results of Operations".

Our internal controls, disclosure controls, processes and procedures, and corporate governance policies and procedures are based in part on certain assumptions and can provide only reasonable (not absolute) assurances that the objectives of the system are met. Any failure or circumvention of our controls, processes and procedures or failure to comply with regulations related to controls, processes and procedures could necessitate changes in those controls, processes and procedures, which may increase our compliance costs, divert management attention from our business or subject us to regulatory actions and increased regulatory scrutiny. Any of these could have a material adverse effect on our business, financial condition or results of operations.

ITEM 1B. Unresolved Staff Comments

None.

ITEM 2. Properties

At December 31, 2017, we conducted business through our corporate headquarters in Jericho, New York (Nassau County), one full service branch in Garden City, New York, and one administrative office in Palm Beach Gardens, Florida. All the current locations and our new headquarters are leased properties. At December 31, 2017, the total net book value of our leasehold improvements, furniture, fixtures and equipment was approximately $2.5 million.

We have no current plans to expand our branch network as we believe we are positioned to further develop our primary markets through the use of technology with limited traditional branch offices.

ITEM 3. 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 December 31, 2017, 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 4. Mine Safety Disclosures

Not applicable.

PART II

ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our shares of common stock are traded on the NASDAQ Capital Market under the symbol "ESQ". The approximate number of holders of record of Esquire Financial Holding, Inc.'s common stock as of March 23, 2018 was 192. Certain shares of Esquire Financial Holding, Inc. are held in "nominee" or "street" name and accordingly, the number of beneficial owners of such shares is not known or included in the foregoing number. The Company's common stock began trading on the NASDAQ Capital Market on June 27, 2017.

	Price Per Share	
	High	Low
2017		
Quarter ended December 31	$23.18	$15.22
Quarter ended September 30	$16.52	$14.51
Quarter ended June 30	$15.90	$14.74

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

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

As a Maryland corporation, we are subject to certain restrictions on dividends under the Maryland General Corporation Code. Generally, Maryland law limits cash dividends if the corporation would not be able to pay its debts in the usual course of business after giving effect to the cash dividend or if the corporation's total assets would be less than the corporation's total liabilities plus the amount needed to satisfy the preferential rights upon dissolution of stockholders whose preferential rights on dissolution are superior to those receiving the distribution. We are also subject to certain restrictions on the payment of cash dividends as a result of banking laws, regulations and policies. See "Item 1 — Business — Safety and Soundness Standards."

Because we are a holding company, we are dependent upon the payment of dividends by Esquire Bank to us as our principal source of funds to pay dividends in the future, if any, and to make other payments. Esquire Bank is also subject to various legal, regulatory and other restrictions on its ability to pay dividends and make other distributions and payments to us. A national bank may generally declare a cash dividend, without approval from the OCC, in an amount equal to its year-to-date net income plus the prior two years' net income that is still available for dividends. The OCC has the authority to prohibit a national bank from paying cash dividends if such payment is deemed to be an unsafe or unsound practice. In addition, as a depository institution the deposits of which are insured by the FDIC, Esquire Bank may not pay cash dividends or distribute any of its capital assets while it remains in default on any assessment due to the FDIC. Esquire Bank currently is not (and never has been) in default under any of its obligations to the FDIC. See “Item 1 — Business — Supervision and Regulation — Esquire Bank, National Association — Dividends.”

The FRB has issued a policy statement regarding the payment of cash dividends by bank holding companies. In general, the FRB’s policy provides that cash dividends should be paid only out of current earnings and only if the prospective rate of earnings retention by the bank holding company appears consistent with the organization’s capital needs, asset quality and overall financial condition. The FRB has the authority to prohibit a bank holding company from paying cash dividends if such payment is deemed to be an unsafe or unsound practice.

In July, 2017, we issued 66,985 shares of common stock to CJA Private Equity Financial Restructuring Master Fund I, LP in exchange for 66,985 shares of Series B Non-Voting Preferred Stock. No underwriter or placement agent was involved in the issuance of these securities, and no underwriting discounts or commissions were paid. The securities were issued under an exemption from registration pursuant to Section 4(a)(2) of the Securities Act as a transaction by an issuer not involving any public offering.

The following table summarizes information as of December 31, 2017 relating to equity compensation plans of the Company pursuant to which grants of options, restricted stock awards or other rights to acquire shares may be granted from time to time.

Plan Category	**Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)**	**Weighted-average exercise price of outstanding options, warrants and rights (b)**	**Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)**
Equity Compensation Plans Approved by Security Holders	880,925	$12.36	304,062
Equity Compensation Plans Not Approved by Security Holders	—	—	—
Total Equity Compensation Plans	880,925	$12.36	304,062

ITEM 6. Selected Financial Data

The following information is derived in part from the consolidated financial statements of Esquire Financial Holdings, Inc. For additional information, reference is made to "Item 7 — Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements of Esquire Financial Holdings, Inc. and related notes included elsewhere in this Annual Report.

	At or For the Years Ended December 31,			
	2017	2016	2015	2014
	(Dollars in thousands, except share and per share data)			
Balance Sheet Data:				
Total assets	$533,629	$424,833	$352,650	$330,690
Cash and cash equivalents	43,077	42,993	33,154	71,891
Securities available-for-sale	128,758	92,645	84,239	70,925
Loans receivable, net	344,714	275,165	221,720	170,512
Restricted stock	2,183	1,649	1,430	237
Deposits	448,494	370,788	301,687	290,774
Secured borrowings	278	371	381	391
Total stockholders' equity	83,383	52,186	49,425	38,542
Income Statement Data:				
Interest income	$ 20,394	$ 16,168	$ 12,451	$ 10,714
Interest expense	538	511	457	466
Net interest income	19,856	15,657	11,994	10,248
Provision for loan losses	905	595	930	300
Net interest income after provision for loan losses	18,951	15,062	11,064	9,948
Noninterest income	5,516	4,125	2,943	1,765
Noninterest expense	17,433	14,599	12,171	11,262
Income before income tax expense	7,034	4,588	1,836	451
Income tax expense	3,390	1,766	664	410
Net income	3,644	2,822	1,172	41
Less: Preferred stock dividends	—	—	—	—
Net income available to common stockholders	$ 3,644	$ 2,822	$ 1,172	$ 41
Per Share Data:				
Earnings per common share:				
Basic	$ 0.59	$ 0.56	$ 0.25	$ 0.01
Diluted	$ 0.58	$ 0.55	$ 0.25	$ 0.01
Book value per common share(1)	$ 11.38	$ 10.29	$ 9.72	$ 8.98
Tangible book value per common share(2)	$ 11.38	$ 10.29	$ 9.72	$ 8.98
Selected Performance Ratios:				
Return on average assets	0.80%	0.74%	0.36%	0.01%
Return on average common equity	5.38%	5.48%	2.77%	0.13%
Interest rate spread	4.33%	4.15%	3.64%	3.76%
Net interest margin	4.43%	4.25%	3.74%	3.86%
Efficiency ratio(3)	68.71%	73.82%	81.48%	94.94%
Average interest earning assets to average interest bearing liabilities	181.75%	167.13%	170.76%	154.28%
Average equity to average assets	14.93%	13.87%	13.42%	11.31%

	At or For the Years Ended December 31,			
	2017	2016	2015	2014
	(Dollars in thousands, except share and per share data)			
Asset Quality Ratios:				
Allowance for loan losses to total loans	1.22%	1.23%	1.25%	1.25%
Allowance for loan losses to nonperforming loans(4)	N/A	N/A	N/A	N/A
Net charge-offs (recoveries) to average outstanding loans	0.02%	(0.01)%	0.16%	0.00%
Nonperforming loans to total loans(4)	0.00%	0.00%	0.00%	0.00%
Nonperforming loans to total assets(4)	0.00%	0.00%	0.00%	0.00%
Nonperforming assets to total assets(5)	0.00%	0.00%	0.00%	0.00%
Capital Ratios (Esquire Bank):				
Total capital to risk weighted assets	18.47%	17.25%	17.06%	18.54%
Tier 1 capital to risk weighted assets	17.32%	16.09%	15.91%	17.40%
Tier 1 common equity to risk weighted assets(6)	17.32%	16.09%	15.91%	N/A
Leverage capital ratio	12.82%	11.63%	11.90%	10.06%
Other:				
Number of offices	3	3	3	3
Number of full-time equivalent employees	61	52	43	42

(1) For purposes of computing book value per common share, book value equals total common stockholders' equity divided by total number of shares of common stock outstanding. Total common stockholders' equity equals total stockholders' equity, less preferred equity. Preferred equity was $0, $720, $1,697 and $1,842 at December 31, 2017, 2016, 2015 and 2014, respectively.

(2) The Company had no intangible assets as of the dates indicated. Thus, tangible book value per common share is the same as book value per common share for each of the periods indicated.

(3) Efficiency ratio represents noninterest expenses, divided by the sum of net interest income plus noninterest income. With respect to the efficiency ratio, adjusted, noninterest income excludes gains or losses on sale of investment securities. This is a non-GAAP financial measure. See "Non-GAAP Financial Measure Reconciliation" below for a reconciliation of this measure to its most comparable GAAP measure.

(4) Nonperforming loans include nonaccrual loans, loans past due 90 days and still accruing interest and loans modified under troubled debt restructurings.

(5) Nonperforming assets include nonperforming loans, other real estate owned and other foreclosed assets.

(6) Tier 1 common equity to risk-weighted assets ratio is required under the Basel III Final Rules which became effective for Esquire Bank on January 1, 2015. Accordingly, this ratio is shown as not applicable ("N/A") for periods prior to January 1, 2015.

Non-GAAP Financial Measure Reconciliation

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

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

	At December 31,			
	2017	2016	2015	2014
	(Dollars in thousands)			
Efficiency Ratio:				
Net interest income	$19,856	$15,657	$11,994	$10,248
Noninterest income	5,516	4,125	2,943	1,765
Less: Net gains on sales of securities	—	6	—	151
Adjusted revenue	$25,372	$19,776	$14,937	$11,862
Total noninterest expense	17,433	14,599	12,171	11,262
Efficiency ratio	68.71%	73.82%	81.48%	94.94%

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

This discussion and analysis reflects our financial statements and other relevant statistical data, and is intended to enhance your understanding of our financial condition and results of operations. The information in this section has been derived from the financial statements, which appear elsewhere in this Annual Report. You should read the information in this section in conjunction with the other business and financial information provided in this annual report.

Overview

We are a bank holding company headquartered in Jericho, New York and registered under the BHC Act. Through our wholly owned bank subsidiary, Esquire Bank, National Association, we are a full service commercial bank dedicated to serving the financial needs of the legal and small business communities on a national basis, as well as commercial and retail customers in the New York metropolitan market. We offer tailored products and solutions to the legal community and their clients as well as dynamic and flexible merchant services solutions to small business owners, both on a national basis. We also offer traditional banking products for businesses and consumers in our local market area.

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

Critical Accounting Policies

A summary of our accounting policies is described in Note 1 to the consolidated financial statements included in this annual report. Critical accounting estimates are necessary in the application of certain accounting policies and procedures and are particularly susceptible to significant change. Critical accounting policies are defined as those involving significant judgments and assumptions by management that could have a material impact on the carrying value of certain assets or on income under different assumptions or conditions. Management believes that the most critical accounting policies, which involve the most complex or subjective decisions or assessments, are as follows:

Allowance for Loan Losses. The allowance for loan losses is a valuation allowance for probable incurred credit losses. The allowance for loan losses is increased by provisions for loan losses charged to income. Losses are charged to the allowance when all or a portion of a loan is deemed to be uncollectible.

Subsequent recoveries of loans previously charged off are credited to the allowance for loan losses when realized. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off.

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

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

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

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

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

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

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

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

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

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

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

Discussion and Analysis of Financial Condition for the Years Ended December 31, 2017 and 2016

Assets. Our total assets were $533.6 million at December 31, 2017, an increase of $108.8 million from $424.8 million at December 31, 2016. The increase was primarily due to an increase in loans and securities.

Loan Portfolio Analysis. At December 31, 2017, net loans were $344.7 million, or 64.6% of total assets, compared to $275.2 million, or 64.8% of total assets, at December 31, 2016. Commercial loans increased $30.3 million, or 28.6%, to $136.4 million at December 31, 2017 from $106.1 million at December 31, 2016. Multifamily loans increased $15.0 million, or 18.0%, to $98.4 million at December 31, 2017 from $83.4 million at December 31, 2016. Consumer loans increased $21.3 million or 201.6%, to $31.9 million at December 31, 2017 from $10.6 million at December 31, 2016. 1-4 family residential loans increased $2.0 million, or 3.9%, to $51.6 million at December 31, 2017 from $49.6 million at December 31, 2016. Construction loans decreased $563,000, or 10.0%, to $5.0 million at December 31, 2017 from $5.6 million at December 31, 2016. Commercial real estate loans increased by $2.6 million, or 11.5%, to $24.8 million at December 31, 2017 from $22.2 million at December 31, 2016.

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

	At December 31,					
	2017		2016		2015	
	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in thousands)					
Real estate:						
1 – 4 family residential	$ 51,556	14.81%	$ 49,597	17.88%	$ 28,531	12.77%
Multifamily	98,432	28.28	83,410	30.06	71,184	31.86
Commercial real estate	24,761	7.11	22,198	8.00	21,272	9.52
Construction	5,047	1.45	5,610	2.02	5,297	2.38
Total real estate	179,796	51.65	160,815	57.96	126,284	56.53
Commercial	136,412	39.19	106,064	38.23	83,563	37.40
Consumer	31,881	9.16	10,571	3.81	13,556	6.07
Total Loans	$348,089	100.00%	$277,450	100.00%	$223,403	100.00%
Allowance for loan losses	(4,264)		(3,413)		(2,799)	
Deferred loan costs, net	889		1,128		1,116	
Loans, net	$344,714		$275,165		$221,720	

	At December 31,			
	2014		2013	
	Amount	Percent	Amount	Percent
	(Dollars in thousands)			
Real estate:				
1 – 4 family residential	$ 23,072	13.44%	$ 13,757	9.22%
Multifamily	58,578	34.11	54,702	36.66
Commercial real estate	13,776	8.02	8,016	5.37
Construction	1,105	0.65	6,693	4.49
Total real estate	96,531	56.22	83,168	55.74
Commercial	65,643	38.22	60,833	40.77
Consumer	9,556	5.56	5,208	3.49
Total Loans	$171,730	100.00%	$149,209	100.00%
Allowance for loan losses	(2,165)		(1,865)	
Deferred loan costs, net	947		(27)	
Loans, net	$170,512		$147,317	

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

	December 31, 2017		December 31, 2016		December 31, 2015	
	Amount	Percent	Amount	Percent	Amount	Percent
			(Dollars in thousands)			
Attorney-Related Loans						
Commercial Attorney-Related:						
Working capital lines of credit	$ 96,070	62.06%	$63,251	63.46%	$51,433	60.04%
Case cost lines of credit	24,446	15.79	21,132	21.20	17,574	20.51
Term loans	7,082	4.57	9,675	9.71	7,358	8.59
Post-settlement commercial and other commercial attorney-related loans	68	0.04	894	0.90	819	0.96
Total Commercial Attorney-Related	127,666	82.46	94,952	95.27	77,184	90.10
Consumer Attorney-Related:						
Post-settlement consumer loans	25,731	16.62	3,078	3.09	6,653	7.76
Structured settlement loans	1,421	0.92	1,632	1.64	1,829	2.14
Total Consumer Attorney-Related	27,152	17.54	4,710	4.73	8,482	9.90
Total Attorney-Related Loans	$154,818	100.00%	$99,662	100.00%	$85,666	100.00%

The majority of the growth in the portfolio from December 31, 2016 was in our Attorney-Related loans. At December 31, 2017, our Attorney-Related Loans, which include commercial and consumer lending to attorneys, law firms and plaintiffs/claimants, totaled $154.8 million, or 44.5% of our total loan portfolio, compared to $99.7 million at December 31, 2016. At December 31, 2017, our Commercial Attorney-Related Loans, which consist of working capital lines of credit, case cost lines of credit, term loans and post-settlement commercial and other commercial attorney-related loans, totaled $127.7 million, or 82.5% of our total attorney-related loan portfolio and 36.7% of our total loan portfolio, compared to $95.0 million Commercial Attorney-Related Loans at December 31, 2016. As of December 31, 2017, our Consumer Attorney-Related Loans, which consist of post-settlement consumer loans and structured settlement loans, totaled $27.2 million, or 17.5% of our total Attorney-Related Loan portfolio and 7.8% of our total loan portfolio, compared to $4.7 million Consumer Attorney-Related Loans at December 31, 2016.

Loan Maturity. The following table sets forth certain information at December 31, 2017 regarding the contractual maturity of our loan portfolio. Demand loans, loans having no stated repayment schedule or maturity, and overdraft loans are reported as being due in one year or less. The table does not include any estimate of prepayments that could significantly shorten the average life of all loans and may cause our actual repayment experience to differ from that shown below.

December 31, 2017	1 – 4 Family Residential	Multifamily	Commercial Real Estate	Construction	Commercial	Consumer	Total
				(In thousands)			
Amounts due in:							
One year or less	$ 9,947	$35,127	$ 2,148	$5,047	$124,369	$30,271	$206,909
More than one to five years	31,652	23,232	12,275	—	12,043	1,478	80,680
More than five to ten years	7,260	33,630	8,195	—	—	132	49,217
More than ten years	2,697	6,443	2,143	—	—	—	11,283
Total	$51,556	$98,432	$24,761	$5,047	$136,412	$31,881	$348,089

The following table sets forth fixed and adjustable-rate loans at December 31, 2017 that are contractually due after December 31, 2018.

	Due After December 31, 2018		
	Fixed	Adjustable	Total
	(In thousands)		
Real estate			
1 – 4 family residential	$ 41,363	$ 247	$ 41,610
Multifamily	49,976	13,329	63,305
Commercial real estate	20,326	2,286	22,612
Construction	—	—	—
Commercial	283	11,760	12,043
Consumer	1,410	200	1,610
Total	$113,358	$27,822	$141,180

At December 31, 2017, $38.1 million, or 19.4% of our adjustable interest rate loans were at their interest rate floor.

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

	At December 31, 2017			At December 31, 2016			At December 31, 2015		
	30 – 59 Days Past Due	60 – 89 Days Past Due	90 Days or More Past Due	30 – 59 Days Past Due	60 – 89 Days Past Due	90 Days or More Past Due	30 – 59 Days Past Due	60 – 89 Days Past Due	90 Days or More Past Due
				(Dollars in thousands)					
1 – 4 family residential	$—	$—	$—	$203	$—	$—	$—	$—	$—
Multifamily	—	—	—	—	—	—	—	—	—
Commercial real estate	—	—	—	—	—	—	—	—	—
Construction	—	—	—	—	—	—	—	—	—
Commercial	—	—	—	—	—	—	—	—	—
Consumer	—	—	—	—	—	—	—	—	—
Total	$—	$—	$—	$203	$—	$—	$—	$—	$—

	At December 31, 2014			At December 31, 2013		
	30 – 59 Days Past Due	60 – 89 Days Past Due	90 Days or More Past Due	30 – 59 Days Past Due	60 – 89 Days Past Due	90 Days or More Past Due
	(Dollars in thousands)					
1 – 4 family residential	$—	$ —	$—	$—	$ —	$ —
Multifamily	—	—	—	—	843	—
Commercial real estate	—	—	—	—	685	—
Construction	—	—	—	—	—	634
Commercial	—	2,100	—	—	—	—
Consumer	—	—	—	—	—	—
Total	$—	$2,100	$—	$—	$1,528	$634

Non-performing Assets.

Non-performing assets include loans that are 90 or more days past due or on non-accrual status, including troubled debt restructurings on non-accrual status, and real estate and other loan collateral acquired through foreclosure and repossession. Troubled debt restructurings include loans for economic or legal reasons related to the borrower's financial difficulties, for which we grant a concession to the borrower that we would not consider otherwise. Loans 90 days or greater past due may remain on an accrual basis if adequately collateralized and in the process of collection. At December 31, 2017, we did not have any accruing loans past due 90 days or greater or troubled debt restructurings. For non-accrual loans, interest previously accrued but not collected is reversed and charged against income at the time a loan is placed on non-accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

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

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

	At December 31,				
	2017	2016	2015	2014	2013
	(Dollars in thousands)				
Non-accrual loans:					
1 – 4 family residential	$ —	$ —	$ —	$ —	$ —
Multifamily	—	—	—	—	—
Commercial real estate	—	—	—	—	—
Construction	—	—	—	—	634
Commercial	—	—	—	—	—
Consumer	—	—	—	—	—
Total non-accrual loans	$ —	$ —	$ —	$ —	$ 634
Other real estate owned	—	—	—	—	—
Loans past due 90 days and still accruing	—	—	—	—	—
Troubled debt restructurings	—	—	—	—	—
Total nonperforming assets	$ —	$ —	$ —	$ —	$ 634
Total loans[(1)]	$348,978	$278,578	$224,519	$172,677	$149,182
Total assets	$533,629	$424,833	$352,650	$330,690	$237,580
Total non-accrual loans to total loans	—%	—%	—%	—%	0.42%
Total non-performing assets to total assets	—%	—%	—%	—%	0.27%

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

Allowance for Loan Losses.

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

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

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

	For the years ended December 31,				
	2017	2016	2015	2014	2013
	(Dollars in thousands)				
Allowance at beginning of year	$ 3,413	$ 2,799	$ 2,165	$ 1,865	$ 1,855
Provision for loan losses	905	595	930	300	60
Charge-offs:					
1 – 4 family residential	—	—	—	—	—
Multifamily	—	—	—	—	39
Commercial real estate	—	—	—	—	—
Construction	—	—	—	—	12
Commercial	14	—	296	—	—
Consumer	40	7	—	—	—
Total charge-offs	54	7	296	—	51
Recoveries:					
1 – 4 family residential	—	—	—	—	—
Multifamily	—	—	—	—	1
Commercial real estate	—	—	—	—	—
Construction	—	—	—	—	—
Commercial	—	26	—	—	—
Consumer	—	—	—	—	—
Total recoveries	—	26	—	—	1
Allowance at end of year	$ 4,264	$ 3,413	$ 2,799	$ 2,165	$ 1,865
Nonperforming loans at end of period	$ —	$ —	$ —	$ —	$ 634
Total loans outstanding at end of period(1)	$348,978	$278,578	$224,519	$172,677	$149,182
Average loans outstanding during the period(1)	$305,339	$248,068	$187,317	$147,330	$134,748
Allowance for loan losses to non-performing loans	N/A	N/A	N/A	N/A%	294.16%
Allowance for loan losses to total loans at end of the period(1)	1.22%	1.23%	1.25%	1.25%	1.25%
Net charge-offs to average loans outstanding during the period	0.02%	(0.01)%	0.16%	0.00%	0.04%

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

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

	At December 31,					
	2017		2016		2015	
	Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans	Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans	Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans
	(Dollars in thousands)					
1 – 4 family residential	$ 382	14.81%	$ 360	17.88%	$ 213	12.77%
Multifamily	713	28.28	621	30.06	533	31.86
Commercial real estate	266	7.11	238	8.00	230	9.52
Construction	127	1.45	141	2.02	134	2.38
Commercial	2,272	39.19	1,934	38.23	1,536	37.40
Consumer	504	9.16	119	3.81	153	6.07
Total allocated allowance	$4,264	100.00%	$3,413	100.00%	$2,799	100.00%

	At December 31,			
	2014		2013	
	Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans	Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans
	(Dollars in thousands)			
1 – 4 family residential	$ 162	13.44%	$ 60	9.22%
Multifamily	528	34.11	536	36.66
Commercial real estate	97	8.02	115	5.37
Construction	27	0.65	98	4.49
Commercial	1,222	38.22	960	40.77
Consumer	129	5.56	96	3.49
Total allocated allowance	$2,165	100.00%	$1,865	100.00%

The allowance for loan losses as a percentage of loans was 1.22% and 1.23% as of December 31, 2017 and 2016, respectively. Loans rated special mention increased to $9.8 million from $287,000 at December 31, 2016. The increase relates primarily to two commercial attorney related relationships totaling $9.6 million as a result of anticipated temporary shortfalls in the firms' cash flow positions. The loans are current and remain well collateralized with respect to loan to net fee value. The decline in the allowance as a percentage of loans is due to seasoning of the loan portfolio with continued minimal losses and improvements in the experience and depth of lending management.

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

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

We had no impaired loans at December 31, 2017 and December 31, 2016.

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

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

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

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

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

Securities Portfolio

The following table sets forth the amortized cost and estimated fair value of our available-for-sale securities portfolio at the dates indicated.

	At December 31,					
	2017		2016		2015	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
			(In thousands)			
Government agency debentures	$ —	$ —	$ —	$ —	$ 4,064	$ 4,001
Mortgage backed securities-agency	20,082	19,803	16,417	16,012	17,445	17,147
Collateralized mortgage obligations-agency	110,590	108,955	77,677	76,633	63,447	63,091
Total	$130,672	$128,758	$94,094	$92,645	$84,956	$84,239

At December 31, 2017 and December 31, 2016, we had no investments in a single company or entity, other than government and government agency securities, which had an aggregate book value in excess of 10% of our equity.

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

At December 31, 2017 and December 31, 2016, securities in unrealized loss positions were issuances from government sponsored entities. The decline in fair value is attributable to changes in interest rates and illiquidity, not credit quality and because we do not have the intent to sell the securities and it is likely that we will not be required to sell the securities before their anticipated recovery, we do not consider the securities to be other-than-temporarily impaired at December 31, 2017 and 2016.

No impairment charges were recorded for the years ended December 31, 2017, 2016 and 2015.

Portfolio Maturities and Yields. The composition and maturities of the investment securities portfolio at December 31, 2017, are summarized in the following table. Maturities are based on the final contractual payment dates and do not reflect the impact of prepayments or early redemptions that may occur. No tax-equivalent yield adjustments have been made, as the amount of tax free interest earning assets is immaterial.

	At December 31, 2017									
	One Year or Less		More Than One Year through Five Years		More Than Five Years Through Ten Years		More Than Ten Years		Total	
	Book Value	Weighted Average Yield	Book Value	Weighted Average Yield	Book Value	Weighted Average Yield	Book Value	Weighted Average Yield	Book Value	Weighted Average Yield
	(Dollars in thousands)									
Government agency debentures	$—	—%	$ —	—%	$—	—%	$ —	—%	$ —	—%
Mortgage backed securities-agency	—	—	—	—	—	—	20,082	2.16	20,082	2.16
Collateralized mortgage obligations-agency	—	—	1,534	2.21	—	—	109,056	2.31	110,590	2.31
Total securities available for sale	$—	—%	$1,534	2.21%	$—	—%	$129,138	2.29%	$130,672	2.29%

Deposits

Total deposits increased $77.7 million, or 21.0%, to $448.5 million at December 31, 2017 from $370.8 million at December 31, 2016. 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 $421.6 million at December 31, 2017, or 94.0% of total deposits at that date.

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

	For the Year Ended December 31, 2017		
	Average Balance	Percent	Average Rate
	(Dollars in thousands)		
Demand	$139,674	36.19%	0.00%
Savings, NOW and Money Market	221,997	57.52%	0.19%
Time	24,299	6.29%	0.38%
Total deposits	$385,970	100.00%	0.13%

	For the Years Ended December 31,					
	2016			2015		
	Average Balance	Percent	Average Rate	Average Balance	Percent	Average Rate
	(Dollars in thousands)					
Demand	$105,036	32.29%	0.00%	$ 95,820	33.83%	0.00%
Savings, NOW and Money Market	203,185	62.47%	0.20%	176,892	62.46%	0.20%
Time	17,041	5.24%	0.42%	10,494	3.71%	0.74%
Total deposits	$325,262	100.00%	0.15%	$283,206	100.00%	0.15%

As of December 31, 2017, the aggregate amount of all our certificates of deposit in amounts greater than or equal to $100,000 was approximately $23.6 million. The following table sets forth the maturity of these certificates as of December 31, 2017.

	At December 31, 2017
	(In thousands)
Maturing period:	
Three months or less	$19,254
Over three months through six months.	1,665
Over six months through twelve months.	1,048
Over twelve months	1,602
Total certificates	$23,569

Borrowings

At December 31, 2017, we had the ability to borrow a total of $103.4 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 $19.4 million. At December 31, 2017, we also had lines of credit with two other financial institutions totaling $7.5 million. No amounts were outstanding on any of the aforementioned lines as of December 31, 2017.

Stockholders' Equity

Total stockholders' equity increased $31.2 million, or 59.8%, to $83.4 million at December 31, 2017, from $52.2 million at December 31, 2016. The increase for the year ended December 31, 2017 was primarily due to our successful IPO. The Company sold 2,154,580 newly issued shares of common stock at $14.00 per share. The offering resulted in net proceeds to the Company of $26.3 million after deducting the underwriting discount and offering related expenses. The Company also recorded $3.6 million in net income for the year ended December 31, 2017.

Average Balance Sheets and Related Yields and Rates

The following tables present average balance sheet information, interest income, interest expense and the corresponding average yields earned and rates paid for the years ended December 31, 2017 and 2016. 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 adjustments have been made.

	Years Ended December 31,								
	2017			2016			2015		
	Average Balance	Interest	Average Yield/Rate	Average Balance	Interest	Average Yield/Rate	Average Balance	Interest	Average Yield/Rate
	(Dollars in thousands)								
INTEREST EARNING ASSETS									
Loans	$305,339	$17,554	5.75%	$248,068	$14,071	5.67%	$187,317	$10,594	5.66%
Securities, includes restricted stock	108,497	2,549	2.35%	87,830	1,964	2.24%	78,021	1,747	2.24%
Interest earning cash	34,346	291	0.85%	32,849	133	0.40%	55,309	110	0.20%
Total interest earning assets	448,182	20,394	4.55%	368,747	16,168	4.38%	320,647	12,451	3.88%
NON-INTEREST EARNING ASSETS									
Cash and due from banks	545			550			556		
Other assets	7,587			10,100			7,423		
TOTAL AVERAGE ASSETS	$456,314			$379,397			$328,626		
INTEREST-BEARING LIABILITIES									
Savings, NOW, Money Markets	$221,997	424	0.19%	$203,185	414	0.20%	$176,892	353	0.20%
Time deposits	24,299	93	0.38%	17,041	72	0.42%	10,494	78	0.74%
Total deposits	246,296	517	0.21%	220,226	486	0.22%	187,386	431	0.23%
Secured borrowings	298	21	7.05%	405	25	6.17%	388	26	6.70%
Total borrowings	298	21	7.05%	405	25	6.17%	388	26	6.70%
Total interest-bearing liabilities	246,594	538	0.22%	220,631	511	0.23%	187,774	457	0.24%
NON-INTEREST BEARING LIABILITIES									
Demand deposits	139,674			105,036			95,820		
Other liabilities	1,908			1,094			922		
Total liabilities	141,582			106,130			96,742		
Stockholders' equity	68,138			52,636			44,110		
TOTAL AVERAGE LIABILITIES AND EQUITY	$456,314			$379,397			$328,626		
Net interest spread		$19,856	4.33%		$15,657	4.15%		$11,994	3.64%
Net interest margin			4.43%			4.25%			3.74%

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 Years Ended December 31, 2017 vs. 2016		
	Increase (Decrease) due to		Total Increase (Decrease)
	Volume	Rate	
	(Dollars in thousands)		
Interest earned on:			
Loans	$3,290	$193	$3,483
Securities, includes restricted stock	481	104	585
Interest earning cash	6	152	158
Total interest income	3,777	449	4,226
Interest paid on:			
Savings, NOW, Money Markets	37	(27)	10
Time deposits	28	(7)	21
Total deposits	65	(34)	31
Secured borrowings	(7)	3	(4)
Total interest expense	58	(31)	27
Change in net interest income	$3,719	$480	$4,199

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

Results of Operations for the Years Ended December 31, 2017 and 2016

General. Net income increased $822,000 or 29.1%, to $3.6 million for the year ended December 31, 2017 from $2.8 million for the year ended December 31, 2016. The increase resulted from a $4.2 million increase in net interest income and a $1.4 million increase in noninterest income, which were partially offset by a $2.8 million increase in noninterest expense.

Interest Income. Interest income increased $4.2 million or 26.1%, to $20.4 million for the year ended December 31, 2017 from $16.2 million for the year ended December 31, 2016. This was attributable to an increase in the average balance of loans, which increased $57.3 million, or 23.1%, to $305.3 million for the year ended December 31, 2017 from $248.1 million for the year ended December 31, 2016.

Interest Expense. Interest expense increased $27,000, or 5.3%, to $538,000 for the year ended December 31, 2017 from $511,000 for the year ended December 31, 2016, caused primarily by an increase in average balance of interest-bearing deposits. The average rate we paid on interest bearing deposits decreased 1 basis point to 0.21% for the year ended December 31, 2017 from 0.22% for the year ended December 31, 2016. Our average balance of interest bearing deposits increased $26.1 million, or 11.8%, to $246.3 million for the year ended December 31, 2017 from $220.2 million for the year ended December 31, 2016.

Net Interest Income. Net interest income increased $4.2 million, or 26.8%, to $19.9 million for the year ended December 31, 2017 from $15.7 million for the year ended December 31, 2016. Our net interest margin and net interest spread each increased 18 basis points to 4.43% and 4.33%, respectively for the year ended December 31, 2017 from 4.25% and 4.15%, respectively for the year ended December 31, 2016. The increase in the net interest margin was primarily due to a 17 basis points increase in the average yield we earned on interest earning assets. This increase was largely due to growth in higher yielding loans and impact of rising rates.

Provision for Loan Losses. Our provision for loan losses was $905,000 for the year ended December 31, 2017 compared to $595,000 for the year ended December 31, 2016. The increase from prior year was primarily related to growth in the loan portfolio. The provisions recorded resulted in an allowance for loan losses of $4.3 million, or 1.22% of total loans at December 31, 2017, compared to $3.4 million, or 1.23% of total loans at December 31, 2016.

Noninterest Income. Noninterest income information is as follows:

	For the Year Ended December 31,		Change	
	2017	**2016**	**Amount**	**Percent**
	(Dollars in thousands)			
Noninterest income				
Customer related fees and service charges	$2,194	$1,039	$1,155	111.2%
Merchant processing income	3,322	3,080	242	7.9
Gains of sales of securities	—	6	(6)	(100.0)
Total noninterest income	$5,516	$4,125	$1,391	33.7%

Customer related fees and charges have increased due to increases in sweep fee income on off-balance sheet funds as a result of rising rates and higher balances. Merchant processing income increased due to growth in our business. Average monthly volumes increased to $318.1 million for 2017 compared to $302.8 million for 2016.

Noninterest Expense. Noninterest expense information is as follows:

	For the Year Ended December 31,		Change	
	2017	2016	Amount	Percent
	(Dollars in thousands)			
Noninterest expense				
Employee compensation and benefits	$10,072	$ 8,244	$1,828	22.2%
Occupancy and equipment	1,557	1,604	(47)	(2.9)
Professional and consulting services	1,902	1,642	260	15.8
FDIC assessment	127	99	28	28.3
Advertising and marketing	485	430	55	12.8
Travel and business relations	428	324	104	32.1
OCC assessments	129	112	17	15.2
Data processing	1,709	1,369	340	24.8
Other operating expenses	1,024	775	249	32.1
Total noninterest expense	$17,433	$14,599	$2,834	19.4%

Employee compensation and benefits increased for the year ended December 31, 2017 from the year ended December 31, 2016 primarily due to increases in the number of employees, increases in incentive compensation and salary increases. The increase in professional and consulting services was due primarily to additional costs related to becoming a public company. The increase in data processing costs was due to investments in technology to support our future growth initiatives.

Income Tax Expense. We recorded an income tax expense of $3.4 million for the year ended December 31, 2017, reflecting an effective tax rate of 48.2%, compared to $1.8 million, or 38.5%, for the year ended December 31, 2016. As a result of the December 2017 Tax Cuts and Jobs Act, the Company's effective tax rate was adversely effected due to the re-measurement of our net deferred tax asset resulting in additional tax expense of $683,000.

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

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

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

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

Interest Expense. Interest expense increased $54,000, or 11.8%, to $511,000 for the year ended December 31, 2016 from $457,000 for the year ended December 31, 2015, caused by an increase in average-interest bearing deposits. The average rate we paid on interest bearing deposits decreased 1 basis point to 0.22% for the year ended December 31, 2016 from 0.23% for the year ended December 31, 2015. Our average balance of interest bearing deposits increased $32.8 million, or 17.5%, to $220.2 million for the year ended December 31, 2016 from $187.4 million for the year ended December 31, 2015.

Net Interest Income. Net interest income increased $3.7 million, or 30.5%, to $15.7 million for the year ended December 31, 2016 from $12.0 million for the year ended December 31, 2015.

Our net interest margin and net interest spread each increased 51 basis points to 4.25% and 4.15%, respectively for the year ended December 31, 2016 from 3.74% and 3.64%, respectively for the year ended December 31, 2015. The increase in the net interest margin was primarily due to a 50 basis points increase in the average yield we earned on interest earning assets. This increase was largely due to growth in the volume of loans.

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

Noninterest Income. Noninterest income information is as follows:

	For the Year Ended December 31,		Change	
	2016	2015	Amount	Percent
	(Dollars in thousands)			
Noninterest income				
Customer related fees and service charges	$1,039	$ 741	$ 298	40.2%
Merchant processing income	3,080	2,202	878	39.9
Gains of sales of securities	6	—	6	N/A
Total noninterest income	$4,125	$2,943	$1,182	40.2%

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

Noninterest Expense. Noninterest expense information is as follows:

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

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

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

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 twelve-month periods beginning December 31, 2017 and 2016. The tables below demonstrate that we are asset-sensitive in a rising interest rate environment.

	At December 31,			
	2017		2016	
Changes in Interest Rates (Basis Points)	Estimated 12-Months Net Interest Income	Change	Estimated 12-Months Net Interest Income	Change
	(Dollars in thousands)			
400	$31,412	6,708	$24,445	5,519
300	29,386	4,682	23,083	4,157
200	27,513	2,809	21,714	2,788
100	26,040	1,336	20,339	1,413
0	24,704	—	18,926	—
-100	22,347	(2,357)	17,260	(1,666)
-200	20,527	(4,177)	16,220	(2,706)

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

The following table presents the estimated changes in EVE of Esquire Bank, National Association, calculated on a bank-only basis, that would result from changes in market interest rates as of December 31, 2017 and 2016.

	At December 31,			
	2017		2016	
Changes in Interest Rates (Basis Points)	Economic Value of Equity	Change	Economic Value of Equity	Change
	(Dollars in thousands)			
400	$108,330	9,518	$79,188	6,362
300	106,190	7,378	78,277	5,451
200	103,804	4,992	77,062	4,236
100	101,889	3,077	75,397	2,571
0	98,812	—	72,826	—
-100	89,975	(8,837)	65,985	(6,841)
-200	76,118	(22,694)	56,208	(16,618)

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

Liquidity and Capital Resources

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

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

Our most liquid assets are cash and cash equivalents. The levels of these assets are dependent on our operating, financing, lending and investing activities during any given period. At December 31, 2017 and December 31, 2016, cash and cash equivalents totaled $43.1 million and $43.0 million, respectively. Securities classified as available-for-sale, which provide additional sources of liquidity, totaled $128.8 million at December 31, 2017 and $92.6 million at December 31, 2016.

At December 31, 2017, we had the ability to borrow a total of $103.4 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 $19.4 million. At December 31, 2017, we also had lines of credit with two other financial institutions totaling $7.5 million. No amounts were outstanding on any of the aforementioned lines as of December 31, 2017.

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, and the Federal Deposit Insurance Corporation. At December 31, 2017 and December 31, 2016, Esquire Bank exceeded all applicable regulatory capital requirements, and was considered "well capitalized" under regulatory guidelines. See Note 12 of the Notes to the Consolidated Financial Statements for additional information.

We manage our capital to comply with our internal planning targets and regulatory capital standards administered by the OCC. We review capital levels on a monthly basis. At December 31, 2017, Esquire Bank was classified as well-capitalized.

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

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

	"Well Capitalized"	For Capital Adequacy Purposes Minimum Capital with Conservation Buffer	Agreed to Minimum Capital Requirements	Actual At December 31, 2017
Tier 1 Leverage Ratio				
Bank	5.00%	4.00%	9.00%	12.82%
Tier 1 Risk-based Capital Ratio				
Bank	8.00%	7.25%	11.00%	17.32%
Total Risk-based Capital Ratio				
Bank	10.00%	9.25%	13.00%	18.47%
Common Equity Tier 1 Capital Ratio				
Bank	6.50%	5.75%	N/A	17.32%

	"Well Capitalized"	Actual At December 31, 2016
Tier 1 Leverage Ratio		
Bank	5.00%	11.63%
Tier 1 Risk-based Capital Ratio		
Bank	8.00%	16.09%
Total Risk-based Capital Ratio		
Bank	10.00%	17.25%
Common Equity Tier 1 Capital Ratio		
Bank	6.50%	16.09%

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

Contractual Obligations and Off-Balance Sheet Arrangements

Contractual Obligations. In the ordinary course of our operations, we enter into certain contractual obligations. The following table presents our contractual obligations as of December 31, 2017.

Contractual Maturities

	Less Than One Year	More Than One Year Through Three Years	More Than Three Years Through Five Years	Over Five Years	Total
			(In thousands)		
Operating lease obligations	$ 506	$ 816	$848	$1,793	$ 3,963
Time deposits	23,981	2,951	—	—	26,932
Total	$24,487	$3,767	$848	$1,793	$30,895

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

For further information, see Note 10 of the Notes to the Consolidated Financial Statements.

Effect of Inflation and Changing Prices

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

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk

The quantitative and qualitative disclosures about market risk are included under the section of this Annual Report entitled "Item 7 — Management's Discussion and Analysis of Financial Condition and Results of Operations — Management of Market Risk."

ITEM 8. Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm

Shareholders and the Board of Directors of
Esquire Financial Holdings, Inc.
Jericho, New York

Opinion on the Financial Statements

We have audited the accompanying consolidated statements of financial condition of Esquire Financial Holdings, Inc. (the "Company") as of December 31, 2017 and 2016, the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2017, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting in accordance with the standards of the PCAOB. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion in accordance with the standards of the PCAOB.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Crowe Horwath LLP

Crowe Horwath LLP

We have served as the Company's auditor since 2006.

Livingston, New Jersey
March 29, 2018

ESQUIRE FINANCIAL HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(Dollars in thousands, except per share data)

	At December 31, 2017	At December 31, 2016
ASSETS		
Cash and cash equivalents	$ 43,077	$ 42,993
Securities available-for-sale, at fair value	128,758	92,645
Securities, restricted, at cost	2,183	1,649
Loans	348,978	278,578
Allowance for loan losses	(4,264)	(3,413)
Loans, net	344,714	275,165
Premises and equipment, net	2,546	2,767
Accrued interest receivable	2,836	1,541
Deferred tax asset	2,241	3,108
Other assets	7,274	4,965
Total assets	$533,629	$424,833
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Demand	$190,847	$124,990
Savings, NOW and money market	230,715	221,843
Time	26,932	23,955
Total deposits	448,494	370,788
Secured borrowings	278	371
Accrued expenses and other liabilities	1,474	1,488
Total liabilities	450,246	372,647
Commitments and contingencies (Note 10)	—	—
Stockholders' equity:		
Preferred stock, par value $0.01; authorized 2,000,000 shares (non-voting); 0 issued and outstanding at December 31, 2017 and 66,985 shares at December 31, 2016	—	1
Common stock, par value $0.01; authorized 15,000,000 shares; issued and outstanding 7,326,536 shares at December 31, 2017, and 5,002,950 shares at December 31, 2016	73	50
Additional paid-in capital	86,660	58,845
Retained deficit	(1,960)	(5,826)
Accumulated other comprehensive loss	(1,390)	(884)
Total stockholders' equity	83,383	52,186
Total liabilities and stockholders' equity	$533,629	$424,833

See accompanying notes to consolidated financial statements.

ESQUIRE FINANCIAL HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF INCOME
(Dollars in thousands, except per share data)

	For the Years Ended December 31,		
	2017	2016	2015
Interest income			
Loans	$17,554	$14,071	$10,594
Securities, available-for-sale	2,549	1,964	1,747
Interest earning deposits and other	291	133	110
Total interest income	20,394	16,168	12,451
Interest expense			
Savings, NOW and money market deposits	424	414	353
Time deposits	93	72	78
Borrowings	21	25	26
Total interest expense	538	511	457
Net interest income	19,856	15,657	11,994
Provision for loan losses	905	595	930
Net interest income after provision for loan losses	18,951	15,062	11,064
Non-interest income			
Customer related fees and service charges	2,194	1,039	741
Merchant processing income	3,322	3,080	2,202
Net gains on securities available-for-sale	—	6	—
Total non-interest income	5,516	4,125	2,943
Non-interest expense			
Employee compensation and benefits	10,072	8,244	6,251
Occupancy and equipment, net	1,557	1,604	1,412
Professional and consulting services	1,902	1,642	1,699
Data processing	1,709	1,369	1,187
Advertising and marketing	485	430	334
Travel and business relations	428	324	301
OCC assessments	129	112	105
FDIC assessments	127	99	245
Other operating expenses	1,024	775	637
Total non-interest expense	17,433	14,599	12,171
Net income before income taxes	7,034	4,588	1,836
Income tax expense	3,390	1,766	664
Net income	$ 3,644	$ 2,822	$ 1,172
Earnings per common share (See Note 9)			
Basic	$ 0.59	$ 0.56	$ 0.25
Diluted	$ 0.58	$ 0.55	$ 0.25

See accompanying notes to consolidated financial statements.

ESQUIRE FINANCIAL HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in thousands)

	For the Years Ended December 31,		
	2017	**2016**	**2015**
Net income	$3,644	$2,822	$1,172
Other comprehensive loss:			
Unrealized losses arising during the period on securities available-for-sale	(465)	(738)	(304)
Reclassification adjustment for net gains included in net income	—	6	—
Tax effect	181	282	120
Total other comprehensive loss	(284)	(450)	(184)
Total comprehensive income	$3,360	$2,372	$ 988

See accompanying notes to consolidated financial statements.

ESQUIRE FINANCIAL HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Dollars in thousands)

	Preferred shares	Common shares	Preferred Stock	Common stock	Additional paid in capital	Retained deficit	Accumulated other comprehensive loss	Total stockholders' equity
Balance at January 1, 2015	157,985	4,088,410	$ 2	$41	$48,569	$(9,820)	$ (250)	$38,542
Net income	—	—	—	—	—	1,172	—	1,172
Other comprehensive loss	—	—	—	—	—	—	(184)	(184)
Exchange of preferred stock for common stock	—	—	—	—	—	—	—	—
Issuance of common stock	—	823,460	—	8	9,749	—	—	9,757
Stock options expense	—	—	—	—	138	—	—	138
Balance at December 31, 2015	157,985	4,911,870	$ 2	$49	$58,456	$(8,648)	$ (434)	$49,425
Net income	—	—	—	—	—	2,822	—	2,822
Other comprehensive loss	—	—	—	—	—	—	(450)	(450)
Exchange of preferred stock for common stock	(91,000)	91,000	(1)	1	—	—	—	—
Issuance of common stock	—	80	—	—	1	—	—	1
Stock options expense	—	—	—	—	388	—	—	388
Balance at December 31, 2016	66,985	5,002,950	$ 1	$50	$58,845	$(5,826)	$ (884)	$52,186
Net income	—	—	—	—	—	3,644	—	3,644
Other comprehensive loss	—	—	—	—	—	—	(284)	(284)
Exchange of preferred stock for common stock	(66,985)	66,985	(1)	1	—	—	—	—
Exercise of stock options, net	—	101,941	—	1	941	—	—	942
Issuance of common stock	—	2,154,660	—	21	26,320	—	—	26,341
Stock options expense	—	—	—	—	554	—	—	554
Reclassification due to adoption of ASU 2018-02	—	—	—	—	—	222	(222)	—
Balance at December 31, 2017	—	7,326,536	$—	$73	$86,660	$(1,960)	$(1,390)	$83,383

See accompanying notes to consolidated financial statements.

ESQUIRE FINANCIAL HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)

	For the Years Ended December 31,		
	2017	**2016**	**2015**
Cash flows from operating activities:			
Net income	$ 3,644	$ 2,822	$ 1,172
Adjustments to reconcile net income to net cash used in operating activities:			
Provision for loan losses	905	595	930
Net gains on securities available-for-sale	—	(6)	—
Depreciation	411	166	237
Stock options expense	554	388	138
Net amortization:			
Securities	403	344	256
Loans	632	421	395
Changes in other assets and liabilities:			
Accrued interest receivable	(1,295)	(123)	(321)
Deferred tax asset	1,048	1,521	546
Other assets	(2,309)	(202)	(2,123)
Accrued expenses and other liabilities	(14)	172	292
Write-offs related to offices closed	—	221	47
Net cash provided by operating activities	3,979	6,319	1,569
Cash flows from investing activities:			
Originations and purchases of loans, net of principal repayments	(71,086)	(54,461)	(52,533)
Purchases of securities available-for-sale	(58,503)	(30,235)	(24,664)
Settlement of sales of securities available-for-sale	—	—	6,719
Proceeds of sales of securities available-for-sale	—	4,068	—
Principal repayments on securities available-for-sale	21,522	16,691	10,790
Purchase of securities, restricted	(534)	(453)	(1,202)
Redemption of securities, restricted	—	234	9
Other assets	—	1,250	—
Purchases of premises and equipment	(190)	(2,666)	(85)
Net cash used in investing activities	(108,791)	(65,572)	(60,966)
Cash flows from financing activities:			
Net increase in deposits	77,706	69,101	10,913
Decrease in secured borrowings	(93)	(10)	(10)
Exercise of stock options	942	—	—
Proceeds from the issuance of common stock	26,341	1	9,757
Net cash provided by financing activities	104,896	69,092	20,660
Net increase (decrease) in cash and cash equivalents	84	9,839	(38,737)
Cash and cash equivalents at beginning of the period	42,993	33,154	71,891
Cash and cash equivalents at end of the period	$ 43,077	$ 42,993	$ 33,154
Supplemental disclosures of cash flow information:			
Cash paid during the period for:			
Interest	$ 535	$ 508	$ 458
Taxes	2,630	234	95
Noncash disclosures:			
Exchange of preferred stock for common stock	1	1	—

See accompanying notes to consolidated financial statements.

ESQUIRE FINANCIAL HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017 and 2016
(Dollars in thousands, except per share data)

NOTE 1 — Business and Summary of Significant Accounting Policies

Business

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

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

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

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

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

Common Stock Issuances

On June 30, 2017, we completed our initial public offering ("IPO") and sold 1,800,000 shares of common stock. We received aggregate net proceeds of approximately $21,741, after deducting underwriting discount and other offering related expenses. On July 20, 2017 we sold 354,580 additional shares of common stock at the public offering price of $14.00 per share pursuant to the underwriter's over-allotment options. The net proceeds after deducting the underwriting discount and other offering related expenses were approximately $4,600.

During 2015, the Company sold 823,460 shares of common stock through a private placement offering for total proceeds, net of offering costs, of $9,800.

Basis of Presentation and Use of Estimates

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

Statement of Cash Flows

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

Securities

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

Interest income on securities, including amortization of premiums and accretion of discounts, is recognized using the level yield method without anticipating prepayments (except for mortgage-backed securities where prepayments are anticipated) over the lives of the individual securities. Realized gains and losses on sales of securities are computed using the specific identification method.

Loans

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

Non-Accrual

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

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

Provision and Allowance for Loan Losses

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

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

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

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

Loans for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired. Troubled debt restructurings are separately identified for impairment disclosures and are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a troubled debt restructuring is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral. For troubled debt restructurings that subsequently default, the Company determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses. The general component is based on historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Company. This actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations.

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

Premises and Equipment

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

Federal Home Loan Bank (FHLB) Stock

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

Federal Reserve Bank (FRB) Stock

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

Loan Commitments and Related Financial Instruments

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

Transfers of Financial Assets

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

Income Taxes

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

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

Earnings per Common Share

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

Share-Based Payment

Share based payment guidance requires the Company to recognize the grant-date fair value of stock options and other equity-based compensation issued to employees and non-employees in the statements of income. A Black-Scholes model is utilized to estimate the fair value of stock options. Compensation cost for stock options are recognized as non-interest expense in the statement of income on a straight-line basis over the vesting period of each stock option grant. Compensation cost for stock options includes the impact of an estimated forfeiture rate. At December 31, 2017, no stock options had vesting conditions linked to the performance of the Company or market conditions.

Preferred Stock

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

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

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

Dividend Restriction

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

Segment Reporting

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

Restrictions on Cash

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

Reclassifications

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

Comprehensive Income

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

Fair Value of Financial Instruments

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

Loss Contingencies

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

New Accounting Pronouncements

Accounting Standards Update (ASU) 2014-09, "Revenue from Contracts with Customers (Topic 606)" implements a common revenue standard that clarifies the principles for recognizing revenue. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract and (v) recognize revenue when (or as) the entity satisfies a performance obligation. ASU 2014-09 was effective for the Company on January 1, 2018. The Company has completed its review of noninterest income revenue within the scope of the guidance and an assessment of its revenue contracts, and as a result, did not identify material changes related to the timing or amount of revenue recognition. Also, adoption of this standard is not expected to lead to additional disaggregation of revenue categories.

On January 5, 2016, the FASB issued ASU 2016-01, "Financial Instruments — Overall: Recognition and Measurement of Financial Assets and Financial Liabilities" (the ASU). Under this ASU, the current GAAP model is changed in the areas of accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. The ASU will be effective for public business entities in fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Adoption of this standard did not have a material effect on the Company's operating results or financial condition.

(Dollars in thousands, except per share data)

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

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

In February 2018, the FASB issued ASU 2018-02, "Income statement — Reporting Comprehensive Income (Topic 220) Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income" which will allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. These amendments are effective for all entities for fiscal years beginning after December 15, 2018. For Interim periods within those fiscal years, early adoption of the amendment is permitted including public business entities for reporting periods for which financial statements have not yet been issued. The Company early adopted the ASU as of December 31, 2017 which resulted in the reclassification of stranded tax effects from accumulated other comprehensive loss to retained deficit totaling $222 reflected in the Consolidated Statement of Changes in Stockholders' Equity.

Subsequent Events

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

NOTE 2 — Securities

Available-for-Sale Securities

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2017				
Mortgage-backed securities – agency	$ 20,082	$12	$ (291)	$ 19,803
Collateralized mortgage obligations (CMO's) – agency	110,590	13	(1,648)	108,955
Total available-for-sale	$130,672	$25	$(1,939)	$128,758

(Dollars in thousands, except per share data)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2016				
Mortgage-backed securities – agency	16,417	12	(417)	16,012
Collateralized mortgage obligations (CMO's) – agency	77,677	56	(1,100)	76,633
Total available-for-sale	$ 94,094	$68	$(1,517)	$ 92,645

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

	December 31, 2017	
	Amortized Cost	Fair Value
Mortgage-backed securities – agency	$ 20,082	$ 19,803
CMO's – agency	110,590	108,955
Total	$130,672	$128,758

Mortgage-backed securities included all residential pass-through certificates guaranteed by FHLMC, FNMA, or GNMA and the CMO's are backed by government agency pass-through certificates. The 2017 and 2016 pass-through certificates are fixed rate instruments. CMO's, by virtue of the underlying residential collateral or structure, are fixed rate current pay sequentials or planned amortization classes (PAC's).

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

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

	2017	2016	2015
Proceeds	$ —	$4,068	$ —
Gross gains	—	6	—
Gross losses	—	—	—

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

At December 31, 2017, securities having a fair value of $108,955 were pledged to the FHLB for borrowing capacity totaling $103,351. At December 31, 2016, securities having a fair value of $76,633 were pledged to the FHLB for borrowing capacity totaling $72,837. At December 31, 2017 and 2016, the Company had no outstanding FHLB advances.

At December 31, 2017, securities having a fair value of $19,803 were pledged to the FRB of New York for borrowing capacity totaling $19,370. At December 31, 2016, securities having a fair value of $16,012 were pledged to FRB of New York for borrowing capacity totaling $15,580. At December 31, 2017 and 2016, the Company had no outstanding FRB borrowings.

ESQUIRE FINANCIAL HOLDINGS, INC.

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

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
December 31, 2017						
Mortgage-backed securities – agency	$ 5,766	$ (26)	$12,312	$ (265)	$ 18,078	$ (291)
CMO's – agency	75,056	(685)	28,848	(963)	103,904	(1,648)
Total temporarily impaired securities	$80,822	$(711)	$41,160	$(1,228)	$121,982	$(1,939)

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

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

At December 31, 2017, securities in unrealized loss positions were issuances from government sponsored entities. Due to the decline in fair value attributable to changes in interest rates and illiquidity, not credit quality and because the Company does not have the intent to sell the securities and it is likely that it will not be required to sell the securities before their anticipated recovery, the Company does not consider the securities to be other-than-temporarily impaired at December 31, 2017.

No impairment charges were recorded in 2017, 2016 and 2015.

ESQUIRE FINANCIAL HOLDINGS, INC.

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NOTE 3 — Loans

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

	2017	% of Total	2016	% of Total
1 – 4 family residential	$ 51,556	15%	$ 49,597	18%
Commercial	136,412	39	106,064	38
Multifamily	98,432	28	83,410	30
Commercial real estate	24,761	7	22,198	8
Construction	5,047	2	5,610	2
Consumer	31,881	9	10,571	4
Total Loans	348,089	100%	277,450	100%
Deferred costs and unearned premiums, net	889		1,128	
Allowance for loan losses	(4,264)		(3,413)	
Net loans	$344,714		$275,165	

The following tables present the activity in the allowance for loan losses by class for the years ending December 31, 2017, 2016 and 2015:

	1 – 4 Family Residential	Commercial	Multifamily	Commercial Real Estate	Construction	Consumer	Total
December 31, 2017							
Allowance for loan losses:							
Beginning balance	$360	$1,934	$621	$238	$141	$119	$3,413
Provision (credit) for loan losses	22	352	92	28	(14)	425	905
Recoveries	—	—	—	—	—	—	—
Loans charged-Off	—	(14)	—	—	—	(40)	(54)
Total ending allowance balance	$382	$2,272	$713	$266	$127	$504	$4,264
December 31, 2016							
Allowance for loan losses:							
Beginning balance	$213	$1,536	$533	$230	$134	$153	$2,799
Provision (credit) for loan losses	147	372	88	8	7	(27)	595
Recoveries	—	26	—	—	—	—	26
Loans charged-Off	—	—	—	—	—	(7)	(7)
Total ending allowance balance	$360	$1,934	$621	$238	$141	$119	$3,413
December 31, 2015							
Allowance for loan losses:							
Beginning balance	$162	$1,222	$528	$ 97	$ 27	$129	$2,165
Provision (credit) for loan losses	51	610	5	133	107	24	930
Recoveries	—	—	—	—	—	—	—
Loans charged-Off	—	(296)	—	—	—	—	(296)
Total ending allowance balance	$213	$1,536	$533	$230	$134	$153	$2,799

(Dollars in thousands, except per share data)

The following tables present the balance in the allowance for loan losses and the recorded investment in loans by class and based on impairment method as of December 31, 2017 and 2016:

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

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

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

(Dollars in thousands, except per share data)

Non-Performing Loans

Non-performing loans include loans 90 days past due and still accruing and non-accrual loans. At December 31, 2017 and 2016, none of the Company's loans met these conditions.

The following tables present the aging of the recorded investment in past due loans by class of loans as of December 31, 2017 and 2016:

	30 – 59 Days Past Due	60 – 89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Loans Not Past Due	Total
December 31, 2017						
1 – 4 family residential	$—	$—	$—	$—	$ 51,556	$ 51,556
Commercial	—	—	—	—	136,412	136,412
Multifamily	—	—	—	—	98,432	98,432
Commercial real estate	—	—	—	—	24,761	24,761
Construction	—	—	—	—	5,047	5,047
Consumer	—	—	—	—	31,881	31,881
Total	$—	$—	$—	$—	$348,089	$348,089

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

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.

(Dollars in thousands, except per share data)

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

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

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

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

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

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

The Company has no loans identified as troubled debt restructurings at December 31, 2017 and 2016. Furthermore, there were no loan modifications during 2017, 2016 and 2015 that were troubled debt restructurings. In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under the Company's internal underwriting policy.

(Dollars in thousands, except per share data)

Related Party Loans

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

Loans to principal officers, directors, and their affiliates during 2017 were as follows:

Beginning balance	$ 3,364
New advances	5,388
Repayments	(2,364)
Ending balance	$ 6,388

Deposits from principal officers, directors, and their affiliates at year-end 2017 and 2016 were $2,125 and $4,944.

NOTE 4 — Premises and Equipment

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

	2017	2016
Leasehold improvements	$1,614	$1,575
Equipment	2,889	2,876
Construction in progress	12	—
	4,515	4,451
Less: accumulated depreciation and amortization	1,969	1,684
Total premises and equipment, net	$2,546	$2,767

Depreciation and amortization of premises and equipment, reflected as a component of occupancy and equipment, net in the statements of income, was $411, $166 and $237 for the periods ended December 31, 2017, 2016 and 2015, respectively.

NOTE 5 — Deposits

The contractual maturities of certificates of deposit at December 31, 2017, are as follows:

	Total
2018	$23,981
2019	2,951
Total	$26,932

Certificates of deposits greater than $250 were $1,008 as of December 31, 2017, and $751 at December 31, 2016.

NOTE 6 — Borrowings

The Company had a secured borrowing of $278 and $371 as of December 31, 2017 and 2016, respectively, relating to certain loan participations sold by the Company that did not qualify for sales treatment.

At December 31, 2017 and 2016, we had the ability to borrow a total of $103.4 million and $72.8 million, respectively, 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 $19.4 million and $15.6 million at December 31, 2017 and 2016, respectively. At December 31, 2017 and 2016, we also had lines of credit with two other financial institutions totaling $7.5 million. No amounts were outstanding on any of the aforementioned lines as of December 31, 2017 and 2016.

(Dollars in thousands, except per share data)

NOTE 7 — Income Taxes

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

	2017	2016	2015
Current			
Federal expense	$1,955	$ 147	$ 37
State and city expense	387	98	81
Total current tax expense	2,342	245	118
Deferred			
Federal expense	444	1,474	641
State and city expense	604	47	(95)
Total deferred tax expense	1,048	1,521	546
Tax expense	$3,390	$1,766	$664

The following is a reconciliation of the Company's statutory federal income tax rate of 35% for 2017, and 34% for 2016 and 2015 to its effective tax rate at December 31:

	2017	2016	2015
Federal tax expense at statutory rate	$2,462	$1,560	$624
State and local income taxes, net of federal income taxes	200	97	(16)
Incentive stock options	32	71	4
Change to deferred tax as a result of tax reform	683	—	16
Other	13	38	36
Net tax expense	$3,390	$1,766	$664

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

	2017	2016
Deferred tax assets:		
Net operating loss carry forwards	$ 429	$1,136
Pre-opening costs	92	172
Stock options expense	130	308
Allowance for loan loss	1,044	1,208
Fixed assets	27	(31)
Unrealized loss on securities available-for-sale	524	565
Other	145	145
Total deferred tax assets	2,391	3,503
Deferred tax liabilities:		
Deferred rent	(37)	(43)
Deferred loan fees	(113)	(352)
Total deferred tax liabilities	(150)	(395)
Net deferred tax assets	$2,241	$3,108

The Company has New York state, and city net operating loss carryforwards of $9,507, and $2,066, respectively, as of December 31, 2017. The net operating losses are available to reduce future taxable income and begin to expire in 2026.

Realization of deferred tax assets is dependent upon the generation of future taxable income. A valuation allowance is provided when it is more likely than not that some portion of the deferred tax asset will not be realized. Based on its evaluation, the Company has determined that it is more likely than not that the deferred tax asset as of December 31, 2017 and 2016, will be realized.

On December 22, 2017, H.R.1 commonly known as the Tax Cuts and Jobs Act was signed into law. Among other things, the act reduces our corporate federal tax rate from 35% to 21% effective January 1, 2018. As a result we are required to remeasure, through income tax expense, our deferred tax assets and liabilities using the enacted rates. The remeasurement of our net deferred tax asset resulted in additional income tax expense of $683 for the year ended December 31, 2017.

The Company does not have any unrecognized tax benefits at December 31, 2017 or 2016, and does not expect this to increase in the next twelve months. There were no interest and penalties recorded in the statements of operations for the years ended December 31, 2017, 2016 and 2015. The Company is subject to U.S. federal income tax as well as income tax of the state of New York and New York City. The Company is no longer subject to examination by taxing authorities for years before 2014.

NOTE 8 — Employee Benefits

401(k) Plan

A savings plan is maintained under section 401(k) of the Internal Revenue Code and covers substantially all current full-time employees. Newly hired employees can elect to participate in the savings plan after completing one month of service. In 2017, the Company matched funds at 1% for employee contributions resulting in total expenses of $18 for 2017. The Company did not match funds in 2016 and 2015 and therefore had no expense during those years.

Share Based Payment Plans

The Company issues incentive and non-statutory stock options ("options") to certain employees and directors pursuant to the 2007 Stock Option Plan. Options to purchase common stock are granted by the Compensation Committee of the Board of Directors. The plan allows for a maximum of 270,000 shares of common stock to be issued. As of December 31, 2017, 269,500 shares have been issued. The 2007 Stock Option Plan expired in May of 2017 and no new options can be granted from the plan.

In 2011, the stockholders of the Company approved the Company's 2011 Stock Compensation Plan. The plan allows for a maximum of 404,607 shares of common stock to be issued. In 2015, the stockholders of the Company approved an amendment to the Company's 2011 Stock Compensation Plan to authorize an additional 350,000 shares for issuance under the plan. The Company has 4,062 shares available for issuance under the 2011 Stock Compensation Plan as of December 31, 2017.

In 2017, the stockholders of the Company approved the Company's 2017 Equity Incentive Plan. The plan allows for a maximum of 300,000 shares of common stock to be issued. No shares have been issued from the 2017 Equity Incentive Plan as of December 31, 2017.

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

(Dollars in thousands, except per share data)

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

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

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

The weighted average fair value of options granted was $3.61 and 3.27 in 2016 and 2015, respectively. There were no stock options granted during 2017.

The following table presents a summary of the activity related to options as of December 31, 2017:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)
December 31, 2017			
Outstanding at beginning of year	1,024,045	$12.13	
Granted	—	—	
Exercised	(132,120)	10.61	
Forfeited	(11,000)	11.36	
Outstanding at year end	880,925	$12.36	7.15
Vested or expected to vest	880,925	$12.36	7.15
Exercisable at year end	356,468	$12.17	5.68

The Company recognized compensation expense related to options of $554, $388, and $138 for the years ended December 31, 2017, 2016 and 2015, respectively. At December 31, 2017, unrecognized compensation cost related to non-vested options was approximately $1,631 and is expected to be recognized over a weighted average period of 3.17 years. The intrinsic value for outstanding and vested or expected to vest options was $6,497. The intrinsic value for exercisable options at December 31, 2017 was $2,700. The intrinsic value for options exercised during 2017 was $492. There were no options exercised in 2016 and 2015. The tax benefit for the 2017 options exercised was $329.

(Dollars in thousands, except per share data)

NOTE 9 — Earnings per Common Share

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

	2017	2016	2015
Basic			
Net income available to common shareholders	$ 3,644	$ 2,822	$ 1,172
Less: Earnings allocated to participating securities	23	62	40
Net income allocated to common shareholders	3,621	2,760	1,132
Weighted average common shares outstanding	6,163,549	4,958,655	4,460,098
Basic earnings per common share	$ 0.59	$ 0.56	$ 0.25
Diluted			
Net income allocated to common shareholders for basic earnings per share	$ 3,621	$ 2,760	$ 1,132
Weighted average shares outstanding for basic earnings per common share	6,163,549	4,958,655	4,460,098
Add: Dilutive effects of assumed exercises of stock options	68,695	30,550	30,550
Average shares and dilutive potential common shares	6,232,244	4,989,205	4,490,648
Diluted earnings per common share	$ 0.58	$ 0.55	$ 0.25

Stock options totaling 837,170 and 537,795 shares of common stock were not considered in computing diluted earnings per common share for 2016 and 2015 respectively, because they were anti-dilutive. There were no anti-dilutive shares in 2017.

NOTE 10 — Commitments and Contingent Liabilities

Change-In-Control Arrangements

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

Credit Related Commitments

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

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

(Dollars in thousands, except per share data)

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

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

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

The Company had $3,630 and $1,316 of fixed rate commitments to extend credit at December 31, 2017 and 2016, respectively. The Company had $2,634 and $730 of variable rate commitments to extend credit at December 31, 2017 and 2016. As of December 31, 2017 and 2016, the Company had standby letters of credit totaling $551 and $1,259, respectively.

Lease Commitments

At December 31, 2017, the Company was obligated under several non-cancelable leases for certain premises and equipment. The minimum annual rental commitments, exclusive of taxes and other charges, under non-cancelable lease agreements for premises at December 31, 2017, are summarized as follows:

	Minimum Rentals
2018	$ 506
2019	407
2020	409
2021	419
2022	429
Thereafter	1,793
Total lease commitments	$3,963

These leases contain periodic escalation clauses and all expiring leases are evaluated for extensions at renewal. Rent expense for the years ended December 31, 2017 and 2016, amounted to $501 and $573, respectively.

Litigation

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

ESQUIRE FINANCIAL HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017 and 2016
(Dollars in thousands, except per share data)

NOTE 11 — 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)
December 31, 2017			
Assets			
Available-for-sale securities			
Mortgage-backed securities – agency	$—	$ 19,803	$—
CMO's – agency	—	108,955	—
Total	$—	$128,758	$—
December 31, 2016			
Assets			
Available-for-sale securities			
Mortgage-backed securities – agency	$—	$ 16,012	$—
CMO's – agency	—	76,633	—
Total	$—	$ 92,645	$—

There were no transfers between Level 1 and Level 2 during the year. There were no assets measured on a non-recurring basis as of December 31, 2017 and 2016.

Estimated Fair Value of Financial Instruments

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

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

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

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

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

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

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

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

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

Off-Balance-Sheet Liabilities: The fair value of off-balance-sheet commitments to extend credit is estimated using fees currently charged to enter into similar agreements. The fair value is immaterial as of December 31, 2017 and 2016.

(Dollars in thousands, except per share data)

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

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

	Carrying Value	Fair Value Measurement at December 31, 2016, Using: (Level 1)	(Level 2)	(Level 3)	Total
Financial Assets:					
Cash and cash equivalents	$ 42,993	$ 437	$42,556	$ —	$ 42,993
Securities available-for-sale	92,645	—	92,645	—	92,645
Securities, restricted	1,649	N/A	N/A	N/A	N/A
Loans, net of allowance	275,165	—	—	277,620	277,620
Accrued interest receivable	1,541	—	201	1,340	1,541
Financial Liabilities:					
Certificates of deposit	23,955	—	23,930	—	23,930
Demand and other deposits	346,833	346,833	—	—	346,833
Secured borrowings	371	—	371	—	371
Accrued interest payable	3	—	3	—	3

NOTE 12 — Capital

Banks are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities and certain off-balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. The final rules of implementing the Basel Committee on Banking Supervision's capital guidelines for U.S. Banks (Basel III rules) became effective for the Company on January 1, 2015, with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. Management believes as of December 31, 2017, the Bank met all capital adequacy requirements to which it is subject.

(Dollars in thousands, except per share data)

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

As of December 31, 2017, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized," the Bank must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the table below. Since that notification, there are no conditions or events that management believes have changed the institution's category.

	Actual		Required For Capital Adequacy Purposes*		For Capital Adequacy Purposes Including Capital Conservation Buffer(1)		To be Well Capitalized Under Prompt Corrective Action Regulations*	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2017								
Total capital to risk weighted assets	$68,079	18.47%	$29,483	8.00%	$34,090	9.25%	$36,854	10.00%
Tier 1 (core) capital to risk weighted assets	63,814	17.32	22,112	6.00	26,719	7.25	29,483	8.00
Tier 1 (common) capital to risk weighted assets	63,814	17.32	16,584	4.50	21,191	5.75	23,955	6.50
Tier 1 (core) capital to adjusted total assets	63,814	12.82	19,906	4.00	19,906	4.00	24,883	5.00
December 31, 2016								
Total capital to risk weighted assets	$50,974	17.25%	$23,642	8.00%	$25,489	8.63%	$29,552	10.00%
Tier 1 (core) capital to risk weighted assets	47,560	16.09	17,731	6.00	19,578	6.63	23,642	8.00
Tier 1 (common) capital to risk weighted assets	47,560	16.09	13,299	4.50	15,146	5.13	19,209	6.50
Tier 1 (core) capital to adjusted total assets	47,560	11.63	16,351	4.00	16,351	4.00	20,439	5.00

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

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

(Dollars in thousands, except per share data)

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

NOTE 13 — Parent Company Only Condensed Financial Information

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

	At December 31,	
	2017	2016
ASSETS		
Cash and cash equivalents	$19,461	$ 4,473
Investment in banking subsidiary	62,940	47,085
Other assets	1,048	660
Total assets	83,449	52,218
LIABILITIES		
Due to subsidiary	—	—
Other liabilities	66	32
Total liabilities	66	32
STOCKHOLDERS' EQUITY		
Preferred stock	—	1
Common stock	73	50
Additional paid-in-capital	86,660	58,845
Retained deficit	(1,960)	(5,826)
Other comprehensive loss	(1,390)	(884)
Total stockholders' equity	$83,383	$52,186
Total liabilities and equity	$83,449	$52,218

CONDENSED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

	For the Years Ended December 31,		
	2017	2016	2015
Interest income	$ —	$ 100	$ —
Other expense	883	621	540
Loss before income tax and undistributed subsidiary income	(883)	(521)	(540)
Income tax benefit	(388)	(200)	(213)
Equity in undistributed subsidiary income	4,139	3,143	1,499
Net income	$3,644	$2,822	$1,172
Comprehensive income	$3,360	$2,372	$ 988

ESQUIRE FINANCIAL HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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(Dollars in thousands, except per share data)

CONDENSED STATEMENTS OF CASH FLOWS

	For the Years Ended December 31, 2017	2016	2015
Cash flows from operating activities:			
Net income	$ 3,644	$ 2,822	$ 1,172
Adjustments:			
Stock options expense	554	388	138
Equity in undistributed subsidiary income	(4,139)	(3,142)	(1,499)
Change in other assets	(388)	(200)	(213)
Change in other liabilities	34	(105)	(438)
Net cash provided by (used in) operating activities	(295)	(237)	(840)
Cash flows from investing activities			
Investments in subsidiaries	(12,000)	(4,000)	(3,000)
Other assets	—	1,250	(1,250)
Net cash used in investing activities	(12,000)	(2,750)	(4,250)
Cash flows from financing activities:			
Exercise of stock options	942	—	—
Proceeds from the issuance of common stock	26,341	1	9,757
Net cash from financing activities	27,283	1	9,757
Net change in cash and cash equivalents	14,988	(2,986)	4,667
Beginning cash and cash equivalents	4,473	7,459	2,792
Ending cash and cash equivalents	$ 19,461	$ 4,473	$ 7,459

NOTE 14 — Accumulated Other Comprehensive Loss

The following is changes in accumulated other comprehensive loss by component, net of tax, for the years ending December 31, 2017 and 2016:

	For the Years Ended December 31, 2017	2016	2015
	Unrealized Losses on Available for Sale Securities		
Beginning balance	$ (884)	$(434)	$(250)
Other comprehensive loss before reclassifications	(284)	(454)	(184)
Amounts reclassified from accumulated other comprehensive income	—	4	—
Net current period other comprehensive loss	(284)	(450)	(184)
Reclassification due to adoption of ASU 2018-02	(222)	—	—
Ending balance	$(1,390)	$(884)	$(434)

The following represents the reclassifications out of accumulated other comprehensive loss for the years ended December 31, 2017, and 2016:

	Twelve months ended December 31,			Affected Line in the Consolidated Statement of Income
	2017	2016	2015	
Realized gain on securities sales, AFS	$—	$ 6	$—	Net gains on securities available-for-sale
Income tax expense	—	(2)	—	Income tax expense
Total reclassifications, net of tax	$—	$ 4	$—	

ITEM 9. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure

None.

ITEM 9A. Controls and Procedures

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based upon that evaluation, the principal executive officer and principal financial officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective.

There were no changes made in our internal controls during the quarter ended December 31, 2017 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

This Annual Report does not include a report of management's assessment regarding internal control over financial reporting due to a transition period established by rules of the Securities and Exchange Commission for newly public companies.

ITEM 9B. Other Information

None.

PART III

ITEM 10. Directors, Executive Officers and Corporate Governance

Esquire Financial has adopted a Code of Ethics that applies to its principal executive officer, principal financial officer and principal accounting officer or controller or persons performing similar functions. A copy of the Code is available on Esquire Financial's website at www.esquirebank.com under "Investor Relations — Governance Documents."

The information contained under the section captioned "Proposal I — Election of Directors" in the Company's definitive Proxy Statement for the 2018 Annual Meeting of Stockholders (the "Proxy Statement") is incorporated herein by reference.

ITEM 11. Executive Compensation

The information required by this item is incorporated herein by reference to the section captioned "Proposal I — Election of Directors — Executive Officer Compensation" of the Proxy Statement.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this item is incorporated herein by reference to the section captioned "Voting Securities and Principal Holders" of the Proxy Statement.

ITEM 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item is incorporated herein by reference to the sections captioned "Proposal I — Election of Directors — Transactions with Certain Related Persons," "— Board Independence" and "— Meetings and Committees of the Board of Directors" of the Proxy Statement.

ITEM 14. Principal Accountant Fees and Services

The information required by this item is incorporated herein by reference to the section captioned "Proposal II — Ratification of Appointment of Independent Registered Public Accounting Firm" of the Proxy Statement.

PART IV

ITEM 15. Exhibits and Financial Statement Schedules

3.1	Articles of Incorporation of Esquire Financial Holdings, Inc. (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)
3.2	Articles Supplementary of Series B Non-Voting Preferred Stock of Esquire Financial Holdings, Inc. (incorporated by reference to Exhibit 3.2 in the Registration Statement on Form S-1 (File No. 333-218372) originally filed by the Company under the Securities Act of 1933 with the Commission on May 31, 2017, and all amendments or reports filed thereto)
3.3	Bylaws of Esquire Financial Holdings, Inc. (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)
4	Form of Common Stock Certificate of Esquire Financial Holdings, Inc. (incorporated by reference to Exhibit 4 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)
10.1	Letter Agreement regarding Investor Rights, dated December 23, 2014, between Esquire Financial Holdings, Inc. and CJA Private Equity Financial Restructuring Master Fund I, LP (incorporated by reference to Exhibit 10.1 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)
10.2	Registration Rights Agreement, dated December 23, 2014, between Esquire Financial Holdings, Inc. and CJA Private Equity Financial Restructuring Master Fund I, LP (incorporated by reference to Exhibit 10.2 in the Registration Statement on Form S-1 (File No. 333-218372) originally filed by the Company under the Securities Act of 1933 with the Commission on May 31, 2017, and all amendments or reports filed thereto)
10.3	Employment Agreement by and among Esquire Financial Holdings, Inc., Esquire Bank and Dennis Shields (incorporated by reference to Exhibit 10.3 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)†
10.4	Employment Agreement by and among Esquire Financial Holdings, Inc., Esquire Bank and Andrew C. Sagliocca (incorporated by reference to Exhibit 10.4 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)†
10.5	Employment Agreement by and among Esquire Financial Holdings, Inc., Esquire Bank and Eric Bader (incorporated by reference to Exhibit 10.5 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)†
10.6	Employment Agreement by and among Esquire Financial Holdings, Inc., Esquire Bank and Ari Kornhaber (incorporated by reference to Exhibit 10.6 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)†
10.7	Esquire Bank 2007 Stock Option Plan (incorporated by reference to Exhibit 10.7 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)†

10.8	Esquire Financial Holdings, Inc. 2011 Stock Compensation Plan, as amended (incorporated by reference to Exhibit 10.8 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)†
10.9	Esquire Financial Holdings, Inc. 2017 Equity Incentive Plan (incorporated by reference to Appendix A to the proxy statement for the Annual Meeting of Stockholders of Esquire Financial Holdings, Inc. (File No. 001-38131), filed by the Company with the Commission on Schedule 14A under the Exchange Act on October 3, 2017)†
21	Subsidiaries of Registrant
23	Consent of Independent Registered Public Accounting Firm
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	The following materials from the Company's Annual Report on Form 10-K, formatted in XBRL: (i) Consolidated Statements of Financial Condition, (ii) Consolidated Statements of Income, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statements of Changes in Stockholders' Equity (v) Consolidated Statements of Cash Flows and (v) Notes to the Consolidated Financial Statements

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† Management contract or compensation plan or arrangement.

ITEM 16. <u>Form 10-K Summary</u>

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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: March 29, 2018

By: /s/ Andrew C. Sagliocca
Andrew C. Sagliocca
President, Chief Executive Officer and Director
(Duly Authorized Representative)

Pursuant to the requirements of the Securities Exchange of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signatures	Title	Date
/s/ Andrew C. Sagliocca Andrew C. Sagliocca	President and Chief Executive Officer and Director (Principal Executive Officer)	March 29, 2018
/s/ Eric S. Bader Eric S. Bader	Eric S. Bader (Principal Financial and Accounting Officer)	March 29, 2018
/s/ Dennis Shields Dennis Shields	Executive Chairman	March 29, 2018
/s/ Anthony Coelho Anthony Coelho	Vice Chairman	March 29, 2018
/s/ Todd Deutsch Todd Deutsch	Director	March 29, 2018
/s/ Marc D. Grossman Marc D. Grossman	Director	March 29, 2018
/s/ Russ M. Herman Russ M. Herman	Director	March 29, 2018
/s/ Janet Hill Janet Hill	Director	March 29, 2018
/s/ Robert J. Mitzman Robert J. Mitzman	Director	March 29, 2018
/s/ John Morgan John Morgan	Director	March 29, 2018
/s/ Richard T. Powers Richard T. Powers	Director	March 29, 2018
/s/ Jack Thompson Jack Thompson	Director	March 29, 2018
/s/ Kevin C. Waterhouse Kevin C. Waterhouse	Director	March 29, 2018
/s/ Selig Zises Selig Zises	Director	March 29, 2018

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ESQ
Nasdaq Listed

ESQUIRE FINANCIAL HOLDINGS, INC. is a bank holding company headquartered in Jericho, New York, with one branch office In Garden City, New York and an administrative office in Palm Beach Gardens, Florida. Its wholly-owned subsidiary, Esquire Bank, National Association, is a full service commercial bank dedicated to serving the financial needs of the legal industry and small businesses nationally, as well as commercial and retail customers in the New York metropolitan area. The bank offers tailored products and solutions to the legal community and their clients as well as dynamic and flexible merchant services solutions to small business owners. For more information, visit www.esquirebank.com.

CORPORATE INFORMATION

DIRECTORS AND EXECUTIVE OFFICERS

DIRECTORS

Dennis Shields
Executive Chairman

Anthony Coelho
Vice Chairman of the Board

Andrew C. Sagliocca
President, Chief Executive Officer and Director

Todd Deutsch

Marc Grossman

Russ M. Herman

Janet Hill

Robert J. Mitzman

John Morgan

Richard T. Powers

Jack Thompson

Kevin C. Waterhouse

Selig A. Zises

EXECUTIVE OFFICERS

Dennis Shields
Executive Chairman

Andrew C. Sagliocca
President, Chief Executive Officer and Director

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

Ari P. Kornhaber
Executive Vice President, Director of Sales

INVESTOR INFORMATION

CORPORATE HEADQUARTERS

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

SPECIAL COUNSEL

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

TRANSFER AGENT

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

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Crowe Horwath LLP
354 Eisenhower Parkway, Suite 2050
Livingston, New Jersey 07039
(973) 422-2420

ANNUAL MEETING

The Annual Meeting of the Stockholders will be held on May 30, 2018 at 10:00 a.m., Eastern time, at the executive offices of Esquire Financial Holdings, Inc. located at 100 Jericho Quadrangle, Jericho, New York 11753.

GENERAL INQUIRIES

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

ESQUIRE FINANCIAL HOLDINGS, INC.

100 JERICHO QUADRANGLE, SUITE 100
JERICHO, NEW YORK 11753

FIVE-YEAR SUMMARY OF CONSOLIDATED FINANCIAL HIGHLIGHTS

(unaudited) As of or for the year ended December 31, (in millions, except per share, ratio, headcount data and where otherwise noted)	**2017**	2016	2015	2014	2013
Selected income statement data					
Total net revenue	**$ 99,624**	$ 95,668	$ 93,543	$ 95,112	$ 97,367
Total noninterest expense	**58,434**	55,771	59,014	61,274	70,467
Pre-provision profit	**41,190**	39,897	34,529	33,838	26,900
Provision for credit losses	**5,290**	5,361	3,827	3,139	225
Income before income tax expense	**35,900**	34,536	30,702	30,699	26,675
Income tax expense	**11,459**	9,803	6,260	8,954	8,789
Net income[(a)]	**$ 24,441**	$ 24,733	$ 24,442	$ 21,745	$ 17,886
Earnings per share data					
Net income: Basic	**$ 6.35**	$ 6.24	$ 6.05	$ 5.33	$ 4.38
Diluted	**6.31**	6.19	6.00	5.29	4.34
Average shares: Basic	**3,551.6**	3,658.8	3,741.2	3,808.3	3,832.4
Diluted	**3,576.8**	3,690.0	3,773.6	3,842.3	3,864.9
Market and per common share data					
Market capitalization	**$ 366,301**	$ 307,295	$ 241,899	$ 232,472	$ 219,657
Common shares at period-end	**3,425.3**	3,561.2	3,663.5	3,714.8	3,756.1
Share price:[(b)]					
High	**$ 108.46**	$ 87.39	$ 70.61	$ 63.49	$ 58.55
Low	**81.64**	52.50	50.07	52.97	44.20
Close	**106.94**	86.29	66.03	62.58	58.48
Book value per share	**67.04**	64.06	60.46	56.98	53.17
Tangible book value per share ("TBVPS")[(c)]	**53.56**	51.44	48.13	44.60	40.72
Cash dividends declared per share	**2.12**	1.88	1.72	1.58	1.44
Selected ratios and metrics					
Return on common equity ("ROE")	**10%**	10%	11%	10%	9%
Return on tangible common equity ("ROTCE")[(c)]	**12**	13	13	13	11
Return on assets ("ROA")	**0.96**	1.00	0.99	0.89	0.75
Overhead ratio	**59**	58	63	64	72
Loans-to-deposits ratio	**64**	65	65	56	57
High quality liquid assets ("HQLA") (in billions)[(d)]	**$ 556**	$ 524	$ 496	$ 600	$ 522
Common equity tier 1 ("CET1") capital ratio[(e)]	**12.2%**	12.3% [(i)]	11.8%	10.2%	10.7%
Tier 1 capital ratio[(e)]	**13.9**	14.0 [(i)]	13.5	11.6	11.9
Total capital ratio[(e)]	**15.9**	15.5	15.1	13.1	14.3
Tier 1 leverage ratio[(e)]	**8.3**	8.4	8.5	7.6	7.1
Selected balance sheet data (period-end)					
Trading assets	**$ 381,844**	$ 372,130	$ 343,839	$ 398,988	$ 374,664
Securities	**249,958**	289,059	290,827	348,004	354,003
Loans	**930,697**	894,765	837,299	757,336	738,418
Core Loans	**863,683**	806,152	732,093	628,785	583,751
Average core loans	**829,558**	769,385	670,757	596,823	563,809
Total assets	**2,533,600**	2,490,972	2,351,698	2,572,274	2,414,879
Deposits	**1,443,982**	1,375,179	1,279,715	1,363,427	1,287,765
Long-term debt[(f)]	**284,080**	295,245	288,651	276,379	267,446
Common stockholders' equity	**229,625**	228,122	221,505	211,664	199,699
Total stockholders' equity	**255,693**	254,190	247,573	231,727	210,857
Headcount	**252,539**	243,355	234,598	241,359	251,196
Credit quality metrics					
Allowance for credit losses	**$ 14,672**	$ 14,854	$ 14,341	$ 14,807	$ 16,969
Allowance for loan losses to total retained loans	**1.47%**	1.55%	1.63%	1.90%	2.25%
Allowance for loan losses to retained loans excluding purchased credit-impaired loans[(g)]	**1.27**	1.34	1.37	1.55	1.80
Nonperforming assets	**$ 6,426**	$ 7,535	$ 7,034	$ 7,967	$ 9,706
Net charge-offs[(h)]	**5,387**	4,692	4,086	4,759	5,802
Net charge-off rate[(h)]	**0.60%**	0.54%	0.52%	0.65%	0.81%

(a) On December 22, 2017, the Tax Cuts and Jobs Act ("TCJA") was signed into law. The Firm's results included a $2.4 billion decrease to net income as a result of the enactment of the TCJA. For additional information related to the impact of the TCJA, see Note 24.
(b) Based on daily prices reported by the New York Stock Exchange.
(c) TBVPS and ROTCE are non-GAAP financial measures. For further discussion of these measures, see Explanation and Reconciliation of the Firm's Use of Non-GAAP Financial Measures and Key Financial Performance Measures on pages 52–54.
(d) HQLA represents the amount of assets that qualify for inclusion in the liquidity coverage ratio. For December 31, 2017, the balance represents the average of quarterly reported results per the U.S. LCR public disclosure requirements effective April 1, 2017. Prior periods represent period-end balances under the final U.S. rule ("U.S. LCR") for December 31, 2016 and 2015, and the Firm's estimated amount for December 31, 2014 prior to the effective date of the final rule, and under the Basel III liquidity coverage ratio ("Basel III LCR") for December 31, 2013. For additional information, see LCR and HQLA on page 93.
(e) Ratios presented are calculated under the Basel III Transitional rules, which became effective on January 1, 2014, and for the capital ratios, represent the Collins Floor. Prior to 2014, the ratios were calculated under the Basel I rules. See Capital Risk Management on pages 82–91 for additional information on Basel III.
(f) Included unsecured long-term debt of $218.8 billion, $212.6 billion, $211.8 billion, $207.0 billion and $198.9 billion respectively, as of December 31, of each year presented.
(g) Excluded the impact of residential real estate purchased credit-impaired ("PCI") loans, a non-GAAP financial measure. For further discussion of these measures, see Explanation and Reconciliation of the Firm's Use of Non-GAAP Financial Measures and Key Performance Measures on pages 52–54, and the Allowance for credit losses on pages 117–119.
(h) Excluding net charge-offs of $467 million related to the student loan portfolio sale, the net charge-off rate for the year ended December 31, 2017 would have been 0.55%.
(i) The prior period ratios have been revised to conform with the current period presentation.

Table 1—Financial Highlights

	2017	2016	2015	2014	2013
	(In millions, except per share data)				
EARNINGS SUMMARY					
Interest income, including other financing income	$ 3,988	$ 3,814	$ 3,603	$ 3,589	$ 3,647
Interest expense and depreciation expense on operating lease assets	448	416	296	309	384
Net interest income and other financing income	3,540	3,398	3,307	3,280	3,263
Provision for loan losses	150	262	241	69	138
Net interest income and other financing income after provision for loan losses	3,390	3,136	3,066	3,211	3,125
Non-interest income	2,105	2,153	2,071	1,903	2,096
Non-interest expense	3,624	3,617	3,607	3,432	3,556
Income from continuing operations before income taxes	1,871	1,672	1,530	1,682	1,665
Income tax expense	614	514	455	548	561
Income from continuing operations	1,257	1,158	1,075	1,134	1,104
Income (loss) from discontinued operations before income taxes	8	8	(22)	21	(24)
Income tax expense (benefit)	2	3	(9)	8	(11)
Income (loss) from discontinued operations, net of tax	6	5	(13)	13	(13)
Net income	$ 1,263	$ 1,163	$ 1,062	$ 1,147	$ 1,091
Net income from continuing operations available to common shareholders	$ 1,193	$ 1,094	$ 1,011	$ 1,082	$ 1,072
Net income available to common shareholders	$ 1,199	$ 1,099	$ 998	$ 1,095	$ 1,059
Earnings per common share from continuing operations – basic	$ 1.01	$ 0.87	$ 0.76	$ 0.79	$ 0.77
Earnings per common share from continuing operations – diluted	1.00	0.87	0.76	0.78	0.76
Earnings per common share – basic	1.01	0.87	0.75	0.80	0.76
Earnings per common share – diluted	1.00	0.87	0.75	0.79	0.75
Return on average common stockholders' equity	7.56%	6.74%	6.21%	6.90%	7.09%
Return on average tangible common stockholders' equity (non-GAAP)[1]	11.01	9.69	8.96	10.00	10.59
Return on average assets from continuing operations	0.96	0.87	0.83	0.91	0.91
BALANCE SHEET SUMMARY					
As of December 31					
Loans, net of unearned income	$ 79,947	$ 80,095	$ 81,162	$ 77,307	$ 74,609
Allowance for loan losses	(934)	(1,091)	(1,106)	(1,103)	(1,341)
Assets	124,294	125,968	126,050	119,563	117,288
Deposits	96,889	99,035	98,430	94,200	92,453
Long-term debt	8,132	7,763	8,349	3,462	4,830
Stockholders' equity	16,192	16,664	16,844	16,873	15,660
Average balances					
Loans, net of unearned income	$ 79,846	$ 81,333	$ 79,634	$ 76,253	$ 74,924
Assets	123,976	125,506	122,265	118,352	117,712
Deposits	97,341	97,921	96,890	93,481	92,646
Long-term debt	7,076	8,159	5,046	4,057	5,206
Stockholders' equity	16,665	17,126	16,916	16,620	15,411
SELECTED RATIOS					
Basel I Tier 1 common regulatory capital (non-GAAP) [3]	N/A%	N/A%	N/A%	11.65%	11.21%
Basel III common equity Tier 1 ratio [2]	11.05	11.21	10.93	N/A	N/A
Basel III common equity Tier 1 ratio—Fully Phased-In Pro-Forma (non-GAAP) [1][2][3]	10.95	11.05	10.69	11.00	10.58
Tier 1 capital [2][3][4]	11.86	11.98	11.65	12.54	11.68
Total capital [2][3][4]	13.78	14.15	13.88	15.26	14.73
Leverage capital [2][3][4]	10.01	10.20	10.25	10.86	10.03
Tangible common stockholders' equity to tangible assets (non-GAAP) [1]	8.71	8.99	9.13	9.66	9.15
Efficiency ratio	63.19	64.20	66.15	65.42	65.69
Adjusted efficiency ratio (non-GAAP) [1]	62.16	63.28	64.87	64.45	64.46

Exhibit C

FINANCIAL OVERVIEW

Selected consolidated financial and other data for the past five years is shown in the following tables.

TABLE 3—SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA[1,2]

(Dollars in thousands, except per share data)	Years Ended December 31 2017	2016	2015	2014	2013	2017 vs. 2016 $ Change	% Change
Income Statement Data							
Interest and dividend income	$ 913,783	$ 716,939	$ 646,858	$ 504,815	$ 437,197	196,844	27
Interest expense	104,937	67,701	59,100	44,704	46,953	37,236	55
Net interest income	808,846	649,238	587,758	460,111	390,244	159,608	25
Provision for loan losses	51,111	44,424	30,908	19,060	5,145	6,687	15
Net interest income after provision for loan losses	757,735	604,814	556,850	441,051	385,099	152,921	25
Non-interest income	211,040	233,821	220,393	173,628	168,958	(22,781)	(10)
Non-interest expense	675,896	566,665	570,305	473,614	472,796	109,231	19
Income before income tax expense	292,879	271,970	206,938	141,065	81,261	20,909	8
Income tax expense	150,466	85,193	64,094	35,683	16,133	65,273	77
Net income	142,413	186,777	142,844	105,382	65,128	(44,364)	(24)
Less: Preferred stock dividends	9,095	7,977	—	—	—	1,118	14
Net Income Available to Common Shareholders	$ 133,318	$ 178,800	$ 142,844	$ 105,382	$ 65,128	(45,482)	(25)
Earnings per common share – basic	$ 2.61	$ 4.32	$ 3.69	$ 3.31	$ 2.20	(1.71)	(40)
Earnings per common share – diluted	2.59	4.30	3.68	3.30	2.20	(1.71)	(40)
Cash dividends per common share	1.46	1.40	1.36	1.36	1.36	0.06	4

(Dollars in thousands, except per share data)	As of December 31 2017	2016	2015	2014	2013	2017 vs. 2016 $ Change	% Change
Balance Sheet Data							
Total assets	$ 27,904,129	$ 21,659,190	$ 19,504,068	$ 15,757,904	$ 13,365,550	6,244,939	29
Cash and cash equivalents	625,724	1,362,126	510,267	548,095	391,396	(736,402)	(54)
Investment securities	4,817,380	3,535,313	2,899,214	2,275,813	2,090,906	1,282,067	36
Loans, net of unearned income	20,078,181	15,064,971	14,327,428	11,441,044	9,492,019	5,013,210	33
Goodwill and other intangible assets, net	1,277,464	759,823	765,655	548,130	425,442	517,641	68
Deposits	21,466,717	17,408,283	16,178,748	12,520,525	10,737,000	4,058,434	23
Borrowings	2,487,132	1,138,089	667,064	1,248,996	961,043	1,349,043	119
Shareholders' equity	3,696,791	2,939,694	2,498,835	1,852,148	1,530,346	757,097	26
Book value per common share [3]	66.17	62.68	58.87	55.37	51.38	3.49	6
Tangible book value per common share (Non-GAAP)[3] [5]	42.56	45.80	40.35	39.08	37.15	(3.24)	(7)

Exhibit D

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(*in thousands*)	At and For the Years Ended December 31, 2017	2016	2015	2014	2013
Period-End Balance Sheet Data:					
Total loans, net of unearned income (a)	$ 19,004,163	$ 16,752,151	$ 15,703,314	$ 13,895,276	$ 12,324,817
Loans held for sale	39,865	34,064	20,434	20,252	24,515
Securities	5,888,380	5,017,128	4,463,792	3,826,454	4,033,124
Short-term investments	92,384	78,177	565,555	802,948	268,839
Total earning assets	25,024,792	21,881,520	20,753,095	18,544,930	16,651,295
Allowance for loan losses	(217,308)	(229,418)	(181,179)	(128,762)	(133,626)
Goodwill	745,523	621,193	621,193	621,193	625,675
Other intangible assets, net	90,640	87,757	107,538	132,810	159,773
Other assets	1,692,439	1,614,250	1,532,958	1,576,371	1,704,722
Total assets	$ 27,336,086	$ 23,975,302	$ 22,833,605	$ 20,746,542	$ 19,007,839
Noninterest-bearing deposits	$ 8,307,497	$ 7,658,203	$ 7,276,127	$ 5,945,208	$ 5,530,253
Interest-bearing transaction and savings deposits	8,181,554	6,910,466	6,767,881	6,531,628	6,162,959
Interest-bearing public fund deposits	3,040,318	2,563,758	2,253,645	1,982,616	1,571,532
Time deposits	2,723,833	2,291,839	2,051,259	2,113,379	2,095,772
Total interest-bearing deposits	13,945,705	11,766,063	11,072,785	10,627,623	9,830,263
Total deposits	22,253,202	19,424,266	18,348,912	16,572,831	15,360,516
Short-term borrowings	1,703,890	1,225,406	1,423,644	1,151,573	657,960
Long-term debt	305,513	436,280	490,145	373,647	384,414
Other liabilities	188,532	169,582	157,761	176,089	179,880
Stockholders' equity	2,884,949	2,719,768	2,413,143	2,472,402	2,425,069
Total liabilities & stockholders' equity	$ 27,336,086	$ 23,975,302	$ 22,833,605	$ 20,746,542	$ 19,007,839
Average Balance Sheet Data:					
Total loans, net of unearned income (a)	$ 18,280,885	$ 16,064,593	$ 14,433,367	$ 12,938,869	$ 11,700,218
Loans held for sale	21,920	28,777	18,101	16,540	24,986
Securities (b)	5,442,829	4,706,482	4,208,195	3,816,724	4,140,051
Short-term investments	363,077	380,294	513,659	423,359	578,613
Total earning assets	24,108,711	21,180,146	19,173,322	17,195,492	16,443,868
Allowance for loan losses	(223,416)	(217,550)	(133,470)	(129,642)	(137,897)
Goodwill and other intangible assets	806,900	718,592	740,666	768,047	799,996
Other assets	1,548,556	1,497,445	1,464,502	1,601,883	1,821,333
Total assets	$ 26,240,751	$ 23,178,633	$ 21,245,020	$ 19,435,780	$ 18,927,300
Noninterest-bearing deposits	$ 7,777,652	$ 7,232,221	$ 6,195,234	$ 5,641,792	$ 5,393,955
Interest-bearing transaction and savings deposits	7,746,220	6,772,364	6,877,394	6,173,683	5,962,114
Interest-bearing public fund deposits	2,664,929	2,261,659	1,844,802	1,530,972	1,410,679
Time deposits	2,642,781	2,390,081	2,207,359	2,053,546	2,350,488
Total interest-bearing deposits	13,053,930	11,424,104	10,929,555	9,758,201	9,723,281
Total deposits	20,831,582	18,656,325	17,124,789	15,399,993	15,117,236
Short-term borrowings	2,006,896	1,412,194	1,025,133	1,005,680	806,082
Long-term debt	384,127	469,064	478,078	378,645	387,435
Other liabilities	211,278	177,983	174,233	176,514	229,983
Stockholders' equity	2,806,868	2,463,067	2,442,787	2,474,948	2,386,564
Total liabilities & stockholders' equity	$ 26,240,751	$ 23,178,633	$ 21,245,020	$ 19,435,780	$ 18,927,300

(a) Includes nonaccrual loans.

(b) Average securities does not include unrealized holding gains/losses on available for sale securities.

Exhibit E

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Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs
October 1 - October 31, 2017	518	$ 41.50	518	366,994
November 1 - November 30, 2017	—	—	—	366,994
December 1 - December 31, 2017	25	43.58	25	366,969
Total	543	$ 41.60	543	366,969

Item 6. Selected Financial Data.

Set forth below is selected summary historical financial and other data of the Company. When you read this summary historical financial data, it is important that you also read the historical financial statements and related notes contained in Item 8 of this Form 10-K, as well as "Management's Discussion and Analysis of Financial Condition and Results of Operations."

	As of December 31,				
(dollars in thousands)	2017	2016	2015	2014	2013
Selected Financial Condition Data:					
Total assets	$2,228,121	$1,556,732	$1,551,912	$1,221,415	$984,241
Cash and cash equivalents	150,418	29,315	24,798	29,078	32,639
Interest-bearing deposits in banks	2,421	1,884	5,144	5,526	2,940
Investment securities:					
Available for sale	234,993	183,730	176,762	174,801	149,632
Held to maturity	13,034	13,365	13,927	11,705	9,405
Loans receivable, net	1,642,987	1,215,323	1,214,818	901,208	700,538
Intangible assets	68,033	12,762	15,304	4,266	1,909
Deposits	1,866,227	1,248,072	1,244,217	993,573	741,312
Federal Home Loan Bank advances	71,826	118,533	125,153	47,500	97,000
Securities sold under repurchase agreements	—	—	—	20,371	—
Shareholders' equity	277,871	179,843	165,046	154,144	141,910

	For the Years Ended December 31,				
(dollars in thousands, except per share data)	2017	2016	2015	2014	2013
Selected Operating Data:					
Interest income	$74,398	$67,684	$58,410	$54,323	$43,721
Interest expense	6,549	5,268	3,866	3,284	3,503
Net interest income	67,849	62,416	54,544	51,039	40,218
Provision for loan losses	2,317	3,200	2,071	2,364	3,653
Net interest income after provision for loan losses	65,532	59,216	52,473	48,675	36,565
Noninterest income	9,962	11,157	8,770	8,175	7,670
Noninterest expense	46,177	46,797	42,022	41,772	33,205
Income before income taxes	29,317	23,576	19,221	15,078	11,030
Income taxes	12,493	7,568	6,671	5,206	3,736
Net income	$16,824	$16,008	$12,550	$ 9,872	$ 7,294
Earnings per share—basic	$ 2.36	$ 2.34	$ 1.87	$ 1.51	$ 1.11

Exhibit F

DEF 14A 1 tv490936-def14a.htm DEFINITIVE PROXY STATEMENT

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant ☒

Filed by a Party other than the Registrant ☐

Check the appropriate box:

☐ Preliminary Proxy Statement

☐ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

☒ Definitive Proxy Statement

☐ Definitive Additional Materials

☐ Soliciting Material under §240.14a-12

ESQUIRE FINANCIAL HOLDINGS, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

☒ No fee required.

☐ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

Exhibit G

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

☐ Fee paid previously with preliminary materials.

☐ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

Esquire Financial Holdings, Inc.
100 Jericho Quadrangle, Suite 100
Jericho, New York 11753
(516) 535-2002

April 23, 2018

Dear Stockholder:

We cordially invite you to attend the Annual Meeting of Stockholders of Esquire Financial Holdings, Inc. The Annual Meeting will be held at the executive offices of Esquire Financial Holdings, Inc., located at 100 Jericho Quadrangle, Jericho, New York 11753, on May 30, 2018, at 10:00 a.m., local time.

The enclosed Notice of Annual Meeting and Proxy Statement describe the formal business to be transacted. During the Annual Meeting we will also report on the operations of Esquire Financial Holdings, Inc. Our directors and officers, as well as a representative of our independent registered public accounting firm will be present to respond to any questions that stockholders may have.

The business to be conducted at the Annual Meeting consists of (i) the election of four directors, and (ii) the ratification of the appointment of Crowe Horwath LLP as our independent registered public accounting firm for the year ending December 31, 2018. The Board of Directors has determined that the matters to be considered at the Annual Meeting are in the best interest of Esquire Financial Holdings, Inc. and its stockholders, and the Board of Directors unanimously recommends a vote "FOR" each matter to be considered.

It is important that your shares be represented at the annual meeting, whether or not you plan to attend personally. Please take a moment now to cast your vote via the Internet as described on the enclosed proxy card, or alternatively, complete, sign, date and return the proxy card in the postage-paid envelope provided so that your shares will be represented at the Annual Meeting. You may revoke your proxy at any time prior to its exercise, and you may attend the annual meeting and vote in person, even if you have previously returned your proxy card. However, if you are a stockholder whose shares are not registered in your own name, you will need additional documentation from your record holder in order to vote personally at the annual meeting.

On behalf of the Board of Directors, we urge you to vote your proxy as soon as possible, even if you currently plan to attend the Annual Meeting. This will not prevent you from voting in person, but will assure that your vote is counted if you are unable to attend the Annual Meeting. Your vote is important, regardless of the number of shares that you own.

Sincerely,

Andrew C. Sagliocca
President and Chief Executive Officer

Esquire Financial Holdings, Inc.
100 Jericho Quadrangle, Suite 100
Jericho, New York 11753
(516) 535-2002

NOTICE OF
ANNUAL MEETING OF STOCKHOLDERS

To Be Held On May 30, 2018

Notice is hereby given that the Annual Meeting of Stockholders of Esquire Financial Holdings, Inc. will be held at the executive offices of Esquire Financial Holdings, Inc., located at 100 Jericho Quadrangle, Jericho, New York 11753 on May 30, 2018, at 10:00 a.m., local time.

A Proxy Statement for the Annual Meeting is enclosed. The Annual Meeting is for the purpose of considering and acting upon:

1. the election of four directors;

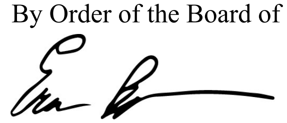
2. the ratification of the appointment of Crowe Horwath LLP as our independent registered public accounting firm for the year ending December 31, 2018; and

such other matters as may *properly* come before the Annual Meeting, or any adjournments thereof. The Board of Directors is not aware of any other business to come before the Annual Meeting.

Any action may be taken on the foregoing proposals at the Annual Meeting on the date specified above, or on the date or dates to which the Annual Meeting may be adjourned. Stockholders of record at the close of business on March 29, 2018 are the stockholders entitled to vote at the Annual Meeting, and any adjournments thereof.

EACH STOCKHOLDER, WHETHER HE OR SHE PLANS TO ATTEND THE ANNUAL MEETING, IS REQUESTED TO VOTE THEIR PROXY WITHOUT DELAY. ANY PROXY GIVEN BY THE STOCKHOLDER MAY BE REVOKED AT ANY TIME BEFORE IT IS VOTED. A PROXY MAY BE REVOKED BY FILING WITH THE CORPORATE SECRETARY OF ESQUIRE FINANCIAL HOLDINGS, INC. A WRITTEN REVOCATION OR VOTING BY PROXY BEARING A LATER DATE, BY INTERNET, BY TELEPHONE, OR BY MAIL. ANY STOCKHOLDER PRESENT AT THE ANNUAL MEETING MAY REVOKE HIS OR HER PROXY AND VOTE PERSONALLY ON EACH MATTER BROUGHT BEFORE THE ANNUAL MEETING. HOWEVER, IF YOU ARE A STOCKHOLDER WHOSE SHARES ARE NOT REGISTERED IN YOUR OWN NAME, YOU WILL NEED ADDITIONAL DOCUMENTATION FROM YOUR RECORD HOLDER IN ORDER TO VOTE IN PERSON AT THE ANNUAL MEETING.

By Order of the Board of Directors



Eric S. Bader
Corporate Secretary

Jericho, New York
April 23, 2018

PROXY STATEMENT

Esquire Financial Holdings, Inc.
100 Jericho Quadrangle, Suite 100
Jericho, New York 11753
(516) 535-2002

ANNUAL MEETING OF STOCKHOLDERS

May 30, 2018

This Proxy Statement is furnished in connection with the solicitation of proxies on behalf of the Board of Directors of Esquire Financial Holdings, Inc. ("Esquire Financial" or the "Company") to be used at the Annual Meeting of Stockholders, which will be held at the executive offices of Esquire Financial Holdings, Inc., located at 100 Jericho Quadrangle, Jericho, New York 11753 on May 30, 2018, at 10:00 a.m., local time, and all adjournments of the Annual Meeting. The accompanying Notice of Annual Meeting of Stockholders and this Proxy Statement are first being made available to stockholders on or about April 23, 2018.

REVOCATION OF PROXIES

Stockholders who execute proxies in the form solicited hereby retain the right to revoke them in the manner described below. Unless so revoked, the shares represented by such proxies will be voted at the Annual Meeting and all adjournments thereof. Proxies solicited on behalf of the Board of Directors of Esquire Financial will be voted in accordance with the directions given thereon. **Where no instructions are indicated, validly executed proxies will be voted "FOR" the proposals set forth in this Proxy Statement for consideration at the Annual Meeting.**

Proxies may be revoked by sending written notice of revocation to the Corporate Secretary of Esquire Financial at 100 Jericho Quadrangle, Suite 100, Jericho, New York 11753, delivering a later-dated proxy by internet, by mail or by attending the Annual Meeting and voting in person. The presence at the Annual Meeting of any stockholder who had returned a proxy shall not revoke such proxy unless the stockholder delivers his or her ballot in person at the Annual Meeting or delivers a written revocation to the Corporate Secretary of Esquire Financial prior to the voting of such proxy. If you are a stockholder whose shares are not registered in your name, you will need appropriate documentation from your record holder to vote in person at the Annual Meeting.

VOTING SECURITIES AND PRINCIPAL HOLDERS

Holders of record of Esquire Financial common stock, par value $0.01 per share, as of the close of business on March 29, 2018 are entitled to one vote for each share then held. As of March 29, 2018, there were 7,445,723 shares of common stock issued and outstanding.

Stock Ownership of Certain Beneficial Owners and Management

Persons and groups who beneficially own in excess of 5% of the shares of our common stock are required to file certain reports with the Securities and Exchange Commission regarding such ownership. The following table sets forth, as of March 29, 2018, the shares of common stock beneficially owned by our directors and executive officers, individually and as a group, and by each person who was known to us as the beneficial owner of more than 5% of the outstanding shares of common stock. The mailing address for each of our directors and executive officers is 100 Jericho Quadrangle, Suite 100, Jericho, New York 11753.

Name and Address of Beneficial Owners	Amount of Shares Owned and Nature of Beneficial Ownership(1)	Percent of Shares of Common Stock Outstanding
Directors, Executive Officers and Named Executive Officers		
Dennis Shields	213,258(2)	2.8%
Selig A. Zises	304,541	4.1%
Todd Deutsch	50,500(3)	*
John Morgan	64,880(4)	*
Russ M. Herman	62,412(5)	*
Robert J. Mitzman	94,154(6)	1.3%
Kevin C. Waterhouse	112,056(7)	1.5%
Marc Grossman	13,500(8)	*
Janet Hill	8,480(9)	*
Richard T. Powers	60,210(10)	*
Anthony Coelho	61,802(11)	*
Andrew C. Sagliocca	103,927(12)	1.4%
Jack Thompson	564,880(13)	7.6%
Eric S. Bader	50,369(14)	*
Ari P. Kornhaber	28,881(15)	*
All directors and current executive officers as a group (15 persons)	1,793,850(16)	23.3%
5% Beneficial Stockholders		
CJA Private Equity Financial Restructuring Master Fund I, LP c/o Gapstow Capital Partners 654 Madison Avenue, Suite 601 New York, New York 10065	564,800(17)	7.6%
RMB Capital Management, LLC 115 S. LaSalle Street, 34th Floor Chicago, Illinois 60603	533,589(18)	7.2%
Basswood Capital Management, L.L.C. 645 Madison Avenue, 10th Floor New York, New York 10022	520,660(19)	7.0%

* Less than 1%

(1)

In accordance with Rule 13d-3 under the Securities Exchange Act of 1934, a person is deemed to be the beneficial owner for purposes of this table, of any shares of common stock if he or she has shared voting or investment power with respect to such security, or has a right to acquire beneficial ownership at any time within 60 days from the date as of which beneficial ownership is being determined.

(2) Includes 15,000 unvested shares of restricted stock and presently exercisable options to purchase 83,210 shares of the Company's common stock. Mr. Shields has sole voting and investment power over 98,048 shares and shared voting and investment power over 12,000 shares. Mr. Shields' wife has sole voting and investment power over 5,000 shares.

(3) Includes 2,500 unvested shares of restricted stock and presently exercisable options to purchase 8,000 shares of the Company's common stock.

(4) Includes presently exercisable options to purchase 1,500 shares of the Company's common stock. Mr. Morgan has sole voting and investment power over 80 shares and shared voting and investment power over 63,300 shares.

(5) Includes 2,500 unvested shares of restricted stock and presently exercisable options to purchase 14,892 shares of the Company's common stock.

(6) Includes 2,500 unvested shares of restricted stock and presently exercisable options to purchase 16,892 shares of the Company's common stock. Mr. Mitzman has sole voting and investment power over 74,762 shares.

(7) Includes presently exercisable options to purchase 8,056 shares of the Company's common stock. Mr. Waterhouse has sole voting and investment power over 23,000 shares and shared voting and investment power over 81,000 shares.

(8) Includes 2,000 unvested shares of restricted stock and presently exercisable options to purchase 1,500 shares of the Company's common stock.

(9) Includes presently exercisable options to purchase 1,500 shares of the Company's common stock.

(10) Includes presently exercisable options to purchase 4,710 shares of the Company's common stock. Mr. Powers has shared voting and investment power over 55,500 shares.

(11) Includes 3,500 unvested shares of restricted stock and presently exercisable options to purchase 12,892 shares of the Company's common stock. Mr. Coelho has shared voting and investment power over 45,412 shares.

(12) Includes 15,000 unvested shares of restricted stock and presently exercisable options to purchase 55,320 shares of the Company's common stock. Mr. Sagliocca has sole voting and investment power over 12,607 shares and shared voting and investment power over 21,000 shares.

(13) Mr. Thompson has sole voting and investment power over 80 shares. Mr. Thompson is a member of CJA Private Equity Financial Restructuring GP I Ltd., the general partner of CJA Private Equity Financial Restructuring Master Fund I, LP, which holds an additional 564,800 shares of the Company's common stock. CJA Private Equity Financial Restructuring GP I Ltd. has designated all voting rights to CJA Private Equity Financial Restructuring Master Fund I, LP's Investment Manager, Gapstow Capital Partners. Mr. Thompson is an employee of Gapstow Capital Partners.

(14) Includes 7,500 unvested shares of restricted stock and presently exercisable options to purchase 36,869 shares of the Company's common stock.

(15) Includes 7,500 unvested shares of restricted stock and presently exercisable options to purchase 18,381 shares of the Company's common stock.

(16) Includes presently exercisable options and options exercisable within 60 days to purchase 263,722 shares of the Company's common stock.

(17) Based on a Schedule 13G filed on February 14, 2018.

(18) Based on a Schedule 13G filed on February 13, 2018.

(19) Based on a Schedule 13G filed on February 9, 2018.

Quorum and Vote Required

The presence in person or by proxy of a majority of the outstanding shares of common stock entitled to vote is necessary to constitute a quorum at the Annual Meeting. Abstentions and broker non-votes will be counted for purposes of determining that a quorum is present.

Directors are elected by a plurality of votes cast, without regard to either broker non-votes or proxies as to which authority to vote for the nominees being proposed is "WITHHELD." The ratification of the appointment of Crowe Horwath LLP as independent registered public accountants is determined by a majority of the votes cast, without regard to broker non-votes or proxies marked "ABSTAIN."

In the event there are not sufficient votes for a quorum, or to approve or ratify any matter being presented at the time of this Annual Meeting, the Annual Meeting may be adjourned in order to permit the further solicitation of proxies.

PROPOSAL I — ELECTION OF DIRECTORS

Our Board of Directors is comprised of thirteen members. Our Bylaws provide that directors are divided into three classes, with one class of directors elected annually. Our directors are generally elected to serve for a three-year period and until their respective successors shall have been elected and shall qualify. Four directors will be elected at the Annual Meeting to serve for a three-year period until their respective successors shall have been elected and shall qualify. The Nominating and Corporate Governance Committee of the Board of Directors has nominated the following persons to serve as directors for three-year terms: Janet Hill, Anthony Coelho, Richard T. Powers and Andrew C. Sagliocca. All four nominees are currently directors of Esquire Financial and Esquire Bank (the "Bank").

The Board of Directors recommends a vote "FOR" the election of the nominees.

The table below sets forth certain information regarding the nominees, the other current members of our Board of Directors, and executive officers who are not directors, including the terms of office of board members. It is intended that the proxies solicited on behalf of the Board of Directors (other than proxies in which the vote is withheld as to any nominee) will be voted at the Annual Meeting for the election of the proposed nominees. If a nominee is unable to serve, the shares represented by all such proxies will be voted for the election of such substitute as the Board of Directors may determine. At this time, the Board of Directors knows of no reason why any of the nominees might be unable to serve, if elected. No shares of common stock are pledged as collateral by a director or executive officer.

Name	Position(s) Held With Esquire Financial	Age[1]	Director Since[2]	Current Term Expires
	NOMINEES			
Janet Hill	Director	70	2016	2018
Anthony Coelho	Vice Chairman	75	2010	2018
Richard T. Powers	Director	70	2006	2018
Andrew C. Sagliocca	Chief Executive Officer, President and Director	50	2008	2018
	CONTINUING DIRECTORS			
Dennis Shields	Executive Chairman	51	2006	2019
Selig Zises	Director	76	2009	2019
Todd Deutsch	Director	45	2015	2019
John Morgan	Director	62	2015	2019
Russ M. Herman	Director	75	2007	2020
Robert J. Mitzman	Director	63	2007	2020
Kevin C. Waterhouse	Director	50	2006	2020
Marc Grossman	Director	50	2013	2020

Jack Thompson	Director	46	2016	2020

EXECUTIVE OFFICERS WHO ARE NOT DIRECTORS

Eric S. Bader	Executive Vice President, Chief Financial Officer, Treasurer and Corporate Secretary	41	N/A	N/A
Ari P. Kornhaber	Executive Vice President, Director of Sales	46	N/A	N/A

(1) As of April 1, 2018.

(2) Includes service with Esquire Bank and Esquire Financial.

The biographies of each of the nominees, continuing board members and executive officers are set forth below. With respect to directors and nominees, the biographies also contain information regarding the person's business experience and the experiences, qualifications, attributes or skills that caused the Nominating and Corporate Governance Committee to determine that the person should serve as a director. Each director of Esquire Financial is also a director of Esquire Bank, and if elected each nominee will be appointed as a director of Esquire Bank.

Directors

Anthony Coelho, Vice Chairman. Mr. Coelho has served as Chair of the Advisory Board for Bender Consulting Services since 2002 and was Chair and a Board Member for the American Association of People with Disabilities and the Lead Independent Director of Service Corporation International. Mr. Coelho was a prominent member of the U.S. House of Representatives from 1978 – 1989. While a member of the House of Representatives, he authored the Americans with Disabilities Act, widely recognized as one of the most important pieces of civil rights legislation in the last 40 years. Mr. Coelho's former and current business affiliations include service on a number of corporate boards and as CEO of Wertheim Schroder Investment Services. Mr. Coelho has been a member of the Esquire Bank board of directors since 2010. Mr. Coelho provides the Board with valuable perspective on general business oversight, as well as potential strategic initiatives.

Todd Deutsch, Director. Mr. Deutsch is a private investor and entrepreneur. Since 2012, Mr. Deutsch has managed his family office. From 2009 to 2012, Mr. Deutsch was the Portfolio Manager/Principal at Bascom Hill Partners, a wealth management services company. Prior to running his family office and Bascom Hill Partners, Mr. Deutsch spent twenty years as a trader with Goldman Sachs and various hedge funds. Mr. Deutsch has been a member of the Esquire Bank board of directors since 2015. Mr. Deutsch provides the Board with extensive financial and business experience as well as valuable insight into managing and overseeing a business.

Marc D. Grossman, Director. As a founding and senior partner of The Sanders Law Firm since 2003, Mr. Grossman is an innovator and leader in the mass settlement of medical claims and mass torts. Mr. Grossman's deep-rooted commitment to his clients and practice has led to his being a frequent speaker and national advocate for victim's rights. Mr. Grossman currently serves on The Board of Directors of the New York State Trial Lawyers Association, The Executive Committee of the Association of Trial Lawyers of America, and is a member of the Mass Tort Trial Lawyers Association, the Million Dollar Advocates Forum and the leaders Forum of the American Association of Justice. Mr. Grossman has been a member of the Esquire Bank board of directors since 2013. Mr. Grossman provides the Board with important insight into the legal industry and experience with managing and overseeing a business.

Russ M. Herman, Director. Mr. Herman has been senior partner at the law firm Herman, Herman & Katz, L.L.C., a national law firm headquartered in New Orleans, Louisiana, since 1966. Mr. Herman is the past president of the Association of Trial Lawyers of America, Civil Justice Foundation, Roscoe Pound Foundation and the American Association of Justice. He is an author, frequent speaker at law schools and national legal seminars and conventions. Mr. Herman is a member of the National Trial Lawyers Hall of Fame. Mr. Herman has been a member of the Esquire Bank board of directors since 2007 and provides the Board with valuable insight into the legal industry.

Janet Hill, Director. Ms. Hill has served as Principal at Hill Family Advisors since 2008, where she oversees her family's assets and investments. From 1981 until her retirement in 2010, Ms. Hill was the owner of and served as Vice President of Alexander & Associates, Inc., a management consulting firm where she provided advice and counseling to major corporations on policies and procedures to achieve and maintain an inclusive workforce. She is currently a member of the boards of directors of the Carlyle Group and Dean Foods Company. Ms. Hill is a former director of Wendy's/Arby's Group, Inc. and Sprint Nextel Corporation. She also serves on the Board of Trustees at Duke University, John F. Kennedy Center for the Performing Arts, the Knight Commission on Intercollegiate Athletics, and the Wolf Trap Foundation. Ms. Hill has a Bachelor of Arts from Wellesley College and a Master of Arts from the University of Chicago, both in Mathematics. Ms. Hill has been a member of the Esquire Bank board of directors since 2016. Ms. Hill provides the Board with important business and strategic insight.

Robert J. Mitzman, Director. Mr. Mitzman is founder and former Chairman of the Quick Group of Companies, having amassed more than 35 years of experience in the worldwide specialized courier industry. Mr. Mitzman was also the former Chief Executive Officer of the Quick Group of Companies. The Quick Group of Companies serves as a provider of worldwide-mission-critical logistics and transportation solutions. Mr. Mitzman previously served on the Board of Directors for Perfumania Holdings as well. Mr. Mitzman has been a member of the Esquire Bank board of directors since 2007 and provides the Board with extensive executive experience as a Chief Executive Officer, including leading an organization with global operations, experience in human resources and growing a business.

John Morgan, Director. Mr. Morgan founded Morgan & Morgan in 1988, to represent the people, not the powerful. Under his leadership and vision, Morgan & Morgan grew to become a prominent national law firm, with offices throughout North America and Europe, employing more than 300 lawyers and a support staff of 1,400. Mr. Morgan lectures across the country on the practice of law. He has been an active member of the Florida Justice Association and served as a FLAG trustee. Mr. Morgan has also received Martindale-Hubbell's esteemed "AV" rating, which recognizes lawyers with the highest ethical standards and professional ability. Mr. Morgan attended the University of Florida and the Levin School of Law University of Florida, where Mr. Morgan serves as a member of the Board of Trustees. Mr. Morgan has been a member of the Esquire Bank board of directors since 2015. Mr. Morgan provides the Board with valuable insight into the legal industry and experience with managing and overseeing a business.

Richard T. Powers, Director. Mr. Powers served as Esquire Bank's President and Chief Executive Officer since Esquire Bank's pre-opening organizational stage in 2005 through 2008. Prior to joining Esquire Bank, Mr. Powers was President, U.S. Direct Services for Fiserv CBS. Mr. Powers has over 40 years of experience in all areas of the financial services industry, both banking and brokerage. He has served as President and Chief Operating Officer of Waterhouse National Bank and Executive Vice President and Chief Operations Officer of North Fork Bank, among other banking positions. Since 2009, Mr. Powers has been the owner of RT Powers & Associates, a banking and financial services consultant firm and he is recognized as an expert witness for banking technology patent infringement. Mr. Powers is a founding organizer of Esquire Bank. Mr. Powers provides the Board with important experience and insight into the financial services industry.

Andrew C. Sagliocca, President, Chief Executive Officer and Director. Mr. Sagliocca served as Esquire Bank's Chief Financial Officer when he joined Esquire Bank in February 2007. He became Esquire Bank's Chief Executive Officer in January 2009. Prior to joining Esquire Bank, Mr. Sagliocca was Senior Vice President and Corporate Controller of North Fork Bank from 1999 to 2007. Mr. Sagliocca has more than 28 years of experience in the financial services industry. Mr. Sagliocca's extensive experience in the financial services industry provides the Board with a unique perspective on Esquire Bank's business and strategic direction.

Dennis Shields, Executive Chairman of the Board. Mr. Shields is the Executive Chairman of the Board of Directors and was a founding organizer of Esquire Bank. Since its inception in 2000, Mr. Shields has served as Chief Executive Officer of Plaintiff Funding Corp. (dba LawCash), a New York-based specialty finance company that provides financial services products. Since 2014, Mr. Shields has been serving as the Chairman at YieldStreet, an online platform for alternative investments and he is also the Chairman of Keeps America, a company that works with law firms, disability advocates, and third-party administrators to distribute settlement awards and government benefits to clients through its prepaid card. Mr. Shields served as a lay member of the Grievance Committee to the Second and Eleventh Judicial Departments appointed by presiding judge from 1996 to 2004 and previously served on the New York State Health Information and Quality Improvement Committee. Mr. Shields has authored two books and is a frequent speaker in both the legal and finance community. Mr. Shields' extensive experience in both the financial services and legal industry provides the Board with an important perspective on Esquire Bank's business and strategic direction.

Jack Thompson, Director. Since 2010, Mr. Thompson has been the Head of Financial Services Investments at Gapstow Capital Partners, an alternative investment firm based in New York City. Mr. Thompson is responsible for the firm's investments within the banking industry and is a member of the Gapstow Capital Partners Investment Committee. Prior to joining Gapstow Capital Partners, Mr. Thompson held positions at Deutsche Bank Securities, Goldman Sachs, Novantas, and Booz Allen Hamilton. He serves as Director on the Boards of Coastal Financial Corporation (and its subsidiaries) in Everett, Washington and Seaside National Bank in Orlando, Florida. He previously was a Director on the Board of Pan Pacific Bank in Fremont, California. Mr. Thompson has been a member of the Board since 2016. He graduated from Yale University with a B.A. in History and he received his M.B.A. with honors from the University of Chicago with concentrations in Finance and Accounting. Mr. Thompson is also a former 1st Lieutenant in the Armor Branch of the US Army Reserve. Mr. Thompson provides the Board with important experience and insight into the financial services industry. In connection with the purchase of our capital stock in 2014, we granted CJA Private Equity Financial Restructuring Master Fund I, LP the right to designate a director so long as it, together with its affiliates, beneficially owns at least 4.0% (four percent) of our total outstanding capital stock. Mr. Thompson is the designee of CJA Private Equity Financial Restructuring Master Fund I, LP.

Kevin Waterhouse, Director. Mr. Waterhouse is Vice President and Investment Advisor of L.M. Waterhouse & Company, a Valhalla, New York-based registered investment advisory firm. Mr. Waterhouse has worked at L.M. Waterhouse since 2009. Mr. Waterhouse previously served as First Vice President — Operations & Product Development of Waterhouse National Bank. Mr. Waterhouse is a founding organizer of Esquire Bank. Mr. Waterhouse provides the Board with a valuable perspective on general business oversight as well as on potential strategic initiatives.

Selig A. Zises, Director. Mr. Zises is a retired investor. Mr. Zises was the founder and CEO of Integrated Resources, a financial services company, from 1969 to 1988. Mr. Zises is a founding organizer of Esquire Bank. Mr. Zises' extensive experience in the financial services industry provides the Board with an important perspective on the Bank's business and strategic direction.

Executive Officers Who Are Not Directors

Eric S. Bader, Executive Vice President, Chief Financial Officer, Treasurer and Corporate Secretary. Prior to his appointment as Executive Vice President in February 2011, Mr. Bader served as our Senior Vice President, Chief Financial Officer and Treasurer since January 2009. Prior to this, Mr. Bader served as Esquire Bank's Senior Vice President and Treasurer, since joining Esquire Bank in January 2008. Prior to joining Esquire Bank, Mr. Bader was Vice President at Goldman Sachs and served as a Vice President and Investment Officer at North Fork Bank. Mr. Bader has over 18 years of experience in the financial services industry.

Ari P. Kornhaber, Executive Vice President, Director of Sales. Mr. Kornhaber has served as Director of Sales at Esquire Bank since 2013. From 2004 to 2013, Mr. Kornhaber served as National Marketing Director at Plaintiff Funding Holding, Inc. (dba LawCash). Mr. Kornhaber has spoken on the subject of financing for lawyers, law firms and their clients, and the ethics surrounding the same, at numerous seminars and conferences across the United States. After receiving his law degree from Touro Law School in New York, Mr. Kornhaber was a practicing plaintiff's lawyer in New York City with the law firm of Pariser and Vogelman, PC and was a trial attorney for the law firm of Napoli, Kaiser and Bern, LLC, where he specialized in personal injury, medical malpractice and mass tort litigation.

Board Independence

The Board of Directors has determined that each of our directors, with the exception of Mr. Sagliocca and Mr. Shields, is an independent director, as defined under the Nasdaq listing rules. Mr. Sagliocca is not independent because he is an executive officer of Esquire Financial and Mr. Shields is not independent because he is the executive chairman of Esquire Financial.

Board Leadership Structure and Risk Oversight

Our Board of Directors is chaired by Dennis Shields, who is an executive director. Anthony Coelho is our Vice Chairman. Andrew C. Sagliocca, our President and Chief Executive Officer, is a member of our Board of Directors. We intend to continue to separate the Chairman and Chief Executive Officer positions. We believe that our leadership structure, in which the roles of Chairman and CEO are separate, together with experienced and engaged independent directors and independent key committees, will be effective and is the optimal structure for our Company and our stockholders at this time.

The Board of Directors is actively involved in oversight of risks that could affect the Company. This oversight is conducted in part through committees of the Board of Directors, but the full Board of Directors has retained responsibility for general oversight of risks. The Board of Directors satisfies this responsibility through full reports by each committee regarding its considerations and actions, regular reports directly from officers responsible for oversight of particular risks within the Company as well as through internal and external audits. Risks relating to the direct operations of Esquire Bank are further overseen by the Board of Directors of Esquire Bank, who are the same individuals who serve on the Board of Directors of Esquire Financial. The Board of Directors of Esquire Bank also has additional committees that conduct risk oversight separate from Esquire Financial. Further, the Board of Directors oversees risks through the establishment of policies and procedures that are designed to guide daily operations in a manner consistent with applicable laws, regulations and risks acceptable to the organization.

References to our Website Address

References to our website address throughout this proxy statement and the accompanying materials are for informational purposes only, or to fulfill specific disclosure requirements of the Securities and Exchange Commission's rules. These references are not intended to, and do not, incorporate the contents of our website by reference into this proxy statement or the accompanying materials.

Section 16(a) Beneficial Ownership Reporting Compliance

Our executive officers and directors and beneficial owners of greater than 10% of the outstanding shares of common stock are required to file reports with the Securities and Exchange Commission disclosing beneficial ownership and changes in beneficial ownership of our common stock. Securities and Exchange Commission rules require disclosure if an executive officer, director or 10% beneficial owner fails to file these reports on a timely basis. Based on our review of ownership reports required to be filed for the year ended December 31, 2017, no executive officer, director or 10% beneficial owner of our shares of common stock failed to file ownership reports with the Securities and Exchange Commission on a timely basis.

Code of Ethics

Esquire Financial has adopted a Code of Ethics that is applicable to its senior financial officers, including the principal executive officer, principal financial officer, principal accounting officer and all officers performing similar functions. We have posted this Code of Ethics on our Internet website at www.esquirebank.com under the "Investor Relations" tab. Amendments to and waivers from the Code of Ethics will also be disclosed on Esquire Financial's website.

Attendance at Annual Meetings of Stockholders

Esquire Financial does not have a written policy regarding director attendance at annual meetings of stockholders, although directors are expected to attend these meetings absent unavoidable scheduling conflicts.

Communications with the Board of Directors

Any stockholder who wishes to communicate with our Board of Directors or an individual director may do so by writing to: Esquire Financial Holdings, Inc., 100 Jericho Quadrangle, Suite 100, Jericho, New York 11753, Attention: Secretary. The letter should indicate that the sender is a stockholder and if shares are not held of record, should include appropriate evidence of stock ownership. Communications are reviewed by the Secretary and are then distributed to the Board of Directors or the individual director, as appropriate, depending on the facts and circumstances outlined in the communications received. The Secretary may attempt to handle an inquiry directly or forward a communication for response by the director or directors to whom it is addressed. The Secretary has the authority not to forward a communication if it is primarily commercial in nature, relates to an improper or irrelevant topic, or is unduly hostile, threatening, illegal or otherwise inappropriate.

Meetings and Committees of the Board of Directors

The business of Esquire Financial is conducted at regular and special meetings of the Board of Directors and its committees. In addition, the "independent" members of the Board of Directors (as defined in the listing rules of the NASDAQ Stock Market) regularly meet in executive sessions. The standing committees of the Board of Directors of Esquire Financial are the Audit Committee, Compensation Committee, Corporate Governance and Nominating Committee and the Strategic Oversight Committee.

The Board of Directors had 12 meetings during the year ended December 31, 2017. No member of the Board of Directors of Esquire Financial or any committee thereof attended fewer than 75% of the aggregate of: (i) the total number of meetings of the Board of Directors (held during the period for which he or she has been a director); and (ii) the total number of meetings held by all committees on which he or she served (during the periods that he or she served), with the exception of Director Morgan.

Audit Committee. The Audit Committee is comprised of Directors Powers (Chairman), Waterhouse and Coelho, each of whom is "independent" in accordance with applicable Securities and Exchange Commission rules and Nasdaq listing rules. The Audit Committee also serves as the audit committee of the board of directors of Esquire Bank. The Board of Directors has determined that Director Powers qualifies as an "audit committee financial expert" as defined under applicable Securities and Exchange Commission rules. In addition, each Audit Committee member has the ability to analyze and evaluate our financial statements as well as an understanding of the Audit Committee's functions.

Our Board of Directors has adopted a written charter for the Audit Committee, which is available on our website at www.esquirebank.com. As more fully described in the Audit Committee Charter, the Audit Committee reviews the financial records and affairs of Esquire Financial and monitors adherence in accounting and financial reporting to accounting principles generally accepted in the United States of America. The Audit Committee of Esquire Financial met 7 times during the year ended December 31, 2017.

Corporate Governance and Nominating Committee. The Corporate Governance and Nominating Committee is comprised of Directors Mitzman (Chairman), Waterhouse and Hill, each of whom is independent in accordance with Nasdaq listing rules. The Corporate Governance and Nominating Committee also serves as the nominating committee of the board of directors of Esquire Bank. The Corporate Governance and Nominating Committee operates under a written charter which is available on our website at www.esquirebank.com. The Corporate Governance and Nominating Committee of Esquire Financial met 4 times during the year ended December 31, 2017.

As noted in the Corporate Governance and Nominating Committee Charter, the purpose of the committee is to assist the Board in identifying individuals to become Board members, determine the size and composition of the Board and its committees, monitor Board effectiveness and implement Corporate Governance Guidelines.

In furtherance of this purpose, this Committee, among other things, shall:

- Identify qualified individuals to be directors consistent with the criteria approved by the board of directors and recommend director nominees to the full board of directors;
- Review the structure of the committees of the board of directors;

- Develop and recommend procedures for reviewing stockholder recommendations for director nominees;
- Develop the Company's code of business conduct and ethics;
- Oversee management succession planning;
- Lead the board of directors in its annual performance review;
- Develop and recommend corporate governance guidelines; and
- Review the Corporate Governance and Nominating Committee's charter and the committee's performance.

The Committee identifies nominees for the Board by first evaluating the current members of the Board willing to continue in service. Current members of the Board with skills and experience that are relevant to the Company's business and who are willing to continue in service are first considered for re-nomination, balancing the value of continuity of service by existing members of the Board with that of gaining new perspectives. If any member of the Board does not wish to continue in service, or if the Committee decides not to re-nominate a member for re-election, or if the size of the Board is increased, the Committee would solicit suggestions for director candidates from all Board members. The Board would seek to identify a candidate who at a minimum satisfies the following criteria:

- Has the highest personal and professional ethics and integrity and whose values are compatible with those of the Company;
- Has had experiences and achievements that have given him or her the ability to exercise and develop good business judgment;
- Is willing to devote the necessary time to the work of the Board and its Committees, which includes being available for Board and Committee meetings;
- Is involved in other activities or interests that do not create a conflict with their responsibilities to the Company and its stockholders; and
- Has the capacity and desire to represent the balanced, best interests of the stockholders of the Company as a group, and not primarily a special interest group or constituency.

The Corporate Governance and Nominating Committee will also take into account whether a candidate satisfies the criteria for "independence" as defined in the Nasdaq listing rules, and, if a candidate with financial and accounting expertise is sought for service on the Audit Committee, whether the individual qualifies as an Audit Committee financial expert.

The Company's goal is to have a Board of Directors whose members have diverse professional backgrounds and have demonstrated professional achievement with the highest personal and professional ethics and integrity and whose values are compatible with those of Esquire Financial. The Corporate Governance and Nominating Committee does not have a formal policy with regard to the consideration of diversity in identifying director nominees. However, important factors considered in the selection of nominees for director include experience in positions that develop good business judgment, that demonstrate a high degree of responsibility and independence, and that show the individual's ability to commit adequate time and effort to serve as a director.

In September 2016, Mr. Thompson was appointed to the Boards of Directors of Esquire Financial and its subsidiary, Esquire Bank. These appointments were made in accordance with an agreement dated as of December 23, 2014 (the "Agreement") between Esquire Financial and CJA Private Equity Financial Restructuring Master Fund I, LP ("CJA"). Mr. Thompson is Head of Financial Services Investments at Gapstow Capital Partners, an alternative investment firm based in New York City. Mr. Thompson is responsible for the firm's investments within the banking industry and is a member of the Gapstow Capital Partners Investment Committee. Mr. Thompson is very familiar with Esquire Financial's operations and the markets in which it conducts business. Mr. Thompson's appointment further evidences Esquire Financial's commitment to alignment and engagement with its stockholders.

Under the terms of the Agreement, for so long as CJA and its affiliates own at least four percent (4%) of the outstanding shares of Esquire Financial's common stock, it shall use its reasonable best efforts to cause one person nominated by CJA to be elected to serve on the Board of Directors of Esquire Financial Holdings, Inc. and Esquire Bank.

The Corporate Governance and Nominating Committee may consider qualified candidates for director suggested by our stockholders. Stockholders can suggest qualified candidates for director by writing to our Secretary at 100 Jericho Quadrangle, Suite 100, Jericho, New York 11753. In order for the Corporate Governance and Nominating Committee to consider a candidate suggested by a stockholder, the Secretary must receive a submission not less than 90 days prior to the anniversary of the prior year's annual meeting. The submission must include the following:

- the name and address of the candidate, and the number of shares of Esquire Financial common stock that are owned by the candidate (and appropriate evidence if the candidate is not a holder of record);
- the personal history, business background and experience of the nominee, including his or her material business activities and affiliations during the past five years from the date of nomination;
- a description of any material pending legal or administrative proceedings in which the nominee is a party and any criminal indictment or conviction of such nominee by a State or Federal court;
- a statement of the assets and liabilities of the nominee as of the end of the fiscal year for each of the five fiscal years immediately preceding the date of the nomination, as of a date not more than 90 days prior to the date of his or her nomination;
- a notarized certification from the nominee indicating whether the nominee has been the subject of any criminal, civil or administrative judgments, consents, undertakings or orders, or any past or ongoing indictments, formal investigations, examinations, or administrative proceeding (excluding routine or customary audits, inspections and investigations) issued by any federal or state court, any department, agency, or commission of the United States Government, any state or municipality, any self-regulatory trade or professional organization or any foreign government or governmental agency, which involve: (a) commission of a felony, fraud, moral turpitude, dishonesty or breach of trust; (b) violation of securities or commodities laws or regulations; (c) violation of depository institution laws or regulations; (d) violation of housing authority laws or regulations; (e) violation of the rules, regulations, codes of professional conduct or ethics of a self-regulatory trade or professional organization; and (f) adjudication of bankruptcy or insolvency or appointment of a receiver, conservator, trustee, referee, or guardian;
- such other information regarding the candidate as would be required to be included in Esquire Financial's proxy statement pursuant to Securities and Exchange Commission Regulation 14A;
- the candidate's written consent to serve as a director;
- a representation that such stockholder intends to appear in person or by proxy at the meeting to nominate the persons named in its notice and
- a description of all arrangements or understandings between such stockholder and the nominee

Submissions that are received and that satisfy the above requirements are forwarded to the Corporate Governance and Nominating Committee for further review and consideration, using the same criteria to evaluate the candidate as it uses for evaluating other candidates that it considers.

Compensation Committee. The Compensation Committee is comprised of Directors Mitzman (Chairman), Coelho and Deutsch, each of whom is independent in accordance with applicable Nasdaq listing rules. No member of the Compensation Committee is a current or former officer or employee of Esquire Financial or Esquire Bank. The Compensation Committee also serves as the compensation committee of the board of directors of Esquire Bank. The Compensation Committee of Esquire Financial met 3 times during the year ended December 31, 2017.

The Compensation Committee is responsible for establishing the compensation philosophy, developing compensation guidelines, establishing (or recommending to the entire Board of Directors) the compensation of the Chief Executive Officer and the other senior executive officers. No executive officer who is also a director participates with respect to decisions on his compensation. The Compensation Committee will also administer any stock-based incentive or compensation plan that Esquire Financial may adopt in the future. The Compensation Committee may retain, at its discretion, compensation consultants to assist it in making compensation related decisions.

The Compensation Committee operates under a written charter which is available on our Internet website at www.esquirebank.com. This charter sets forth the responsibilities of the Compensation Committee and reflects the Compensation Committee's commitment to create a compensation structure that not only compensates senior management but also aligns the interests of senior management with those of our stockholders.

Our goal is to determine appropriate compensation levels that will enable us to meet the following objectives:

- to attract, retain and motivate an experienced, competent executive management team;
- to reward the executive management team for the enhancement of stockholder value based on our annual performance and the market price of our stock;
- to provide compensation rewards that are adequately balanced between short-term and long-term performance goals;
- to encourage ownership of our common stock through stock-based compensation to all levels of management; and
- to maintain compensation levels that are competitive with other financial institutions, particularly those in our peer group based on asset size and market area.

In addition to these duties the committee shall assist the Board in recruiting and succession planning.

The Compensation Committee retains responsibility for all compensation recommendations to the Board of Directors as to Esquire Financial's executive officers. The Compensation Committee may utilize information and benchmarks from an independent compensation consulting firm, and from other sources, to determine how executive compensation levels compare to those companies within the industry. The Compensation Committee may review published data for companies of similar size, location, financial characteristics and stage of development among other factors.

In designing the compensation program for Esquire Financial, the Committee takes into consideration methods to avoid encouraging the taking of excessive risk by executive management or by any other employees. The Committee assessed risks posed by the incentive compensation paid to executive management and other employees and determined that Esquire Financial's compensation policies, practices and programs do not pose risks that are reasonably likely to have a material adverse effect on Esquire Financial.

Audit Committee Report

The following Audit Committee Report is provided in accordance with the rules and regulations of the Securities and Exchange Commission. Pursuant to such rules and regulations, this report shall not be deemed "soliciting material," filed with the Securities and Exchange Commission, subject to Regulation 14A or 14C of the Securities and Exchange Commission or subject to the liabilities of Section 18 of the Securities and Exchange Act of 1934, as amended.

Management has the primary responsibility for the Company's internal controls and financial reporting process. The independent registered public accounting firm is responsible for performing an independent audit of the Company's consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board ("PCAOB") and issuing an opinion thereon. The Audit Committee's responsibility is to monitor and oversee these processes. As part of its ongoing activities, the Audit Committee has:

- Reviewed and discussed with management our audited consolidated financial statements for the year ended December 31, 2017;
- Discussed with the independent registered public accounting firm the matters required to be discussed by Auditing Standard No. 1301, "Communication With Audit Committees" as amended; and
- Received the written disclosures and the letter from the independent registered public accounting firm required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent registered public accounting firm's communications with the audit committee concerning independence, and have discussed with the independent registered public accounting firm their independence from us.

Based on the review and discussions referred to above, the Audit Committee recommended to the Board of Directors that the audited consolidated financial statements be included in our Annual Report on Form 10-K for the year ended December 31, 2017 for filing with the Securities and Exchange Commission.

The Audit Committee

Richard T. Powers (Chairman)
Kevin C. Waterhouse
Anthony Coelho

Executive Officer Compensation

Summary Compensation Table. The table below summarizes for the years ended December 31, 2017 and 2016 the total compensation paid to or earned by our Executive Chairman, President and Chief Executive Officer and our two other most highly compensated officers. Each individual listed in the table below is referred to as a named executive officer.

Summary Compensation Table

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($)(1)(2)	Option Awards ($)(2)	All Other Compensation ($)(3)	Total ($)
Dennis Shields	2017	$475,000	$225,000	$288,750	—	$ 9,949	$ 998,699
Executive Chairman	2016	$445,096	$100,000	—	$366,415	$ 6,580	$ 918,091
Andrew C. Sagliocca	2017	$475,084	$225,000	$288,750	—	$ 38,911	$1,027,745
Director, President and Chief Executive Officer	2016	$426,000	$100,000	—	$210,283	$ 35,146	$ 771,429
Eric S. Bader	2017	$400,066	$150,000	$144,375	—	$ 29,385	$ 723,826
Executive Vice President, Chief Financial Officer, Treasurer and Corporate Secretary	2016	$363,077	$100,000	—	$105,141	$ 26,805	$ 595,023
Ari P. Kornhaber	2017	$400,066	$150,000	$144,375	—	$ 29,358	$ 723,799
Executive Vice President and Director of Sales	2016	$363,061	$100,000	—	$105,141	$ 51,805	$ 620,007

(1) These amounts represent restricted stock awards granted to the named executive officers in January 2018 for their performance during the year ended December 31, 2017. The per share fair value under ASC Topic 718 of each share of restricted stock awarded was $19.25 on January 23, 2018, the date of grant.

(2) These amounts represent the aggregate grant date fair value for outstanding stock and option awards granted during the year indicated, computed in accordance with FASB ASC Topic 718. The assumptions used to

determine the value of stock and options are described in Note 8 of the Notes to the Consolidated Financial Statements in our Annual Report.

(3) The amounts in this column represent all other compensation not reported in prior columns in this table, including perquisites, the aggregate value of which exceeds $10,000. This column consists of medical, dental, vision disability, life, AD&D, car allowances or other benefits.

Bonuses

During the budgeting process at the end of each year, the board of directors allocates a bonus pool for potential allocation to senior officers at the end of the following year. The President and Chief Executive Officer evaluates the performance of the senior officers, including the named executive officers (other than himself), and recommends bonus amounts to be awarded to the senior officers to the Compensation Committee of the board of directors. The Compensation Committee determines the bonus amount awarded to the President and Chief Executive Officer and reviews and approves the bonuses awarded to the senior officers.

Employment Agreements

The Company and Bank have jointly entered into employment agreements with Dennis Shields, our Executive Chairman and Andrew C. Sagliocca, our President and Chief Executive Officer, each with an initial term of three years and have also entered into employment agreements with Eric S. Bader, our Executive Vice President and Chief Financial Officer, and with Ari P. Kornhaber, our Executive Vice President and Director of Sales, each with an initial term of two years. The agreements provide for daily automatic extensions, unless the executives' are provided with written notice of the discontinuance of such automatic extensions by the Company's or Bank's Board of Directors at any time by delivery of a written notice to such executive in accordance with the procedures set forth in the agreement, in which event the agreement shall expire at the end of 36 months (24 months with respect to Mr. Bader's and Kornhaber's agreement) following the date of the non-extension notice. Under the employment agreements, the 2018 base salary for Messrs. Shields, Sagliocca, Bader, and Kornhaber is $525,000, $525,000, $425,000 and $425,000, respectively. The base salaries are reviewed at least annually and may be increased but not decreased. In addition to the base salary, each agreement provides that the executive will receive all benefits provided to full-time employees of the Company or Bank, including among other things, bonus plans, retirement plans, pension plans and fringe benefits applicable to executive personnel. Further, if equity awards are granted in any calendar year under any Company equity compensation plan, the employment agreements provide that the executives shall receive the following: Mr. Shields shall receive an award equal to no less than 25% of the each type of awards granted during the year under the plan; Mr. Sagliocca shall receive an award equal to no less than the greater of (i) 12.5% of the total number of such type of awards granted during such calendar year under such equity plans, or (ii) 50% of the total number of such type of awards granted during such calendar year to the Company's Executive Chairman under all such plans; and Mr. Bader and Mr. Kornhaber shall each receive an award equal to no less than 50% of the total number of such awards granted to the Chief Executive Officer. Additionally, under the agreements, the executives will receive monthly automobile allowances and a life insurance policy in an amount equal to at least three (3) times, in the case of Messrs. Shields and Sagliocca, and two (2) times, in the case of Messrs. Bader and Kornhaber, of the executive's average (i) base salary and (ii) bonus payable under the bonus plan for the prior two full calendar years.

The agreements permit the Company or Bank to terminate the executive's employment for cause (as defined in the agreement) at any time. In the event the we choose to terminate an executive's employment (i) for reasons other than for cause, his death or disability or his retirement (as defined in the agreement), (ii) in the event of the executive's resignation from the Company or Bank for "good reason" upon (a) failure to be reappointed to his current office, (b) a material change in his functions, duties or responsibilities, (c) the liquidation or dissolution of the Company or Bank, or (d) a breach of the agreement by the Company or Bank, then in any such event, the executive, or in the event of death, his beneficiaries, would be entitled to receive a cash severance payment. The cash severance payment would be an amount equal to (A) the greater of: (i) his base salary payable during the remaining term of the agreement or (ii) 100% of his base salary as of the termination date, plus (B) the dollar amount of his bonus paid to the executive for the most recently completed calendar year multiplied by the greater of (i) the number of full and partial years in the remaining term of the agreement or (ii) one (1). In addition, each executive would be entitled to continue to receive for a period of eighteen (18) months (the "COBRA period") continuing medical and dental insurance coverage provided to former employees of the Company or Bank at no cost to the executive. Each executive also will be entitled to a lump sum cash payment payable within 30 days following his termination equal to the sum of the estimated cost of medical and dental coverage from the last day of the COBRA period through the remaining term of the agreement plus the expense of converting his Company-paid life insurance to an individual life insurance policy.

In the event that after the occurrence of a change in control, one of the executive's employment is (i) involuntarily terminated within 24 months (other than for Cause), (ii) terminated by him for good reason within 24 months, or (iii) terminated by him for any reason (other than good reason) within 12 months, then the Company or Bank will pay him a cash payment equal to 299% of his average annual compensation in the case of Messrs. Shields and Sagliocca (200% in the case of Messrs. Bader and Kornhaber) over the five most recently completed calendar years. For these purposes, annual compensation shall include his base salary, any other taxable income, including the income recognized on the vesting of restricted stock or exercise of stock options, commissions, bonuses (whether paid or accrued), as well as retirement benefits, director or committee fees and fringe benefits paid or to be paid during any such year, amounts paid to the profit sharing plan or employee stock ownership plan, if any, and other retirement contributions or benefits, including to any tax-qualified plan (whether or not taxable) made or accrued on behalf of the executive. Such payment will be made to him within 30 days following his termination of employment. In addition, each executive will be entitled to the same continuation of health care coverage provided in the immediately preceding paragraph, as well as the cash lump sum payment equal to the estimated cost of his and his family's medical and dental coverage from the last day of the COBRA period through the remaining term of the agreement plus the expense of converting his Company-paid life insurance to an individual life insurance policy. If the payment and benefits payable to an executive following a change in control would result in an excess parachute and excise taxes payable by the executive, the Company and or Esquire Bank will promptly pay or reimburse the executive for such taxes, as well as any other federal, state or local taxes that result from the Company's or Bank's payment of such taxes.

In exchange for Esquire Bank's and Company's promises under the employment agreements, each executive agrees that in the event of his termination under the employment agreement, other than due to disability or a change in control, he agrees that for a period of one year following such termination he will not compete with, or solicit employees or customers, suppliers or vendors of the Company or Esquire Bank to terminate, reduce, limit or change their business relationship with the Company or Esquire Bank, and further will not disclose confidential information or disparage the Company or Bank.

Incentive Compensation Plans

2007 Stock Option Plan. At the May 23, 2007 Annual Meeting, the stockholders of Esquire Bank approved the Esquire Bank 2007 Stock Option Plan. Under this plan, directors and key principal officers of Esquire Bank, and other persons designated by the Compensation Committee were eligible to participate in the 2007 Stock Option Plan. The Esquire Bank 2007 Stock Option Plan has expired; however, as of March 29, 2018, 105,750 shares remain issuable pursuant to outstanding options previously awarded under the plan.

2011 Stock Compensation Plan. On May 26, 2011, the stockholders of the Company approved its 2011 Stock Compensation Plan. The 2011 Stock Compensation Plan authorizes the issuance of up to 404,607 shares of the Company's common stock pursuant to grants of incentive and non-qualified stock options, restricted stock awards and restricted stock unit awards to officers, employees, directors and consultants of the Company and Esquire Bank. On August 26, 2015, the stockholders of the Company approved an amendment to the Company's 2011 Stock Compensation Plan to authorize 350,000 additional shares for issuance under that plan. As of March 29, 2018, options to purchase 727,425 shares of common stock are outstanding to officers, directors and others and 4,062 shares remain available for grant under the 2011 Stock Compensation Plan, which will only be granted as stock options.

The 2011 Stock Compensation Plan is administered by the members of the Compensation Committee of the Board of the Company, which has authority to make grants under the plan and to determine the types of awards and the number of shares of stock subject to any award, in its discretion. The Compensation Committee has full and exclusive power within the limitations set forth in the 2011 Stock Compensation Plan to make all decisions and determinations regarding the selection of participants and the granting of awards; establishing the terms and conditions relating to each award; and interpreting and otherwise construing the 2011 Stock Compensation Plan.

Employees, directors, officers and consultants of the Company or its subsidiaries are eligible to receive awards under the 2011 Stock Compensation Plan, except that non-employees may not be granted incentive stock options.

Unless otherwise provided in an award agreement, in the event of a participant's termination of service for any reason other than disability, retirement or death or termination for cause, then (i) any stock options shall be exercisable only as to those awards that were vested on the date of termination of service and only for a period of three months following termination, and (ii) any restricted stock awards and other awards that have not vested as of the date of termination of service shall expire and be forfeited.

In the event of termination for cause, any awards that have not vested, or have vested but have not been exercised (in the case of stock options) shall expire and shall be forfeited. Unless otherwise provided in an award agreement, upon termination of service due to death, disability or retirement, all stock options shall be exercisable as to all shares subject to an outstanding award, whether or not then exercisable, and all other awards shall become fully vested at the date of termination of service. Stock options may be exercised for a period of one year following such termination of service. Under the Internal Revenue Code, no stock option shall be eligible for treatment as an incentive stock option in the event such option is exercised more than one year following termination of service due to disability, and in order to obtain incentive stock option treatment by heirs or devisees of the stock option holder, the stock option holder's death must have occurred while employed or within three months of termination of service.

2017 Equity Incentive Plan. On November 8, 2017, the stockholders of the Company approved its 2017 Equity Incentive Plan. The 2017 Equity Incentive Plan authorizes the issuance of up to 300,000 shares of the Company's common stock pursuant to grants of restricted stock, restricted stock units, stock options, including incentive stock options and non-qualified stock options, any of which may vest based either on the passage of time or achievement of performance, or a combination of each, to officers, employees, directors and service providers of the Company and Esquire Bank. No more than 200,000 shares may be granted as restricted stock awards and restricted stock units. As of March 29, 2018, options to purchase 43,500 shares of common stock have been granted (and are outstanding) to officers, directors and others, 76,500 shares of restricted stock have been granted to directors and executive officers and 180,000 shares remain available for grant under the 2017 Equity Incentive Plan.

The 2017 Equity Incentive Plan is administered by the members of the Compensation Committee of the Board of the Company, which has authority to make grants under the plan and to determine the types of awards and the number of shares of stock subject to any award, in its discretion. The Compensation Committee has full and exclusive power within the limitations set forth in the 2017 Equity Incentive Plan to make all decisions and determinations regarding the selection of participants and the granting of awards; establishing the terms and conditions relating to each award; and interpreting and otherwise construing the 2017 Equity Incentive Plan.

Unless otherwise provided in an award agreement, in the event of a participant's termination of service for any reason other than disability, retirement or death or termination for cause, then (i) any stock options will be exercisable only as to those awards that were immediately exercisable at the date of termination, and may be exercised only for a period of three months following termination, and (ii) any restricted stock awards and restricted stock units that have not vested as of the date of termination of service will expire and be forfeited.

In the event of termination for cause, all stock options granted that have not been exercised and all restricted stock awards and restricted stock units that have not vested will expire and be forfeited. Unless otherwise provided in an award agreement, upon termination of service due to death or disability, all stock options will be exercisable as to all shares subject to an outstanding award, whether or not then exercisable, and restricted stock awards and restricted stock units will become fully vested at the date of termination of service. Stock options may be exercised for a period of one year following such termination of service. Under the Internal Revenue Code, no stock option shall be eligible for treatment as an incentive stock option in the event such option is exercised more than one year following termination of service due to disability, and in order to obtain incentive stock option treatment by heirs or devisees of the stock option holder, the stock option holder's death must have occurred while employed or within three months of termination of service.

Outstanding Equity Awards at Fiscal Year End

The following table shows stock options outstanding for each of our named executive officers as of December 31, 2017.

	Option Awards				
Name	Grant Date	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#)(1) Unexercisable	Option Exercise Price ($)	Option Expiration Date
Dennis Shields(2)	08/01/2014	6,000	4,000	12.50	08/01/2024
	09/01/2015	56,910	85,369	12.50	09/01/2025
	09/01/2016	20,300	81,200	12.50	09/01/2026
Andrew C. Sagliocca(2)	01/04/2010	27,000	—	12.50	01/04/2020
	08/01/2014	6,000	4,000	12.50	08/01/2024
	09/01/2015	10,670	16,007	12.50	09/01/2025
	09/01/2016	11,650	46,600	12.50	09/01/2026
Eric S. Bader(2)	02/01/2008	5,000(3)	—	10.00	02/01/2018
	01/04/2010	20,000	—	12.50	01/04/2020
	08/01/2014	3,930	2,620	12.50	08/01/2024
	09/01/2015	7,114	10,671	12.50	09/01/2025
	09/01/2016	5,825	23,300	12.50	09/01/2026
Ari P. Kornhaber(2)	08/01/2014	6,000	4,000	12.50	08/01/2024
	09/01/2015	3,556	5,336	12.50	09/01/2025
	05/02/2016	1,500	6,000	12.50	05/02/2026
	09/01/2016	5,825	23,300	12.50	09/01/2026

(1) All awards vest in 20% increments on the first, second, third, fourth and fifth anniversary of the date of grant.

(2) On January 23, 2018, Messrs. Shields and Sagliocca were awarded 15,000 restricted shares each and Messrs. Bader and Kornhaber were awarded 7,500 shares each, all at a per share fair value of $19.25.

(3) On January 9, 2018, Mr. Bader exercised these shares.

Director Compensation

The following table sets forth for the year ended December 31, 2017 certain information as to total compensation paid to non-employee directors. Messrs. Shields and Sagliocca do not receive any additional compensation for service on our board of directors and Esquire Bank's board of directors.

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)(1)	Option Awards ($)(1)(2)	Total ($)
Anthony Coelho	26,750	67,375	—	94,125
Todd Deutsch	38,000	48,125	—	86,125
Marc Grossman	12,000	38,500	—	50,500
Russ M. Herman	8,250	48,125	—	56,375
Janet Hill	14,500	—	8,445	22,945
Robert J. Mitzman	26,250	48,125	—	74,375
John Morgan	6,000	—	8,445	14,445
Richard T. Powers	33,000	—	8,445	41,445
Jack Thompson	21,000	—	—	21,000
Kevin C. Waterhouse	31,750	—	8,445	40,195
Selig Zises	25,500	—	8,445	33,945

(1) These amounts represent restricted stock awards or stock options granted to certain directors in January 2018 for their performance during the year ended December 31, 2017. The stock awards and options were granted on January 23, 2018 at a per share fair value of $19.25 and $5.63, respectively, as determined under ASC Topic 718.

(2) At December 31, 2017, Messrs. Coelho, Deutsch, Grossman, Herman, Hill, Mitzman, Morgan, Powers, Thompson, Waterhouse and Zises held 42,231, 20,000, 7,500, 49,231, 7,500, 51,231, 7,500, 5,778, 0, 20,392 and 34,681 outstanding stock options, respectively.

Director Fees

Board members of the Company receive fees for board and committee meetings attended in person. Board members receive $1,500 for each Board meeting, $750 for each telephonic Board Meeting, and $1,000 for each committee meeting attended.

Transactions With Certain Related Persons

In addition to the compensation arrangements with directors and executive officers described in "Executive Officer Compensation" above, the following is a description of transactions since January 1, 2017, to which we have been a party in which the amount involved exceeded or will exceed $120,000, and in which any of our directors, executive officers or beneficial holders of more than five percent of our capital stock, or their immediate family members or entities affiliated with them, had or will have a direct or indirect material interest.

Policies and Procedures Regarding Related Party Transactions

Transactions by the Company or Esquire Bank with related parties are subject to certain regulatory requirements and restrictions, including Sections 23A and 23B of the Federal Reserve Act (which govern certain transactions by Esquire Bank with its affiliates) and the Federal Reserve's Regulation O (which governs certain loans by Esquire Bank to its executive officers, directors and principal stockholders).

Under applicable Securities and Exchange Commission and NASDAQ listing rules, related party transactions are transactions in which we are a participant, the amount involved exceeds $120,000 and a related party has or will have a direct or indirect material interest. Related parties of the Company include directors (including nominees for election as directors), executive officers, five percent stockholders and the immediate family members of these persons. Related party transactions will be referred for approval or ratification to our audit committee. In determining whether to approve a related party transaction, the Audit Committee will consider, among other factors, the fairness of the proposed transaction, the direct or indirect nature of the related party's interest in the transaction, the appearance of an improper conflict of interests for any director or executive officer taking into account the size of the transaction and the financial position of the related party, whether the transaction would impair an outside director's independence, the acceptability of the transaction to our regulators and the potential violations of other corporate policies.

Banking Relationships

In 2016, Esquire Bank made a $500,000 loan to a third-party borrower the proceeds of which were used to lend additional monies to a limited liability company controlled by Plaintiff Funding Holding, Inc. (d/b/a LawCash). Mr. Zises, a director of the Company, and Mr. Shields, an executive officer and a director of the Company, are each principal stockholders of LawCash, and Mr. Shields is the Chief Executive Officer of LawCash. The loan was made in the ordinary course of business, on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with others, and in the opinion of management does not involve more than a normal risk of collectability, nor does it present other unfavorable features. The loan was approved by the Directors Loan Committee and Corporate Governance Committee, without participation or vote of Messrs. Shields or Zises. This loan paid off in the fourth quarter of 2017.

We have engaged, and expect to engage in the future, in banking transactions in the ordinary course of business with directors, officers, principal stockholders and their associates and/or immediate family members, on substantially the same terms, including interest rates and collateral on loans, as those prevailing at the same time for comparable transactions with persons not related to us and that do not involve more than the normal risk of collectability or present other unfavorable features.

At December 31, 2017, the aggregate amount of extensions of credit to our directors, executive officers, principal stockholders and their associates was $6.4 million, or approximately 7.7% of our total equity. At December 31, 2017, unfunded commitments totaled $60,000.

PROPOSAL II — RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Our independent registered public accounting firm for the years ended December 31, 2017 and 2016 was Crowe Horwath LLP. The Audit Committee of Esquire Financial has approved the engagement of Crowe Horwath LLP to be our independent registered public accounting firm for the year ending December 31, 2018, subject to the ratification of the engagement by our stockholders. A representative of Crowe Horwath LLP is expected to attend the Annual Meeting to respond to appropriate questions and to make a statement if they so desire.

Even if the engagement of Crowe Horwath LLP is ratified, the Audit Committee, in its discretion, may direct the appointment of a different independent registered public accounting firm at any time during the year if it determines that such change would be in the best interests of Esquire Financial and its stockholders.

Set forth below is certain information concerning aggregate fees billed for professional services rendered by Crowe Horwath LLP during the years ended December 31, 2017 and 2016.

	Year Ended December 31, 2017	Year Ended December 31, 2016
Audit Fees	$158,000	$115,000
Audit-Related Fees	$181,000	$105,000
Tax Fees	$ —	$ —
All Other Fees	$ —	$ —

Audit Fees. The aggregate fees billed to us for professional services rendered for the audit of our annual consolidated financial statements and services that are normally provided in connection with our engagement were $158,000 and $115,000 during the years ended December 31, 2017 and 2016, respectively.

Audit Related Fees. During the year ended December 31, 2017 and 2016, respectively, audit-related fees of $181,000 and $105,000 were billed, all of which consisted of fees for services related to the initial public stock offering, including review of the registration statement and prospectus, the issuance of consents, participation in drafting sessions, the preparation of accounting opinions, assistance with responses to regulatory accounting comments and the preparation of a comfort letter.

Tax Fees. There were no fees billed to us for professional services rendered for tax preparation, tax consultation and tax compliance during the years ended December 31, 2017 and 2016, respectively.

All Other Fees. There were no other fees billed during the years ended December 31, 2017 and 2016, respectively.

Policy on Audit Committee Pre-Approval of Audit and Non-Audit Services of Independent Registered Public Accounting Firm

The Audit Committee has considered whether the provision of non-audit services, which relate primarily to tax compliance services and tax advice rendered and services performed in connection with the Company’s initial public stock offering, was compatible with maintaining the independence of Crowe Horwath LLP. The Audit

Committee concluded that performing such services did not affect the independence of Crowe Horwath LLP in performing its function as our independent registered public accounting firm.

The Audit Committee's policy is to pre-approve all audit and non-audit services provided by the independent registered public accounting firm, either by approving an engagement prior to the engagement or pursuant to a pre-approval policy with respect to particular services. These services may include audit services, audit-related services, tax services and other services. The Audit Committee may delegate pre-approval authority to one or more members of the Audit Committee when expedition of services is necessary. The independent registered public accounting firm and management are required to periodically report to the full Audit Committee regarding the extent of services provided by the independent registered public accounting firm in accordance with this pre-approval, and the fees for the services performed to date. The audit-related fees and all other fees described above were approved as part of our engagement of Crowe Horwath LLP.

The Board of Directors recommends a vote "FOR" the ratification of Crowe Horwath LLP as independent registered public accounting firm for the year ending December 31, 2018.

STOCKHOLDER PROPOSALS

Pursuant to Securities and Exchange Commission Rule 14a-8, in order to be eligible for inclusion in the proxy materials provided to stockholders in connection with an annual meeting, a stockholder proposal to take action at such meeting must be received at least one hundred and twenty (120) days prior to the anniversary of the release of the proxy statement to stockholders connection with the previous year's annual meeting. Accordingly, in order to be eligible for inclusion in the proxy materials for our 2019 Annual Meeting of Stockholders, any stockholder proposal to take action at such meeting must be received at the Company's executive offices, 100 Jericho Quadrangle, Suite 100, Jericho, New York 11753, no later than December 12, 2018. If the date of the Annual Meeting is changed by more than 30 days from the anniversary of the previous year's meeting, any stockholder proposal must be received at a reasonable time before we print or mail proxy materials for such meeting. Any such proposals shall be subject to the requirements of the proxy rules adopted under the Securities Exchange Act of 1934.

The Company's Bylaws provide an advance notice procedure for certain business, or nominations to the Board of Directors, to be brought before an annual meeting of stockholders. In order for a stockholder to properly bring business before the 2019 Annual Meeting, a stockholder must give written notice to the Corporate Secretary at least 90 days prior to the anniversary of the proxy statement relating to the preceding year's Annual Meeting, or within 10 days of the first public announcement of the annual meeting if the annual meeting is advanced or delayed by more than 30 days after the anniversary of the preceding year's annual meeting. The Company's Bylaws require that the notice must include, among other things, the stockholder's name, record address, and number of stocks owned, describe briefly the proposed business, the reasons for bringing the business before the annual meeting, and any material interest of the stockholder in the proposed business. A proxy granted by a stockholder will give discretionary authority to the proxies to vote on any matters introduced pursuant to the above advance notice bylaw provisions, subject to applicable rules of the Securities and Exchange Commission. Nothing in this paragraph shall be deemed to require the Company to include in its annual meeting proxy statement under Securities and Exchange Commission Rule 14a-8 any stockholder proposal that does not meet all of the requirements for inclusion established by the Securities and Exchange Commission in effect at the time such proposal is received. In accordance with the foregoing, in order for a proposal or a nomination to be brought before the annual meeting of stockholders to be held following the year ending December 31, 2018, notice must be provided to the Corporate Secretary by January 11, 2019.

OTHER MATTERS

The Board of Directors is not aware of any business to come before the Annual Meeting other than the matters described above in the Proxy Statement. However, if any matters should properly come before the Annual Meeting, it is intended that the Board of Directors, as holders of the proxies, will act as determined by a majority vote.

MISCELLANEOUS

The cost of solicitation of proxies will be borne by the Company. The Company will reimburse brokerage firms and other custodians, nominees and fiduciaries for reasonable expenses incurred by them in sending proxy materials to the beneficial owners of common stock. In addition to solicitations by mail, directors, officers and regular employees of the Company may solicit proxies personally or by telephone without additional compensation. Our 2017 Annual Report on Form 10-K has been made available to all stockholders of record as of March 29, 2018. Any stockholder may obtain a copy of the 2017 Annual Report on Form 10-K through our website, by calling us or writing us at the address below.

Investor Relations
Esquire Financial Holdings, Inc.
100 Jericho Quadrangle, Suite 100
Jericho, New York 11753
Phone: (516) 535-2002
www.esquirebank.com

BY ORDER OF THE BOARD OF DIRECTORS

Eric S. Bader
Corporate Secretary

Jericho, New York
April 23, 2018

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL MEETING

The Notice, Proxy Statement, Proxy Card and 2017 Annual Report on Form 10-K are available at http://www.astproxyportal.com/ast/21569.

ESQUIRE FINANCIAL HOLDINGS, INC.

Proxy for Annual Meeting of Stockholders on May 30, 2018

Solicited on Behalf of the Board of Directors

The undersigned hereby appoints Dennis Shields and Andrew C. Sagliocca, and each of them, with full power of substitution and power to act alone, as proxies to vote all the shares of Common Stock which the undersigned would be entitled to vote if personally present and acting at the Annual Meeting of Stockholders of Esquire Financial Holdings, Inc., to be held May 30, 2018 at 10:00 AM, and at any adjournments or postponements thereof, as follows:

(Continued and to be signed on the reverse side.)

1.1 14475

ANNUAL MEETING OF STOCKHOLDERS OF

ESQUIRE FINANCIAL HOLDINGS, INC.

May 30, 2018

PROXY VOTING INSTRUCTIONS

INTERNET - Access "**www.voteproxy.com**" and follow the on-screen instructions or scan the QR code with your smartphone. Have your proxy card available when you access the web page.

Vote online until 11:59 PM EST the day before the meeting.

MAIL - Sign, date and mail your proxy card in the envelope provided as soon as possible.

IN PERSON - You may vote your shares in person by attending the Annual Meeting.

GO GREEN - e-Consent makes it easy to go paperless. With e-Consent, you can quickly access your proxy material, statements and other eligible documents online, while reducing costs, clutter and paper waste. Enroll today via www.astfinancial.com to enjoy online access.

COMPANY NUMBER	
ACCOUNT NUMBER	

NOTICE OF INTERNET AVAILABILITY OF PROXY MATERIAL:
The Notice of Meeting, proxy statement, 2017 Annual Report to Stockholders and proxy card are available at http://www.astproxyportal.com/ast/21569

Please detach along perforated line and mail in the envelope provided IF you are not voting via the Internet.

20430000000000001000 7 053018

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" THE ELECTION OF DIRECTORS AND "FOR" PROPOSAL 2.
PLEASE SIGN, DATE AND RETURN PROMPTLY IN THE ENCLOSED ENVELOPE. PLEASE MARK YOUR VOTE IN BLUE OR BLACK INK AS SHOWN HERE ☒

1. Election of Directors:

☐ FOR ALL NOMINEES

☐ WITHHOLD AUTHORITY FOR ALL NOMINEES

☐ FOR ALL EXCEPT (See instructions below)

NOMINEES:
- ○ Janet Hill
- ○ Anthony Coelho
- ○ Richard T. Powers
- ○ Andrew C. Sagliocca

	FOR	AGAINST	ABSTAIN
2. RATIFICATION OF THE APPOINTMENT OF CROWE HORWATH LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE YEAR ENDING DECEMBER 31, 2018	☐	☐	☐

In their discretion, the proxies are authorized to vote upon such other business as may properly come before the Annual Meeting. This proxy when properly executed will be voted as directed herein by the undersigned shareholder. **If no direction is made, this proxy will be voted FOR ALL NOMINEES in Proposal 1 and FOR Proposal 2.**

INSTRUCTIONS: To withhold authority to vote for any individual nominee(s), mark **"FOR ALL EXCEPT"** and fill in the circle next to each nominee you wish to withhold, as shown here: ●

MARK "X" HERE IF YOU PLAN TO ATTEND THE MEETING. ☐

To change the address on your account, please check the box at right and indicate your new address in the address space above. Please note that changes to the registered name(s) on the account may not be submitted via this method. ☐

Signature of Stockholder		Date:		Signature of Stockholder		Date:	

Note: Please sign exactly as your name or names appear on this Proxy. When shares are held jointly, each holder should sign. When signing as executor, administrator, attorney, trustee or guardian, please give full title as such. If the signer is a corporation, please sign full corporate name by duly authorized officer, giving full title as such. If signer is a partnership, please sign in partnership name by authorized person.