REFINITIV

DELTA REPORT

10-Q

ESQ - ESQUIRE FINANCIAL HOLDING

10-Q - JUNE 30, 2024 COMPARED TO 10-Q - MARCH 31, 2024

The following comparison report has been automatically generated

TOTAL DELTAS	621
CHANGES	363
DELETIONS	83
ADDITIONS	175

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

FORM 10-Q

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

For the quarterly period ended March 31, June 30, 2024

OR

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

For the transition period from ____________to ____________

Commission File No. 001-38131

Esquire Financial Holdings, Inc.

(Exact Name of Registrant as Specified in Its Charter)

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

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such requirements for the past 90 days.

YES ☒ NO ◻

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

YES ☒ NO ◻

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

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☒
		Emerging growth company	☐

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: As of May 1, 2024 August 1, 2024, there were 8,292,805 8,314,227 outstanding shares of the issuer's common stock.

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Esquire Financial Holdings, Inc.
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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

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

	March 31, 2024	December 31, 2023	June 30, 2024	December 31, 2023
Assets:				
Cash and cash equivalents	$ 158,243	$ 165,209	$ 152,733	$ 165,209
Securities available-for-sale, at fair value	142,159	122,107	176,814	122,107
Securities held-to-maturity, at cost (fair value of $66,968 and $69,116, at March 31, 2024 and December 31, 2023, respectively)	75,242	77,001		
Securities held-to-maturity, at cost (fair value of $64,777 and $69,116, at June 30, 2024 and December 31, 2023, respectively)			73,062	77,001
Securities, restricted, at cost	2,928	2,928	3,034	2,928
Loans held for investment	1,228,242	1,207,413	1,261,062	1,207,413
Less: allowance for credit losses	(17,523)	(16,631)	(18,521)	(16,631)
Loans, net of allowance	1,210,719	1,190,782	1,242,541	1,190,782
Premises and equipment, net	2,661	2,602	2,809	2,602
Accrued interest receivable	9,307	9,130	9,170	9,130
Other assets	53,022	47,117	55,551	47,117
Total assets	$ 1,654,281	$ 1,616,876	$1,715,714	$1,616,876
Liabilities:				
Deposits:				
Demand	$ 472,616	$ 473,274	$ 482,988	$ 473,274
Savings, NOW and money market	947,055	926,264	991,953	926,264

Time	14,378	7,761	11,952	7,761
Total deposits	1,434,049	1,407,299	1,486,893	1,407,299
Accrued expenses and other liabilities	13,154	11,022	11,410	11,022
Total liabilities	1,447,203	1,418,321	1,498,303	1,418,321
Commitments and contingencies	—	—	—	—
Stockholders' equity:				
Preferred stock, par value $0.01; authorized 2,000,000 shares; none issued	—	—	—	—
Common stock, par value $0.01; authorized 15,000,000 shares; 8,372,185 and 8,361,185 shares issued, respectively; and 8,292,789 and 8,287,848 shares outstanding, respectively	84	84		
Common stock, par value $0.01; authorized 15,000,000 shares; 8,372,344 and 8,361,185 shares issued, respectively; and 8,292,948 and 8,287,848 shares outstanding, respectively			84	84
Additional paid-in capital	100,853	99,713	101,815	99,713
Retained earnings	123,077	114,261	132,320	114,261
Accumulated other comprehensive loss	(14,369)	(13,235)	(14,241)	(13,235)
Treasury stock at cost (79,396 and 73,337 shares, respectively)	(2,567)	(2,268)	(2,567)	(2,268)
Total stockholders' equity	207,078	198,555	217,411	198,555
Total liabilities and stockholders' equity	$ 1,654,281	$ 1,616,876	$1,715,714	$1,616,876

See accompanying notes to interim consolidated financial statements.

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

	Three Months Ended March 31,	
	2024	**2023**
Interest income:		
Loans held for investment	$ 23,389	$ 17,615
Securities, includes restricted stock	1,605	1,154
Securities purchased under agreements to resell	—	653
Interest earning cash and other	1,079	943
Total interest income	26,073	20,365
Interest expense:		
Savings, NOW and money market deposits	3,098	1,012
Time deposits	111	63
Borrowings	1	1
Total interest expense	3,210	1,076

Net interest income	22,863	19,289
Provision for credit losses	1,000	500
Net interest income after provision for credit losses	21,863	18,789
Noninterest income:		
Payment processing fees	5,296	5,513
Administrative service income	746	529
Gain on equity investment	—	4,027
Customer related fees, service charges and other	347	193
Total noninterest income	6,389	10,262
Noninterest expense:		
Employee compensation and benefits	9,161	7,484
Occupancy and equipment	927	829
Professional and consulting services	951	1,543
FDIC and regulatory assessments	222	144
Advertising and marketing	872	429
Travel and business relations	278	148
Data processing	1,511	1,133
Other operating expenses	646	771
Total noninterest expense	14,568	12,481
Net income before income taxes	13,684	16,570
Income tax expense	3,626	4,391
Net income	$ 10,058	$ 12,179
Earnings per share		
Basic	$ 1.29	$ 1.58
Diluted	$ 1.20	$ 1.47

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Interest income:				
Loans held for investment	$ 24,216	$ 19,137	$ 47,605	$ 36,752
Securities, includes restricted stock	2,023	1,189	3,628	2,343
Securities purchased under agreements to resell	—	715	—	1,368
Interest earning cash and other	1,146	1,014	2,225	1,957
Total interest income	27,385	22,055	53,458	42,420
Interest expense:				
Savings, NOW and money market deposits	2,932	1,809	6,030	2,821
Time deposits	130	156	241	219
Borrowings	1	1	2	2
Total interest expense	3,063	1,966	6,273	3,042
Net interest income	24,322	20,089	47,185	39,378
Provision for credit losses	1,000	1,325	2,000	1,825
Net interest income after provision for credit losses	23,322	18,764	45,185	37,553
Noninterest income:				
Payment processing fees	5,322	5,764	10,618	11,277
Administrative service income	620	739	1,366	1,268
Gain on equity investment	—	—	—	4,027
Customer related fees, service charges and other	333	192	680	385

Total noninterest income	6,275	6,695	12,664	16,957
Noninterest expense:				
Employee compensation and benefits	9,525	7,803	18,686	15,287
Occupancy and equipment	1,156	835	2,083	1,664
Professional and consulting services	857	1,615	1,808	3,158
FDIC and regulatory assessments	233	182	455	326
Advertising and marketing	881	320	1,753	749
Travel and business relations	180	246	458	394
Data processing	1,722	1,249	3,233	2,382
Other operating expenses	678	726	1,324	1,497
Total noninterest expense	15,232	12,976	29,800	25,457
Net income before income taxes	14,365	12,483	28,049	29,053
Income tax expense	3,878	3,370	7,504	7,761
Net income	$ 10,487	$ 9,113	$ 20,545	$ 21,292
Earnings per share				
Basic	$ 1.34	$ 1.18	$ 2.64	$ 2.76
Diluted	$ 1.25	$ 1.10	$ 2.45	$ 2.57

See accompanying notes to interim consolidated financial statements.

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

	Three Months Ended March 31,	
	2024	2023
Net income	$ 10,058	$ 12,179
Other comprehensive (loss) income:		
Unrealized (losses) gains arising during the period on securities available-for-sale	(1,564)	1,911
Tax effect	430	(526)
Total other comprehensive (loss) income	(1,134)	1,385
Total comprehensive income	$ 8,924	$ 13,564

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Net income	$ 10,487	$ 9,113	$ 20,545	$ 21,292
Other comprehensive income (loss):				
Unrealized gains (losses) arising during the period on securities available-for-sale	176	(980)	(1,388)	931
Tax effect	(48)	270	382	(256)
Total other comprehensive income (loss)	128	(710)	(1,006)	675
Total comprehensive income	$ 10,615	$ 8,403	$ 19,539	$ 21,967

See accompanying notes to interim consolidated financial statements.

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

	Preferred shares	Common shares	Preferred stock	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Treasury stock	Total stockholders' equity
Balance at January 1, 2024	—	8,287,848	$ —	$ 84	$ 99,713	$ 114,261	$ (13,235)	$ (2,268)	$ 198,555
Net income	—	—	—	—	—	10,058	—	—	10,058
Other comprehensive loss	—	—	—	—	—	—	(1,134)	—	(1,134)
Exercise of stock options	—	11,000	—	—	173	—	—	—	173
Stock compensation expense	—	—	—	—	967	—	—	—	967
Cash dividends declared to common stockholders ($0.15 per share)	—	—	—	—	—	(1,242)	—	—	(1,242)
Shares received related to tax withholding	—	(6,059)	—	—	—	—	—	(299)	(299)
Balance at March 31, 2024	—	8,292,789	$ —	$ 84	$ 100,853	$ 123,077	$ (14,369)	$ (2,567)	$ 207,078

	Preferred shares	Common shares	Preferred stock	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Treasury stock	Total stockholders' equity
Balance at January 1, 2023	—	8,195,333	$ —	$ 82	$ 96,387	$ 77,712	$ (15,117)	$ (906)	$ 158,158
Cumulative change in accounting principle	—	—	—	—	—	(568)	—	—	(568)
Balance at January 1, 2023 (as adjusted for change in accounting principle)	—	8,195,333	—	82	96,387	77,144	(15,117)	(906)	157,590
Net income	—	—	—	—	—	12,179	—	—	12,179
Other comprehensive income	—	—	—	—	—	—	1,385	—	1,385
Exercise of stock options, net of repurchases (1,348 shares)	—	6,631	—	—	47	—	—	—	47
Stock compensation expense	—	—	—	—	790	—	—	—	790
Cash dividends declared to common stockholders ($0.10 per share)	—	—	—	—	—	(819)	—	—	(819)
Shares received related to tax withholding	—	(3,706)	—	—	—	—	—	(153)	(153)
Purchase of common stock	—	(7,500)	—	—	—	—	—	(268)	(268)
Balance at March 31, 2023	—	8,190,758	$ —	$ 82	$ 97,224	$ 88,504	$ (13,732)	$ (1,327)	$ 170,751

Accumulated

	Preferred shares	Common shares	Preferred stock	Common stock	Additional paid-in capital	Retained earnings	other comprehensive loss	Treasury stock	Total stockholders' equity
Balance at April 1, 2024	—	8,292,789	$ —	$ 84	$ 100,853	$ 123,077	$ (14,369)	$ (2,567)	$ 207,078
Net income	—	—	—	—	—	10,487	—	—	10,487
Other comprehensive income	—	—	—	—	—	—	128	—	128
Exercise of stock options, net of repurchases (257 shares)	—	159	—	—	—	—	—	—	—
Stock compensation expense	—	—	—	—	962	—	—	—	962
Cash dividends declared to common stockholders ($0.15 per share)	—	—	—	—	—	(1,244)	—	—	(1,244)
Balance at June 30, 2024	—	8,292,948	$ —	$ 84	$ 101,815	$ 132,320	$ (14,241)	$ (2,567)	$ 217,411

	Preferred shares	Common shares	Preferred stock	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Treasury stock	Total stockholders' equity
Balance at April 1, 2023	—	8,190,758	$ —	$ 82	$ 97,224	$ 88,504	$ (13,732)	$ (1,327)	$ 170,751
Net income	—	—	—	—	—	9,113	—	—	9,113
Other comprehensive loss	—	—	—	—	—	—	(710)	—	(710)
Exercise of stock options, net of repurchases (2,070 shares)	—	2,121	—	—	6	—	—	—	6
Stock compensation expense	—	—	—	—	788	—	—	—	788
Cash dividends declared to common stockholders ($0.125 per share)	—	—	—	—	—	(1,024)	—	—	(1,024)
Purchase of common stock	—	(500)	—	—	—	—	—	(18)	(18)
Balance at June 30, 2023	—	8,192,379	$ —	$ 82	$ 98,018	$ 96,593	$ (14,442)	$ (1,345)	$ 178,906

	Preferred shares	Common shares	Preferred stock	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Treasury stock	Total stockholders' equity
Balance at January 1, 2024	—	8,287,848	$ —	$ 84	$ 99,713	$ 114,261	$ (13,235)	$ (2,268)	$ 198,555
Net income	—	—	—	—	—	20,545	—	—	20,545
Other comprehensive loss	—	—	—	—	—	—	(1,006)	—	(1,006)
Exercise of stock options, net of repurchases (257 shares)	—	11,159	—	—	173	—	—	—	173
Stock compensation expense	—	—	—	—	1,929	—	—	—	1,929
Cash dividends declared to common stockholders ($0.30 per share)	—	—	—	—	—	(2,486)	—	—	(2,486)
Shares received related to tax withholding	—	(6,059)	—	—	—	—	—	(299)	(299)
Balance at June 30, 2024	—	8,292,948	$ —	$ 84	$ 101,815	$ 132,320	$ (14,241)	$ (2,567)	$ 217,411

	Preferred shares	Common shares	Preferred stock	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Treasury stock	Total stockholders' equity
Balance at January 1, 2023	—	8,195,333	$ —	$ 82	$ 96,387	$ 77,712	$ (15,117)	$ (906)	$ 158,158
Cumulative change in accounting principle	—	—	—	—	—	(568)	—	—	(568)
Balance at January 1, 2023 (as adjusted for change in accounting principle)	—	8,195,333	—	82	96,387	77,144	(15,117)	(906)	157,590
Net income	—	—	—	—	—	21,292	—	—	21,292

Other comprehensive income	—	—	—	—	—	—	675	—	675
Exercise of stock options, net of repurchases (3,418 shares)	—	8,752	—	—	53	—	—	—	53
Stock compensation expense	—	—	—	—	1,578	—	—	—	1,578
Cash dividends declared to common stockholders ($0.225 per share)	—	—	—	—	—	(1,843)	—	—	(1,843)
Shares received related to tax withholding	—	(3,706)	—	—	—	—	—	(153)	(153)
Purchase of common stock	—	(8,000)	—	—	—	—	—	(286)	(286)
Balance at June 30, 2023	—	8,192,379	$ —	$ 82	$ 98,018	$ 96,593	$ (14,442)	$ (1,345)	$ 178,906

See accompanying notes to interim consolidated financial statements.

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

	Three Months Ended March 31, 2024	Three Months Ended March 31, 2023
Cash flows from operating activities:		
Net income	$ 10,058	$ 12,179
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	1,000	500
Depreciation and amortization of premises and equipment	176	173
Stock compensation expense	967	790
Gain on equity investment	—	(4,027)
Net amortization (accretion):		
Securities	88	113
Loans	(148)	(323)
Right of use asset	138	136
Software	431	311
Changes in other assets and liabilities:		
Accrued interest receivable	(177)	(754)
Other assets	(1,829)	(273)
Operating lease liability	(173)	(134)
Accrued expenses and other liabilities	2,246	5,979
Net cash provided by operating activities	12,777	14,670
Cash flows from investing activities:		
Net change in loans	(20,789)	(17,783)
Net change in securities purchased under agreements to resell	—	337
Purchases of securities available-for-sale	(24,973)	—
Principal repayments on securities available-for-sale	3,292	3,152

Principal repayments on securities held-to-maturity	1,736	1,425
Proceeds from sale of equity investment	—	3,737
Purchase of equity investment	(3,524)	—
Purchases of premises and equipment	(235)	(62)
Development of capitalized software	(691)	(785)
Net cash used in investing activities	(45,184)	(9,979)
Cash flows from financing activities:		
Net increase in deposits	26,750	36,136
Exercise of stock options, net of repurchases	173	47
Tax withholding payments for vested equity awards	(299)	(153)
Cash dividends paid to common stockholders	(1,183)	(776)
Purchase of common stock	—	(268)
Net cash provided by financing activities	25,441	34,986
(Decrease) increase in cash and cash equivalents	(6,966)	39,677
Cash and cash equivalents at beginning of the period	165,209	164,122
Cash and cash equivalents at end of the period	$ 158,243	$ 203,799
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$ 3,205	$ 1,059
Taxes	646	163
Noncash transactions:		
Dividends declared but not paid	59	43
Exchange of noncash instruments	(300)	1,100
Cumulative change in accounting principle	—	(568)

	Six Months Ended June 30,	
	2024	**2023**
Cash flows from operating activities:		
Net income	$ 20,545	$ 21,292
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	2,000	1,825
Depreciation and amortization of premises and equipment	370	349
Stock compensation expense	1,929	1,578
Gain on equity investment	—	(4,027)
Net amortization (accretion):		
Securities	164	226
Loans	(247)	(707)
Right of use asset	279	292
Software	1,044	626
Changes in other assets and liabilities:		
Accrued interest receivable	(40)	(1,217)
Other assets	(6,305)	(7,879)
Operating lease liability	(352)	(291)
Accrued expenses and other liabilities	608	3,040
Net cash provided by operating activities	19,995	15,107
Cash flows from investing activities:		
Net change in loans	(53,512)	(107,649)
Net change in securities purchased under agreements to resell	—	62
Purchases of securities available-for-sale	(65,183)	—
Purchases of securities held-to-maturity	—	(5,978)
Principal repayments on securities available-for-sale	8,972	6,339
Principal repayments on securities held-to-maturity	3,891	3,426

Purchases of securities, restricted	(106)	(118)
Proceeds from equity investment	1,467	3,737
Purchase of equity investment	(3,524)	—
Purchases of premises and equipment	(577)	(146)
Development of capitalized software	(1,013)	(1,324)
Net cash used in investing activities	(109,585)	(101,651)
Cash flows from financing activities:		
Net increase in deposits	79,594	30,748
Decrease in borrowings	(1)	(1)
Exercise of stock options, net of repurchases	173	53
Tax withholding payments for vested equity awards	(299)	(153)
Cash dividends paid to common stockholders	(2,353)	(1,740)
Purchase of common stock	—	(286)
Net cash provided by financing activities	77,114	28,621
Decrease in cash and cash equivalents	(12,476)	(57,923)
Cash and cash equivalents at beginning of the period	165,209	164,122
Cash and cash equivalents at end of the period	$ 152,733	$ 106,199
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$ 6,278	$ 2,942
Taxes	8,932	9,885
Noncash transactions:		
Dividends declared but not paid	133	103
Exchange of noncash instruments	(300)	1,100
Cumulative change in accounting principle	—	(568)

See accompanying notes to interim consolidated financial statements.

ESQUIRE FINANCIAL HOLDINGS, INC.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

Basis of Presentation

The Interim Consolidated Financial Statements including the accounts of Esquire Financial Holdings, Inc. and its wholly owned subsidiary, Esquire Bank, N.A., are collectively referred to as “the Company.” All significant intercompany accounts and transactions have been eliminated in consolidation.

The accompanying unaudited Interim Consolidated Financial Statements have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial information. In the opinion of management, the interim statements reflect all adjustments necessary for a fair presentation of the financial position, results of operations and cash flows of the Company on a consolidated basis and all such adjustments are recurring in nature. These financial statements and the accompanying notes should be read in conjunction with the Company's audited financial statements for the years ended December 31, 2023 and 2022. Operating results for the three and six months ended March 31, 2024 June 30, 2024 are not necessarily indicative of the results that may be expected for the year ending December 31, 2024 or any other period.

Subsequent Events

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

Investment in Variable Interest Entity

On April 1, 2022, the Company sold its legacy National Football League ("NFL") consumer post-settlement loan portfolio to a variable interest entity ("VIE") in exchange for a nonvoting interest valued at $13.5 million where the Company will remain as servicer of the loan portfolio at the discretion of the VIE manager. The Company's investment is considered a significant variable interest, but it does not have the power to direct the activities that most significantly impact the VIE's economic performance. Therefore, the Company is not considered the primary beneficiary of this VIE and does not consolidate the entity in the Company's financial statements. The Company's maximum exposure to loss is limited to the carrying amount of its investment and accounted for under the equity method which is presented within Other assets on the Consolidated Statements of Financial Condition. Losses may occur as a result of a reduction of projected cash flows from the VIE's loan portfolio based on expected claim settlements. The NFL fund's primary model assumptions were adjusted to extend Company recognized an equity method loss of approximately $500 thousand on its investment in the expected weighted average second quarter of 2024, which is representative of the six months ended June 30, 2024. As of June 30, 2024, the investment's carrying amount was $10.1 million with a remaining life of the underlying assets by approximately one year. 4.8 years. As of March 31, 2024 December 31, 2023, the investment's carrying amount was $10.6 million with a remaining life of 5.0 years, comparable to a carrying amount of $10.6 million as of December 31, 2023.

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.

Summary of Significant Accounting Policies

Please see "Part I - Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies" for a discussion of areas in the accompanying unaudited Consolidated Financial Statements utilizing significant estimates.

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NOTE 2 — Debt Securities

The following tables summarize the major categories of securities as of the dates indicated:

	March 31, 2024				June 30, 2024			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value

	(In thousands)				(In thousands)			
Securities available-for-sale:								
Mortgage-backed securities – agency	$105,421	$ —	$ (17,700)	$ 87,721	$104,774	$ —	$ (17,456)	$ 87,318
Collateralized mortgage obligations ("CMOs") – agency	56,557	126	(2,245)	54,438	91,683	166	(2,353)	89,496
Total available-for-sale	$161,978	$ 126	$ (19,945)	$142,159	$196,457	$ 166	$ (19,809)	$176,814
	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value

	(In thousands)				(In thousands)			
Securities held-to-maturity:								
CMOs – agency	$ 75,242	$ —	$ (8,274)	$ 66,968	$ 73,062	$ —	$ (8,285)	$ 64,777
Total held-to-maturity	$ 75,242	$ —	$ (8,274)	$ 66,968	$ 73,062	$ —	$ (8,285)	$ 64,777
	December 31, 2023				December 31, 2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value

	(In thousands)				(In thousands)			
Securities available-for-sale:								
Mortgage-backed securities – agency	$107,396	$ 6	$ (16,392)	$ 91,010	$107,396	$ 6	$ (16,392)	$ 91,010
CMOs – agency	32,966	264	(2,133)	31,097	32,966	264	(2,133)	31,097
Total available-for-sale	$140,362	$ 270	$ (18,525)	$122,107	$140,362	$ 270	$ (18,525)	$122,107

	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
	(In thousands)				(In thousands)			
Securities held-to-maturity:								
CMOs – agency	$ 77,001	$ 9	$ (7,894)	$ 69,116	$ 77,001	$ 9	$ (7,894)	$ 69,116
Total held-to-maturity	$ 77,001	$ 9	$ (7,894)	$ 69,116	$ 77,001	$ 9	$ (7,894)	$ 69,116

Mortgage-backed securities included all pass-through certificates guaranteed by FHLMC, FNMA, or GNMA and the CMOs are backed by government agency pass-through certificates. CMOs, by virtue of the underlying residential collateral or structure, are fixed rate current pay sequentials or planned amortization classes ("PACs"). As actual maturities may differ from contractual maturities because certain borrowers have the right to call or prepay certain obligations, these securities are not considered to have a single maturity date.

There were no sales or calls of securities for the three and six months ended March 31, 2024 June 30, 2024 and 2023.

At March 31, 2024 June 30, 2024, securities having a fair value of $151.7 million $185.6 million were pledged to the Federal Home Loan Bank of New York ("FHLB") for borrowing capacity totaling $144.9 million $175.1 million. At December 31, 2023, securities having a fair value of $131.5 million were pledged to the FHLB for borrowing capacity totaling $125.7 million. At March 31, 2024 June 30, 2024 and December 31, 2023, the Company had no outstanding FHLB advances.

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At March 31, 2024 June 30, 2024, securities having a fair value of $57.4 million $56.0 million were pledged to the Federal Reserve Bank of New York ("FRB") for borrowing capacity totaling $55.9 million $54.4 million. At December 31, 2023, securities having a fair value of $59.7 million were pledged to the FRB for borrowing capacity totaling $58.0 million. At March 31, 2024 June 30, 2024 and December 31, 2023, the Company had no outstanding FRB borrowings.

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

March 31, 2024						June 30, 2024			
Less Than 12 Months		12 Months or Longer		Total		Less Than 12 Months		12 Months or Longer	
Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses

				(In thousands)						(In thousands)
Securities available-for-sale:										
Mortgage-backed securities – agency	$ 4,881	$ (46)	$82,840	$ (17,654)	$ 87,721	$ (17,700)	$ 6,439	$ (94)	$80,879	$ (17,36
CMOs – agency	24,839	(71)	12,450	(2,174)	37,289	(2,245)	51,839	(219)	11,766	(2,13
Total available-for-sale	$29,720	$ (117)	$95,290	$ (19,828)	$125,010	$ (19,945)	$58,278	$ (313)	$92,645	$ (19,49
	Less Than 12 Months		12 Months or Longer		Total		Less Than 12 Months		12 Months or Longer	
		Gross		Gross		Gross		Gross		Gross
	Fair	Unrecognized	Fair	Unrecognized	Fair	Unrecognized	Fair	Unrecognized	Fair	Unrecogniz
	Value	Losses	Value	Losses	Value	Losses	Value	Losses	Value	Losses

				(In thousands)						(In thousands)
Securities held-to-maturity:										
CMOs – agency	$ 5,167	$ (23)	$61,801	$ (8,251)	$ 66,968	$ (8,274)	$ 4,957	$ (40)	$59,820	$ (8,24
Total held-to-maturity	$ 5,167	$ (23)	$61,801	$ (8,251)	$ 66,968	$ (8,274)	$ 4,957	$ (40)	$59,820	$ (8,24
				December 31, 2023						December 31, 2023
	Less Than 12 Months		12 Months or Longer		Total		Less Than 12 Months		12 Months or Longer	
		Gross		Gross		Gross		Gross		Gross
	Fair	Unrealized	Fair	Unrealized	Fair	Unrealized	Fair	Unrealized	Fair	Unrealized
	Value	Losses	Value	Losses	Value	Losses	Value	Losses	Value	Losses

	(In thousands)						(In thousands)			
Securities available-for-sale:										
Mortgage-backed securities – agency	$ 3,143	$ (17)	$86,082	$ (16,375)	$ 89,225	$ (16,392)	$ 3,143	$ (17)	$86,082	$ (16,37
CMOs – agency	—	—	13,176	(2,133)	13,176	(2,133)	—	—	13,176	(2,13
Total available-for-sale	$ 3,143	$ (17)	$99,258	$ (18,508)	$102,401	$ (18,525)	$ 3,143	$ (17)	$99,258	$ (18,50

	Less Than 12 Months		12 Months or Longer		Total		Less Than 12 Months		12 Months or Longer	
	Fair Value	Gross Unrecognized Losses	Fair Value	Gross Unrecognized Losses	Fair Value	Gross Unrecognized Losses	Fair Value	Gross Unrecognized Losses	Fair Value	Gross Unrecogniz Losses

	(In thousands)						(In thousands)			
Securities held-to-maturity:										
CMOs – agency	$ —	$ —	$63,739	$ (7,894)	$ 63,739	$ (7,894)	$ —	$ —	$63,739	$ (7,89
Total held-to-maturity	$ —	$ —	$63,739	$ (7,894)	$ 63,739	$ (7,894)	$ —	$ —	$63,739	$ (7,89

Management evaluates securities available-for-sale in unrealized loss positions to determine whether the impairment is due to credit-related factors. Due to the decline in fair value being attributable to changes in interest rates, not credit quality and because the Company does not have the intent to sell the securities and it is likely that it will not be required to sell the securities before their anticipated recovery, the Company does not consider the securities to be impaired at March 31, 2024 June 30, 2024.

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As of March 31, 2024June 30, 2024, none of the Company's available-for-sale securities were in an unrealized loss position due to credit, and therefore no allowance for credit losses on available-for-sale securities was required. Additionally, there was no allowance for credit losses on securities held-to-maturity due to the high credit quality composition consisting of issuances from government sponsored agencies.

Accrued interest receivable on securities totaling $620$786 thousand at March 31, 2024June 30, 2024 and $515 thousand at December 31, 2023, was included in Accrued interest receivable in the Consolidated Statements of Financial Condition and excluded from amortized cost and estimated fair value in the tables above.

NOTE 3 — Loans

The composition of loans by class is summarized as follows:

	March 31, 2024	December 31, 2023	June 30, 2024	December 31, 2023
	(In thousands)		(In thousands)	
Real estate:				
Multifamily	$ 348,666	$ 348,241	$ 352,097	$ 348,241
Commercial real estate	89,016	89,498	88,376	89,498
1 – 4 family	17,797	17,937	15,336	17,937
Total real estate	455,479	455,676	455,809	455,676
Commercial	754,290	737,914	786,593	737,914
Consumer	18,953	14,491	19,010	14,491
Total loans held for investment	1,228,722	1,208,081	1,261,412	1,208,081
Deferred fees and unearned premiums, net	(480)	(668)	(350)	(668)
Allowance for credit losses	(17,523)	(16,631)	(18,521)	(16,631)
Loans held for investment, net	$ 1,210,719	$ 1,190,782	$1,242,541	$1,190,782

The following tables present the activity in the allowance for credit losses by class for the three months ending March 31, 2024June 30, 2024 and March 31, 2023June 30, 2023:

Multifamily	Commercial Real Estate	1-4 Family	Commercial	Consumer	Total	Multifamily	Commercial Real Estate	1-4 Family	Commercial	Consumer	Total

	(In thousands)						(In thousands)					
March 31, 2024												
June 30, 2024												
Allowance for credit losses:												
Beginning balance	$ 3,236	$ 823	$ 58	$ 12,056	$ 458	$16,631	$ 3,311	$ 791	$ 61	$ 12,631	$ 729	$17,523
Provision (credit) for credit losses	75	(32)	3	575	379	1,000	92	(47)	(6)	904	57	1,000
Recoveries	—	—	—	—	19	19	—	—	—	—	5	5
Loans charged-off	—	—	—	—	(127)	(127)	—	—	—	—	(7)	(7)
Total ending allowance balance	$ 3,311	$ 791	$ 61	$ 12,631	$ 729	$17,523	$ 3,403	$ 744	$ 55	$ 13,535	$ 784	$18,521
March 31, 2023												
June 30, 2023												
Allowance for credit losses:												
Beginning balance, prior to adoption of CECL Standard	$ 2,017	$ 1,022	$ 192	$ 8,645	$ 347	$12,223						
Impact of adopting CECL Standard	8	(109)	(131)	514	1	283						
Beginning balance							$ 2,106	$ 885	$ 54	$ 9,588	$ 319	$12,952
Provision (credit) for credit losses	81	(28)	(7)	429	25	500	317	(18)	11	983	32	1,325
Recoveries	—	—	—	—	—	—	—	—	—	—	16	16
Loans charged-off	—	—	—	—	(54)	(54)	—	—	—	(5)	(109)	(114)
Total ending allowance balance	$ 2,106	$ 885	$ 54	$ 9,588	$ 319	$12,952	$ 2,423	$ 867	$ 65	$ 10,566	$ 258	$14,179

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The following tables present the activity in the allowance for credit losses by class for the six months ending June 30, 2024 and June 30, 2023:

	Multifamily	Commercial Real Estate	1-4 Family	Commercial	Consumer	Total
			(In thousands)			
June 30, 2024						
Allowance for credit losses:						
Beginning balance	$ 3,236	$ 823	$ 58	$ 12,056	$ 458	$ 16,631
Provision (credit) for credit losses	167	(79)	(3)	1,479	436	2,000
Recoveries	—	—	—	—	24	24
Loans charged-off	—	—	—	—	(134)	(134)
Total ending allowance balance	$ 3,403	$ 744	$ 55	$ 13,535	$ 784	$ 18,521
June 30, 2023						
Allowance for credit losses:						
Beginning balance, prior to adoption of CECL Standard	$ 2,017	$ 1,022	$ 192	$ 8,645	$ 347	$ 12,223
Impact of adopting CECL Standard	8	(109)	(131)	514	1	283
Provision (credit) for credit losses	398	(46)	4	1,412	57	1,825
Recoveries	—	—	—	—	16	16
Loans charged-off	—	—	—	(5)	(163)	(168)
Total ending allowance balance	$ 2,423	$ 867	$ 65	$ 10,566	$ 258	$ 14,179

As of March 31, 2024June 30, 2024 and December 31, 2023, there was one multifamily collateral dependent loan secured by real estate totaling $10.9 million with no associated specific reserve on the Consolidated Statements of Financial Condition.

The following tables present the aging of the recorded investment in past due loans by class of loans as of March 31, 2024June 30, 2024 and December 31, 2023:

	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Nonaccrual Loans	Total Past Due & Nonaccrual Loans	Loans Not Past Due	Total	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Nonaccrual Loans	Total Past Due & Nonaccrual Loans
				(In thousands)							(In thousands)	
March 31, 2024												

	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Nonaccrual Loans	Total Past Due & Nonaccrual Loans	Loans Not Past Due	Total	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Nonaccrual Loans	Total Past Due & Nonaccrual Loans	
June 30, 2024													
Multifamily	$ —	$ —	$ —	$ 10,940	$ 10,940	$ 337,726	$ 348,666	$ —	$ —	$ —	$ 10,940	$ 10,940	$
Commercial real estate	—	—	—	—	—	89,016	89,016	—	—	—	—	—	
1 – 4 family	—	—	—	—	—	17,797	17,797	—	—	—	—	—	
Commercial	—	—	—	—	—	754,290	754,290	—	—	—	—	—	
Consumer	1	117	5	1	124	18,829	18,953	69	1	71	—	141	
Total	$ 1	$ 117	$ 5	$ 10,941	$ 11,064	$1,217,658	$1,228,722	$ 69	$ 1	$ 71	$ 10,940	$ 11,081	$

	(In thousands)											(In thousands)	
December 31, 2023													
Multifamily	$ —	$ —	$ —	$ 10,940	$ 10,940	$ 337,301	$ 348,241	$ —	$ —	$ —	$ 10,940	$ 10,940	$
Commercial real estate	—	—	—	—	—	89,498	89,498	—	—	—	—	—	
1 – 4 family	—	—	—	—	—	17,937	17,937	—	—	—	—	—	
Commercial	—	—	—	—	—	737,914	737,914	—	—	—	—	—	
Consumer	24	41	69	—	134	14,357	14,491	24	41	69	—	134	
Total	$ 24	$ 41	$ 69	$ 10,940	$ 11,074	$1,197,007	$1,208,081	$ 24	$ 41	$ 69	$ 10,940	$ 11,074	$

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Credit Quality Indicators

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

The Company uses the following definitions for risk ratings:

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

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

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

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

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

The following is a summary of the credit risk profile of loans, measured at amortized cost, by internally assigned grade as of the periods indicated, the years represent the year of originations for non-revolving loans:

March 31, 2024									June 30, 2024					
2024	2023	2022	2021	2020	2019 and Prior	Revolving	Revolving-Term	Total	2024	2023	2022	2021	2020	2019 and Pr

	(In thousands)									(In thousands)					
Multifamily:															
Pass	$ 9,910	$105,132	$ 27,042	$109,375	$23,382	$ 63,054	$ —	$ —	$ 337,895	$18,572	$105,040	$ 26,925	$108,776	$23,256	$ 58,7
Special Mention	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
Substandard	—	—	—	—	10,940	—	—	—	10,940	—	—	—	—	10,940	
Doubtful	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
Total	9,910	105,132	27,042	109,375	34,322	63,054	—	—	348,835	18,572	105,040	26,925	108,776	34,196	58,7
Current period gross charge-offs	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
Commercial real estate:															
Pass	—	3,310	58,361	10,500	1,746	15,037	—	—	88,954	—	3,100	58,132	10,439	1,736	14,9
Special Mention	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
Substandard	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
Doubtful	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
Total	—	3,310	58,361	10,500	1,746	15,037	—	—	88,954	—	3,100	58,132	10,439	1,736	14,9
Current period gross charge-offs	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
1-4 family:															
Pass	—	—	1,851	—	—	15,944	—	—	17,795	—	—	1,842	—	—	13,4
Special Mention	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
Substandard	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
Doubtful	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
Total	—	—	1,851	—	—	15,944	—	—	17,795	—	—	1,842	—	—	13,4
Current period gross charge-offs	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
Commercial:															
Pass	24,904	43,641	34,656	8,679	426	449	633,493	3,394	749,642	27,851	43,864	36,882	8,235	368	4
Special Mention	—	—	—	—	—	—	3,988	—	3,988	—	—	—	—	—	
Substandard	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
Doubtful	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
Total	24,904	43,641	34,656	8,679	426	449	637,481	3,394	753,630	27,851	43,864	36,882	8,235	368	4
Current period gross charge-offs	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
Consumer:															
Pass	741	4,708	4,254	56	346	1,085	7,838	—	19,028	1,342	4,590	3,564	—	329	1,0
Special Mention	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
Substandard	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
Doubtful	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
Total	741	4,708	4,254	56	346	1,085	7,838	—	19,028	1,342	4,590	3,564	—	329	1,0
Current period gross charge-offs	—	—	127	—	—	—	—	—	127	—	—	134	—	—	

Total:															
Pass	35,555	156,791	126,164	128,610	25,900	95,569	641,331	3,394	1,213,314	47,765	156,594	127,345	127,450	25,689	88,6
Special Mention	—	—	—	—	—	—	3,988	—	3,988	—	—	—	—	—	
Substandard	—	—	—	—	10,940	—	—	—	10,940	—	—	—	—	10,940	
Doubtful	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
Total loans	$35,555	$156,791	$126,164	$128,610	$36,840	$ 95,569	$ 645,319	$ 3,394	$1,228,242	$47,765	$156,594	$127,345	$127,450	$36,629	$ 88,6
Total current period gross charge-offs	$ —	$ —	$ 127	$ —	$ —	$ —	$ —	$ —	$ 127	$ —	$ —	$ 134	$ —	$ —	$

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	December 31, 2023								
	2023	2022	2021	2020	2019	2018 and Prior	Revolving	Revolving-Term	Total
	(In thousands)								
Multifamily:									
Pass	$ 105,175	$ 29,116	$ 109,919	$ 23,512	$ 22,155	$ 47,566	$ —	$ —	$ 337,443
Special Mention	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	10,940	—	—	—	—	10,940
Doubtful	—	—	—	—	—	—	—	—	—
Total	105,175	29,116	109,919	34,452	22,155	47,566	—	—	348,383
Current period gross charge-offs	—	—	—	—	—	—	—	—	—
Commercial real estate:									
Pass	3,401	58,552	10,560	1,757	5,651	9,515	—	—	89,436
Special Mention	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—	—
Total	3,401	58,552	10,560	1,757	5,651	9,515	—	—	89,436
Current period gross charge-offs	—	—	—	—	—	—	—	—	—
1-4 family:									
Pass	—	1,861	—	—	4,296	11,776	—	—	17,933
Special Mention	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—	—
Total	—	1,861	—	—	4,296	11,776	—	—	17,933
Current period gross charge-offs	—	—	—	—	—	—	—	—	—
Commercial:									
Pass	43,500	59,203	9,212	489	—	465	615,177	5,024	733,070
Special Mention	—	—	—	—	—	—	3,988	—	3,988
Substandard	—	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—	—
Total	43,500	59,203	9,212	489	—	465	619,165	5,024	737,058

Current period gross charge-offs	—	—	—	—	—	5	—	—	5
Consumer:									
Pass	5,414	5,397	56	358	1,106	32	2,240	—	14,603
Special Mention	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—	—
Total	5,414	5,397	56	358	1,106	32	2,240	—	14,603
Current period gross charge-offs	—	324	25	90	—	—	—	—	439
Total:									
Pass	157,490	154,129	129,747	26,116	33,208	69,354	617,417	5,024	1,192,485
Special Mention	—	—	—	—	—	—	3,988	—	3,988
Substandard	—	—	—	10,940	—	—	—	—	10,940
Doubtful	—	—	—	—	—	—	—	—	—
Total loans	$ 157,490	$ 154,129	$ 129,747	$ 37,056	$ 33,208	$ 69,354	$ 621,405	$ 5,024	$ 1,207,413
Total current period gross charge-offs	$ —	$ 324	$ 25	$ 90	$ —	$ 5	$ —	$ —	$ 444

The Company considers the performance of the loan portfolio and its impact on the allowance for credit losses. For smaller dollar commercial 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.

Loan Modifications

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. During the three and six months ended March 31, 2024 June 30, 2024 and 2023, the Company did not modify the terms of any loans or commitments to lend to borrowers experiencing financial difficulty in the form of an interest rate reduction, term extension, principal forgiveness or other-than-insignificant payment delay.

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Pledged Loans

At March 31, 2024 June 30, 2024, loans totaling $220.5 million $215.7 million were pledged to the FHLB for borrowing capacity totaling $155.2 million $149.7 million. At December 31, 2023, loans totaling $222.4 million were pledged to the FHLB for borrowing capacity totaling $158.5 million.

NOTE 4 — Noninterest Income

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

	Three Months Ended March 31,		Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023	2024	2023

	(In thousands)		(In thousands)			
Payment processing fees:						
Payment processing income	$ 5,100	$ 5,300	$5,140	$5,550	$10,240	$10,850
ACH income	196	213	182	214	378	427
Total payment processing fees	5,296	5,513	5,322	5,764	10,618	11,277
Customer related fees, service charges and other:						
Administrative service income	746	529	620	739	1,366	1,268
Gain on equity investment (1)	—	4,027	—	—	—	4,027
Other	347	193	333	192	680	385
Total customer related fees, service charges and other	1,093	4,749	953	931	2,046	5,680
Total noninterest income	$ 6,389	$ 10,262	$6,275	$6,695	$12,664	$16,957

(1) Represents a valuation adjustment not within the scope of ASC 606. 606

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

- Payment processing income – We provide payment processing services as an acquiring bank through the third-party or independent sales organization ("ISO") business model in which we process credit and debit card transactions on behalf of merchants. We enter into a tri-party merchant agreement, between the Company, ISO and each merchant. The Company's performance obligation is clearing and settling credit and debit transactions on behalf of the merchants. The Company recognizes revenue monthly once it summarizes and computes all revenue and expenses applicable to each ISO, which is our performance obligation.

- ACH income – We provide ACH services for merchants and other commercial customers. Contracts are entered into with third parties that require ACH transactions processed on behalf of their customers. Fees are variable and based on the volume of transactions within a given month. Our performance obligations are processing and settling ACHs on behalf of the customers. Our obligation is satisfied within each business day when the transactions (ACH files) are sent to the FRB for clearing. Revenue is recognized based on the total volume of transactions processed that month for a given customer.

- Administrative service income – Administrative service income is derived primarily from the management of qualified settlement funds ("QSFs"), which are funds from settled mass torts and class action lawsuits. Our performance obligations with the QSFs are outlined in court approved orders which includes ensuring funds are invested into safe investment vehicles such as U.S. treasuries and FDIC insured products. Our fees for placing these funds in appropriate vehicles are earned over the course of a month, representing the period over which the Company satisfies the performance obligation.

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

NOTE 5 — Share-Based Payment Plans

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

Under the plans, options are granted with an exercise price equal to the fair value of the Company's stock at the date of the grant. Options granted vest over three or five years and have ten-year contractual terms. All options provide for accelerated vesting upon a change in control (as defined in the plans). Restricted shares are granted at the fair value on the date of grant and typically vest over six years with a third vesting after years four, five, and six. Restricted shares have the same voting rights as common stock and nonvested restricted shareholders do not have rights to the accrued dividends until vested.

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

There were no stock options granted during the three and six months ended March 31, 2024 June 30, 2024 and 2023.

The following table presents a summary of the activity related to options for the three six months ended March 31, 2024 June 30, 2024:

	Three Months Ended March 31, 2024			Six Months Ended June 30, 2024		
	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)
Outstanding at beginning of year	639,519	$ 20.76		639,519	$ 20.76	
Granted	—	—		—	—	
Exercised	(11,000)	15.71		(11,416)	16.21	
Forfeited	(834)	45.91		(834)	45.91	
Expired	—	—		—	—	
Outstanding at period end	627,685	$ 20.82	4.17	627,269	$ 20.81	3.90
Vested or expected to vest	627,685	$ 20.82	4.17	627,269	$ 20.81	3.90
Exercisable at period end	528,719	$ 16.69	3.27	528,970	$ 16.72	3.00

The Company recognized compensation expense related to options of $180 $188 thousand and $167 $159 thousand for the three months ended March 31, 2024 June 30, 2024 and 2023, respectively. The Company recognized compensation expense related to options of $368 thousand and $326 thousand for the six months ended June 30, 2024 and 2023, respectively. At March 31, 2024 June 30, 2024, unrecognized compensation cost related to nonvested options was approximately $1.3 million $1.1 million and is expected to be recognized over a weighted average period of 2.15 1.97 years. The intrinsic value for outstanding options and for options vested or expected to vest was $16.8 million and $16.3 million for exercisable options at March 31, 2024 June 30, 2024.

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Information related to stock option exercises during each period is as follows:

	Three Months Ended March 31,				Three Months Ended June 30,				Six Months Ended June 30,			
	2024		2023		2024		2023		2024		2023	
	(In thousands)				(In thousands)							
Intrinsic value of options exercised	$	369	$	242	$	8	$	88	$	377	$	330
Cash received from option exercises		173		47		—		6		173		53
Excess tax benefit from option exercises		83		57		1		16		84		73

The following table presents a summary of the activity related to restricted stock for the threesix months ended March 31, 2024June 30, 2024:

	Three Months Ended March 31, 2024			Six Months Ended June 30, 2024		
	Shares	Weighted Average Grant Date Fair Value		Shares	Weighted Average Grant Date Fair Value	
Outstanding at beginning of year	514,935	$	32.44	514,935	$	32.44
Granted	—		—	—		—
Vested	(20,503)		19.25	(20,503)		19.25
Forfeited	—		—	—		—
Outstanding at period end	494,432	$	32.98	494,432	$	32.98

The Company recognized compensation expense related to restricted stock of $787$774 thousand and $623$629 thousand for the three months ended March 31, 2024June 30, 2024 and 2023, respectively. The Company recognized compensation expense related to restricted stock of $1.6 million and $1.3 million for the six months ended June 30, 2024 and 2023, respectively. As of March 31, 2024June 30, 2024, there was $11.3 million$10.6 million of total unrecognized compensation cost related to nonvested shares granted under the plan. The cost is expected to be recognized over a weighted-average period of 4.464.27 years.

NOTE 6 — Earnings per Share

The factors used in the earnings per share computation follow:

	Three Months Ended March 31,		Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023	2024	2023

	(Dollars in thousands, except per share data)		(Dollars in thousands, except per share data)			
Basic:						
Net income	$ 10,058	$ 12,179	$ 10,487	$ 9,113	$ 20,545	$ 21,292
Weighted average shares outstanding	7,786,887	7,708,745	7,798,441	7,708,350	7,792,664	7,708,546
Basic earnings per share	$ 1.29	$ 1.58	$ 1.34	$ 1.18	$ 2.64	$ 2.76
Diluted:						
Net income	$ 10,058	$ 12,179	$ 10,487	$ 9,113	$ 20,545	$ 21,292
Weighted average shares outstanding for basic earnings per share	7,786,887	7,708,745	7,798,441	7,708,350	7,792,664	7,708,546
Add: Dilutive effects of share based awards	614,865	593,888	604,309	591,354	609,455	592,603
Weighted average shares and dilutive potential shares	8,401,752	8,302,633	8,402,750	8,299,704	8,402,119	8,301,149
Diluted earnings per share	$ 1.20	$ 1.47	$ 1.25	$ 1.10	$ 2.45	$ 2.57

Share-based awards totaling 95,450 and 52,500 93,996 shares of common stock were not considered in computing diluted earnings per common share for the three and six months ended March 31, 2024 and 2023, respectively, June 30, 2024, because they were anti-dilutive. Share-based awards totaling 50,500 shares of common stock were not considered in computing diluted earnings per common share for the three and six months ended June 30, 2023, because they were anti-dilutive.

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NOTE 7 — Leases

The Company recognizes the present value of its operating lease payments related to its office facilities and retail branch as operating lease assets and corresponding lease liabilities on the Consolidated Statements of Financial Condition. These operating lease assets represent the Company's right to use an underlying asset for the lease term, and the lease liability represents the Company's obligation to make lease payments over the lease term. As these leases do not provide an implicit rate, the Company used its incremental borrowing rate, the rate of interest to borrow on a collateralized basis for a similar term, at the lease commencement date in order to determine present value.

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

As of March 31, 2024 June 30, 2024, right of use ("ROU") lease assets and related lease liabilities were $1.6 million $1.4 million and $2.0 million $1.8 million, respectively. As of December 31, 2023, ROU lease assets and related lease liabilities were $1.7 million and $2.2

million, respectively. ROU assets are included within Other assets and related lease liabilities are included within Accrued expenses and other liabilities on the Consolidated Statements of Financial Condition.

As of March 31, 2024 June 30, 2024, 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 March 31, 2024 June 30, 2024, are summarized as follows:

	Operating Lease Liabilities (In thousands)	Operating Lease Liabilities (In thousands)
2024	$ 591	$ 396
2025	803	803
2026	754	754
2027	—	—
2028	—	—
Thereafter	—	—
Total operating lease payments	2,148	1,953
Less: interest	138	122
Present value of operating lease liabilities	$ 2,010	$ 1,831

In addition to the table above, as of March 31, 2024 June 30, 2024, the Company had an additional future operating lease commitment of $2.6 million that was signed but not yet commenced. This operating lease will commence in the fourth quarter of 2024 with a lease term of 10 years.

	March 31,		June 30,	
	2024	2023	2024	2023
Weighted-average remaining lease term	2.67 years	3.67 years	2.42 years	3.42 years
Weighted-average discount rate	3.30 %	3.29 %	3.29 %	3.29 %

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The components of total lease cost are as follows:

	Three Months Ended March 31,		Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023	2024	2023
	(In thousands)					

	(In thousands)					
Operating lease cost	$ 158	$ 159	$ 158	$ 156	$ 315	$ 315
Short-term lease cost	34	59	25	62	59	121
Total lease cost	$ 192	$ 218	$ 183	$ 218	$ 374	$ 436
Cash paid for operating leases	$ 227	$ 216	$ 220	$ 220	$ 447	$ 436

NOTE 8 — Fair Value Measurements

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

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

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

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

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

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

Fair Value Measurements Using

Quoted Prices

In Active

	Fair Value Measurements Using		
	Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservabl Inputs (Level 3)
		(In thousands)	
March 31, June 30, 2024			
Assets			
Securities available-for-sale			
Mortgage-backed securities – agency	$ —	$ 87,721 87,318	$
CMOs – agency	—	54,438 89,496	
Total available-for-sale	$ —	$ 142,159 176,814	$
December 31, 2023			
Assets			
Securities available-for-sale			
Mortgage-backed securities – agency	$ —	$ 91,010	$

CMOs – agency	—	31,097
Total available-for-sale	$ —	$ 122,107	$

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There were no transfers between Level 1 and Level 2 during the three and six months ended March 31, 2024 June 30, 2024 and 2023.

The following tables present the carrying amounts and fair values (represents exit price) of financial instruments not carried at fair value at March 31, 2024 June 30, 2024 and December 31, 2023:

	Fair Value Measurement at March 31, 2024, Using:					Fair Value Measurement at June 30, 2024, Using:				
	Carrying Value	(Level 1)	(Level 2)	(Level 3)	Total	Carrying Value	(Level 1)	(Level 2)	(Level 3)	Total
	(In thousands)					(In thousands)				
Financial Assets:										
Cash and cash equivalents	$ 158,243	$ 158,243	$ —	$ —	$ 158,243	$ 152,733	$ 152,733	$ —	$ —	$ 152,733
Securities, held-to-maturity	75,242	—	66,968	—	66,968	73,062	—	64,777	—	64,777
Securities, restricted, at cost	2,928	N/A	N/A	N/A	N/A	3,034	N/A	N/A	N/A	N/A
Loans held for investment, net	1,210,719	—	—	1,188,785	1,188,785	1,242,541	—	—	1,222,508	1,222,508

Accrued interest receivable	9,307	—	802	8,551	9,353	9,170	—	855	8,315	9,170
Financial Liabilities:										
Time deposits	14,378	—	14,310	—	14,310	11,952	—	11,902	—	11,902
Demand and other deposits	1,419,671	1,419,671	—	—	1,419,671	1,474,941	1,474,941	—	—	1,474,941
Secured borrowings	44	—	—	44	44	43	—	—	43	43
Accrued interest payable	16	—	16	—	16	6	—	6	—	6

	Fair Value Measurement at December 31, 2023, Using:				
	Carrying Value	(Level 1)	(Level 2)	(Level 3)	Total
	(In thousands)				
Financial Assets:					
Cash and cash equivalents	$ 165,209	$ 165,209	$ —	$ —	$ 165,209
Securities, held-to-maturity	77,001	—	69,116	—	69,116
Securities, restricted, at cost	2,928	N/A	N/A	N/A	N/A
Loans held for investment, net	1,190,782	—	—	1,172,226	1,172,226
Accrued interest receivable	9,130	—	579	8,551	9,130
Financial Liabilities:					
Time deposits	7,761	—	7,647	—	7,647
Demand and other deposits	1,399,538	1,399,538	—	—	1,399,538
Secured borrowings	44	—	—	44	44
Accrued interest payable	11	—	11	—	11

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NOTE 9 — Accumulated Other Comprehensive Loss

The following presents changes in accumulated other comprehensive loss by component, net of tax, for the three and six months ended March 31, 2024 June 30, 2024 and 2023:

	Three Months Ended	Six Months Ended

	Three Months Ended					
	March 31,		June 30,			
	2024	2023	2024	2023	2024	2023
	(In thousands)		(In thousands)			
Unrealized (Losses) Gains on Securities Available-for-Sale						
Beginning balance	$(13,235)	$(15,117)	$(14,369)	$(13,732)	$(13,235)	$(15,117)
Other comprehensive (loss) income before reclassifications, net of tax	(1,134)	1,385				
Net current period other comprehensive (loss) income	(1,134)	1,385				
Other comprehensive income (loss) before reclassifications, net of tax			128	(710)	(1,006)	675
Net current period other comprehensive income (loss)			128	(710)	(1,006)	675
Ending balance	$(14,369)	$(13,732)	$(14,241)	$(14,442)	$(14,241)	$(14,442)

There were no reclassifications out of accumulated other comprehensive loss for the three and six months ended March 31, 2024 June 30, 2024 and 2023.

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

General

Management's discussion and analysis of financial condition at March 31, 2024 June 30, 2024 and December 31, 2023 and results of operations for the three and six months ended March 31, 2024 June 30, 2024 and 2023 is intended to assist in understanding the financial condition and results of operations of Esquire Financial Holdings, Inc. The information contained in this section should be read in conjunction with the unaudited Consolidated Financial Statements and the notes thereto appearing in

Part I, Item 1, of this quarterly report on Form 10-Q and the audited Consolidated Financial Statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2023.

Cautionary Note Regarding Forward-Looking Statements

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

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

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

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

- our ability to manage our operations under the current economic conditions nationally and in our market area;
- adverse changes in the financial industry, securities, credit and national local real estate markets (including real estate values);
- risks related to a high concentration of loans secured by real estate located in our market area;
- risks related to a high concentration of loans and deposits dependent upon the legal and "litigation" market;
- the impact of any potential strategic transactions;
- unexpected outflows of uninsured deposits could require us to sell investment securities at a loss;
- our ability to enter new markets successfully and capitalize on growth opportunities;

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- significant increases in our credit losses, including as a result of our inability to resolve classified and nonperforming assets or reduce risks associated with our loans, and management's assumptions in determining the adequacy of the allowance for credit 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 credit losses and provision for credit 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 payment processing business;
- 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 our payment processing income as a result of reduced demand, competition and changes in laws or government regulations or policies affecting financial institutions, which could result in, among other things, increased deposit insurance premiums and assessments, capital requirements, regulatory fees and compliance costs;
- changes in accounting policies and practices, as may be adopted by the bank regulatory agencies, the Financial Accounting Standards Board ("FASB"), 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;
- the failure or security breaches of computer systems on which we depend;

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- acts of war, terrorism, natural disasters, global market disruptions, including global pandemics or political instability;
- the effects of any federal government shutdown;
- competition and innovation with respect to financial products and services by banks, financial institutions and non-traditional providers, including retail businesses and technology companies;
- changes in our organization and management and our ability to retain or expand our management team and our board of directors, as necessary;
- the costs and effects of legal, compliance and regulatory actions, changes and developments, including the initiation and resolution of legal proceedings, regulatory or other governmental inquiries or investigations, and/or the results of regulatory examinations and reviews;
- the ability of key third-party service providers to perform their obligations to us; and
- other economic, competitive, governmental, regulatory and operational factors affecting our operations, pricing, products and services described elsewhere in this Quarterly Report on Form 10-Q.

The foregoing factors should not be construed as exhaustive and should be read in conjunction with other cautionary statements that are included in our Annual Report on Form 10-K for the year ended December 31, 2023, as supplemented by subsequent Quarterly Reports on Form 10-Q. If one or more events related to these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may differ materially from what we anticipate. Accordingly, you should not place undue reliance on any such forward-looking statements. Any forward-looking statement speaks only as of the date on which it is made, and we do not undertake any obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise. New risks and uncertainties arise from time to time, and it is not possible for us to predict those events or how they may affect us. In addition, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

Critical Accounting Estimates

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

Allowance for Credit Losses. Management considers the accounting policy relating to the allowance for credit losses to be a critical accounting policy given the inherent subjectivity and uncertainty in estimating the levels of the allowance required to cover credit losses in the portfolio and the material effect that such judgments can have on the results of operations. See Note 1 "Business and Summary of Significant Accounting Policies" in our annual report for discussion of our allowance for credit losses policy.

On January 1, 2023, we adopted the CECL Standard. The Company is required under the CECL Standard to estimate and record lifetime credit losses expected to be incurred on such financial instruments over the entire contractual term at the time they are recorded in the financial statements, such as with the funding or purchasing of a loan, or a commitment to lend unless the commitment is unconditionally cancellable. Because this allowance methodology follows a forward-looking lifetime expected loss approach, it is not necessary for a loss event to have been incurred before a credit loss is recognized. The estimation process in determining an appropriate level for the allowance for credit losses requires

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consideration of past events, current conditions, and reasonable and supportable forecasts, and involves a significant degree of management judgment. The Company determines the allowance for credit losses using methods it believes are appropriate given the characteristics of each loan portfolio and applies these methods consistently over time.

The Company employs a static pool methodology for all loan segments. In a static pool approach, statistical information about a pool of loans originated during a specified period is tracked over its life (including losses, delinquencies, and prepayments). In general, this methodology operates by calculating a rate representing the current balance expected to not be collected for each pool. This loss rate is then applied against the current portfolio loans with similar characteristics of those established in the pool.

In accordance with the CECL Standard, the Company must estimate expected credit losses over the contractual term of a loan, adjusted for expected prepayments. In estimating the life of a loan, the Company cannot extend the contractual term of a loan for expected extensions, renewals, and modifications, unless there is a borrower-held extension or renewal option that is not unconditionally cancelable. In developing the estimate of expected credit losses, the Company must reflect information about past events, current conditions, and reasonable and supportable forecasts. This information should include what is reasonably available without undue cost and effort and may include information sourced internally, externally, or a combination of both.

The estimation of expected credit losses requires the use of forward-looking information that is both reasonable and supportable, including information that relates to economic forecasts and how those forecasts are expected to impact expected future losses. The Company incorporates reasonable and supportable forecasts as qualitative adjustments applied to the historical loss rates over the reasonable and supportable forecast period. The CECL Standard does not require a specific method for developing economic forecasts, nor does it require a specific timeframe over which a reasonable and supportable forecast should be employed in the Company's CECL model. While the Company is not precluded from utilizing economic forecasts over the entire contractual term of a loan, the Company utilizes forecasts it believes are reasonable and supportable. The Company considers its methodologies to determine reasonable and supportable forecasts and reversion techniques to be accounting estimates rather than accounting policies or principles. For periods beyond which the Company is unable to determine a reasonable and supportable forecast, it will revert to unadjusted historical loss information in accordance with the CECL Standard. Management assesses the sensitivity of key assumptions by stressing the quantitative inputs utilized in its economic forecasts. This sensitivity analysis provides management with a hypothetical result to assess the sensitivity of our allowance for credit losses to a change in a key quantitative input.

Qualitative factors are used to supplement the static pool methodology to determine total estimated expected credit losses during a given period. Because the static pool methodology estimates losses based on historical loss information, management utilizes qualitative factors to measure expected credit losses which are not sufficiently captured within the static pool model during a given period.

On a quarterly basis, management determines the extent to which qualitative factors are used to bring the allowance for credit losses to a level deemed appropriate. These adjustments to the allowance for credit losses may be positive or negative to the quantitatively modeled results from the static pool methodology. Final qualitative adjustments to the allowance for credit losses are subject to management judgment.

The Company measures the allowance for credit losses on a collective basis by pooling loans according to similar risk characteristics. When a loan is deemed to no longer share risk characteristics similar to others in the portfolio, the Company evaluates such loans on an individual basis. Management may consider changes to a borrower's circumstances impacting cash collections, delinquency and non-accrual status, probability of default, industry, or other facts and circumstances when determining whether a loan shares risk characteristics with other loans in a pool. For a loan that does not share risk characteristics with other loans in a pool and is not collateral dependent, expected credit loss is measured based on the discounted value of the expected future cash flows and the amortized cost of the loan. If an entity determines that foreclosure of the collateral is probable, the CECL Standard requires the entity to measure expected credit losses of collateral dependent loans based on the difference between the current fair value of the collateral and the amortized cost basis of the financial asset. As of March 31, 2024 June 30, 2024 and December 31, 2023, there was one multifamily loan totaling $10.9 million that was individually analyzed, collateral dependent and had no specific reserve on the Consolidated Statements of Financial Condition.

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When applying this critical accounting estimate, management's inputs and estimates of the timing and amounts of future losses are subject to significant judgment as these projected cash flows rely upon factors that depend on current or expected future conditions. Management expects there to be differences between actual and estimated results.

Future changes to the allowance for credit losses may be necessary based on changes in economic, market, or other conditions. Changes to estimates could result in a material change in the allowance for credit losses and charges to provision for credit losses would materially decrease the Company's net income. The Company's loan portfolio may experience significant credit losses, which could have a material adverse effect on our operating results.

Overview

We are a financial holding company headquartered in Jericho, New York and registered under the Bank Holding Company Act of 1956, as amended. Through our wholly owned bank subsidiary, Esquire Bank, National Association ("Esquire Bank" or the "Bank"), we are a full service commercial bank dedicated to serving the financial needs of the legal and small business communities on a national basis, as well as commercial and retail customers in the New York metropolitan market. We offer tailored products and solutions to the legal community and their clients as well as dynamic and flexible payment processing 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 credit losses, noninterest income and noninterest expense. Noninterest income currently consists primarily of payment processing income, administrative service payment fee income and customer related fees and charges. Noninterest expense currently consists primarily of employee compensation and benefits, data processing costs, occupancy and equipment costs 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.

The Company's foundation for success has been our nationwide branchless litigation and payment processing verticals supported by our forward-thinking senior managers, outstanding client service teams, and inclusive corporate culture. The future of our success will be the ability to continue developing and embracing cutting-edge technology to significantly leverage these verticals, differentiating us from other technology enabled financial firms and creating the catalyst for industry leading growth and returns.

Litigation Market Commercial Banking. The litigation market has been and will continue to be a significant growth opportunity for our Company as we offer focused and tailored products and services to law firms nationally. U.S. tort actions alone are estimated to consume 1.85%-2.13% of U.S. GDP annually according to the U.S. Chamber of Commerce Institute for Legal Reform ("Tort Costs in America – An Empirical Analysis of Costs and Compensation of U.S. Tort System"), published in November 2022, with a total addressable market ("TAM") of $443 billion for 2020. We do not compete directly with non-bank finance companies, the primary funders in this market, and believe there are various and significant barriers to entry including, but not limited to, our clear industry track record for 17 years, extensive in-house experience, deep relationships with respected firms nationally, and unique products tailored to commercial law firms' needs and wants.

We currently have lending clients in 30 states and our larger markets include the New York metro area, California, Texas, Florida, Pennsylvania, South Carolina and New Jersey. Our success is tied to our unique ability to couple traditional commercial underwriting with non-traditional asset-based underwriting. Our team understands law firms' contingent case inventory valuation process (as well as traditional hourly billing firms). Typically, these inventories of claims for injured consumers or claimants have a duration of 2-3 years, significantly longer than traditional accounts receivables or inventories of goods that can have a duration of 30-60 days or 120 days, respectively. These factors (the unique industry, contingent collateral, longer durations of the law firms' inventories, atypical revenue streams of the law firms and more) coupled with the TAM create a unique and valuable opportunity for the Company with minimal incumbent competition. This unique risk profile translates approximately into a blended 10% variable rate asset yield on these commercial loans for the quarter ended March 31, 2024 June 30, 2024. More importantly, since our commercial banking platform is focused on full service

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relationship banking, for every $1.00 we advance on these loans we receive on average $1.71 $1.68 of low-cost (our cost of funds for the quarter ended March 31, 2024 June 30, 2024 is 96 87 basis points) core operating and escrow deposits from these law firms through our branchless platform, fueling and funding additional growth in our other asset classes. Our extremely low historic delinquency rates and low charge-off rates clearly demonstrate our strong underwriting process and expertise in this vertical. Our longer duration escrow or claimant trust settlement deposits represent accounts where the law firm is trustee for the claimant settlement funds and represent $709.5 million $813.6 million, or 50% 55%, of total deposits. These law firm escrow accounts as well as other fiduciary deposit accounts are for the benefit of the law firm's customers (or claimants) and are titled in a manner to ensure that the maximum amount of FDIC insurance coverage passes through the account to the beneficial owner of the funds held in the account. Therefore, these law firm escrow accounts carry FDIC insurance at the claimant settlement level, not at the deposit account level. Coupling these types of commercial relationships with our off-balance sheet commercial litigation funds of $466.6 million $408.0 million at March 31, 2024 June 30, 2024, makes this litigation vertical a highly desirable core low-cost funding platform fueling growth in other lending areas.

Other Commercial Banking. In addition to our Litigation Commercial Banking business, commercial loans are also 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 ISO payment processing customers. The balance of these loans totaled $119.9 million$117.9 million at March 31, 2024June 30, 2024 and represented approximately 9.8%9.3% of our total loans.

Payment Processing. The payment processing (merchant acquiring) market has also been and will continue to be a significant growth opportunity for our company, as we offer focused and tailored products and services to small businesses nationally. The payment industry grew approximately 12% on a compound annual growth rate from 2019 to 2022 with payment volumes or TAM of $10.3 trillion according to company records on U.S. payment industry trends. Couple this with the fact that there are less than approximately 100 acquiring financial institutions in the U.S. and this vertical clearly represents a significant growth opportunity for our Company. We believe there are various and significant barriers to entry to this market including, but not limited to, our clear industry track record for 10 years, extensive in-house experience, deep relationships with non-bank acquirers, and our unique approach to servicing these small business merchants and their respective verticals. We use proprietary and industry leading technology to ensure card brand and regulatory compliance, support multiple processing platforms, manage daily risk across approximately 85,00083,000 small business merchants in all 50 states, and perform commercial treasury clearing services for approximately $9 billion in credit and debit card processing volume across 151 million156 million transactions in the quarter ended March 31, 2024June 30, 2024.

Proprietary Technology. We are currently a branchless digital first company with best-in-class technology to fuel future growth with industry leading client retention rates. We have built a customized and fully integrated customer relationship management ("CRM") platform, integrated into our digital marketing cloud and our nCino loan platform (all built on Salesforce for excellence in client service and operational efficiency) and invest in artificial intelligence ("AI") to facilitate precision marketing and client acquisition across both national verticals with an initial focus on the litigation vertical.

The success of our national litigation and payment processing verticals coupled with our branchless technology has led to industry leading performance. For the quarter ended March 31, 2024June 30, 2024, we have produced industry leading returns including, but not limited to, a return on average assets and average equity of 2.59%2.58% and 20.14%20.16%, respectively; an industry leading net interest margin of 6.06%6.19%; a strong efficiency ratio of 49.8%; and a diversified revenue stream as demonstrated by a strong net interest margin and stable fee income representing 22%21% of total revenue (our payment processing vertical has a compound annual growth rate of 22%19% since 2019). Coupling these performance metrics with strong balance sheet management including, but not limited to, loan portfolio diversification, an asset sensitive balance sheet with 60%62% of our loans being variable rate tied to prime, interest rate floors in place on 90% of our variable rate loan portfolio, solid credit metrics with no nonperforming assets, a stable low cost deposit base, and strong available liquidity of $822.6 million$823.0 million, or 57%55% of deposits, with no outstanding borrowings ensures that our Company is poised for future growth and success.

Comparison of Financial Condition at March 31, 2024June 30, 2024 and December 31, 2023

Assets. Our total assets were $1.65 billion$1.72 billion at March 31, 2024June 30, 2024, an increase of $37.4 million$98.8 million, or 2.3%6.1%, from $1.62 billion at December 31, 2023, due to growth in loans held for investment of $20.8 million$53.6 million, or 1.7%4.4%, and securities available-

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for-sale of $20.1 million$54.7 million, or 16.4%44.8%, partially offset by a decrease in cash and cash equivalents of $7.0 million$12.5 million, or 4.2%7.6%, as we deployed our strong liquidity into high yielding commercial loans and agency securities.

Loan Portfolio Analysis. At March 31, 2024June 30, 2024, loans, net of deferred fees and unearned premiums, were $1.23 billion$1.26 billion, or 85.6%84.8% of total deposits, compared to $1.21 billion, or 85.8% of total deposits, at December 31, 2023. The growth in loans was primarily driven by net production in commercial loans, and to a lesser extent, consumer loans. Commercial loans increased $16.4 million$48.7 million, or 2.2%6.6%, to $754.3$786.6 million at March 31, 2024June 30, 2024 from

$737.9 million at December 31, 2023, driven by our litigation related loans. Consumer loans increased $4.5 million, or 30.8% 31.2%, to $19.0 million at March 31, 2024 June 30, 2024 from $14.5 million at December 31, 2023.

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

	March 31, 2024		December 31, 2023		June 30, 2024		December 31, 2023	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in thousands)				(Dollars in thousands)			
Real estate:								
Multifamily	$ 348,666	28.4 %	$ 348,241	28.8 %	$ 352,097	27.9 %	$ 348,241	28.8 %
Commercial real estate	89,016	7.2	89,498	7.4	88,376	7.0	89,498	7.4
1 – 4 family	17,797	1.5	17,937	1.5	15,336	1.2	17,937	1.5
Total real estate	455,479	37.1	455,676	37.7	455,809	36.1	455,676	37.7
Commercial	754,290	61.4	737,914	61.1	786,593	62.4	737,914	61.1
Consumer	18,953	1.5	14,491	1.2	19,010	1.5	14,491	1.2
Total loans held for investment	$ 1,228,722	100.0 %	$ 1,208,081	100.0 %	$ 1,261,412	100.0 %	$1,208,081	100.0 %
Deferred loan fees and unearned premiums, net	(480)		(668)		(350)		(668)	
Allowance for credit losses	(17,523)		(16,631)		(18,521)		(16,631)	
Loans held for investment, net	$ 1,210,719		$ 1,190,782		$ 1,242,541		$1,190,782	

The following table sets forth the composition of our held for investment Litigation-Related Loan portfolio by type of loan at the dates indicated:

	March 31, 2024		December 31, 2023		June 30, 2024		December 31, 2023	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent

	(Dollars in thousands)				(Dollars in thousands)			
Litigation-Related Loans:								
Commercial Litigation-Related:								
Working capital lines of credit	$386,834	60.8 %	$373,338	60.7 %	$406,681	60.6 %	$373,338	60.7 %
Case cost lines of credit	159,028	25.0	152,165	24.8	168,837	25.1	152,165	24.8
Term loans	88,568	13.9	86,954	14.1	93,158	13.9	86,954	14.1
Total Commercial Litigation-Related	634,430	99.7	612,457	99.6	668,676	99.6	612,457	99.6
Consumer Litigation-Related:								
Post-settlement consumer loans	2,203	0.3	2,406	0.4	2,647	0.4	2,406	0.4
Structured settlement loans	9	—	16	—	5	—	16	—
Total Consumer Litigation-Related	2,212	0.3	2,422	0.4	2,652	0.4	2,422	0.4
Total Litigation-Related Loans	$636,642	100.0 %	$614,879	100.0 %	$671,328	100.0 %	$614,879	100.0 %

At March 31, 2024 June 30, 2024, our Litigation-Related loans, which include commercial loans to law firms and consumer lending to plaintiffs/claimants and attorneys, totaled $636.6 million $671.3 million, or 51.8% 53.2% of our total loan portfolio, compared to $614.9 million, or 50.9% of our total loan portfolio at December 31, 2023. We remain focused on prudently growing our Litigation-Related loan portfolio. We also had Commercial Litigation-Related committed and uncommitted undrawn lines of credit totaling $91.7 million $85.6 million and $462.5 million $477.8 million, respectively, at March 31, 2024 June 30, 2024.

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Debt Securities Portfolio. Securities available-for-sale increased $20.1 million $54.7 million, or 16.4% 44.8%, to $142.2 million $176.8 million at March 31, 2024 June 30, 2024 from $122.1 million at December 31, 2023, due to management proactively increasing the investment portfolio to approximately 15% of total assets as part of our balance sheet management strategy, while simultaneously moderating multifamily and commercial real estate ("CRE") growth due to the current economic and interest rate environment. The increase was driven by purchases of $25.0 million $65.2 million, partially offset by paydowns of $3.3 million $9.0 million and unrealized losses of $1.6 million $1.4 million. Securities held-to-maturity decreased $1.8 million $3.9 million, or 2.3% 5.1%, to $75.2 million $73.1 million at March 31, 2024 June 30, 2024 from $77.0 million at December 31, 2023, driven by paydowns of $1.7 million $3.9 million and net premium amortization of $24 $48 thousand.

Funding. Total deposits increased $26.8 million $79.6 million, or 1.9% 5.7%, to $1.43 billion $1.49 billion at March 31, 2024 June 30, 2024 from $1.41 billion at December 31, 2023. We continue to focus on the acquisition and expansion of core deposit relationships. Core deposits, which we define as total deposits excluding time deposits, totaled $1.42 billion $1.47 billion at March 31, 2024 June 30, 2024, or 99.0% 99.2% of total deposits, compared to $1.40 billion or 99.4% of total deposits at December 31, 2023. Litigation and payment processing deposits represent $1.24 billion $1.27 billion, or 87% 85.7%, of total deposits at March 31, 2024 June 30, 2024. Savings, NOW and money market deposits increased $20.8 million $65.7 million, or 2.2% 7.1%, to $947.1 million $992.0 million at March 31, 2024 June 30, 2024.

Core commercial relationship banking clients in our two national verticals represent approximately 87% 84% of our $1.43 billion $1.49 billion deposit base at March 31, 2024 June 30, 2024. These relationship banking clients are derived from coupling lending facilities, payment processing, and other unique custodial banking needs with commercial cash management depository services. Our deposit strategy primarily focuses on developing full service commercial banking relationships with our clients through lending facilities, payment processing, and other unique commercial cash management services in our two national verticals, rather than competing with other institutions on rate. Our longer duration interest on lawyer trust accounts ("IOLTA"), escrow and claimant trust settlement deposits represent $709.5 million $813.6 million, or 49.5% 54.7%, of total deposits. As of March 31, 2024 June 30, 2024, uninsured deposits were $369.4 million $455.7 million, or 26% 31%, of our total deposits of $1.43 billion $1.49 billion, excluding

$10.6 million $11.1 million of affiliate deposits held by the Bank. Approximately 80% of our uninsured deposits represent clients with full relationship banking (loans, payment processing, and other service-oriented relationships) including, but not limited to, law firm operating accounts, law firm IOLTA/escrow accounts, merchant reserves, ISO reserves, ACH processing, and custodial accounts.

Due to the nature of our larger mass tort and class action settlements related to the litigation vertical, we participate in FDIC insured sweep programs as well as treasury secured money market funds. As of March 31, 2024 June 30, 2024, off-balance sheet sweep funds totaled approximately $466.6 million $408.0 million, of which approximately $290.9 million $273.6 million, or 62.3% 67.1%, was available to be swept onto our balance sheet as reciprocal client relationship deposits. Our deposit growth and off-balance sheet funds continue to demonstrate our highly efficient branchless and technology enabled deposit platforms.

At March 31, 2024 June 30, 2024, we had the ability to borrow a total of $300.1 million $324.8 million from the Federal Home Loan Bank of New York. We also had an available line of credit with the Federal Reserve Bank of New York discount window of $55.9 million $54.4 million. No borrowing amounts were outstanding as of March 31, 2024 June 30, 2024. Historically, we have never leveraged our balance sheet to generate earnings and have always utilized core client deposits to fund our asset growth and related earnings.

Stockholders' Equity. Total stockholders' equity increased $8.5 million $18.9 million to $207.1 million $217.4 million at March 31, 2024 June 30, 2024, from $198.6 million at December 31, 2023, primarily due to net income of $10.1 million $20.5 million and amortization of share-based compensation of $967 thousand, $1.9 million, partially offset by dividends declared to common stockholders of $1.2 million $2.5 million and other comprehensive loss of $1.1 million $1.0 million due to the decrease in fair value of our available-for-sale securities portfolio.

Asset Quality. Nonperforming assets consisted of one multifamily loan totaling $10.9 million as of March 31, 2024 June 30, 2024 and December 31, 2023. We had no exposure to commercial office space, no construction loans, and only $15.3 million $15.0 million in performing loans to the hospitality industry. The allowance for credit losses was $17.5 million $18.5 million, or 1.43% 1.47% of total loans, as of March 31, 2024 June 30, 2024, as compared to $16.6 million, or 1.38% of total loans at December 31, 2023. The increase in the allowance as a percentage of loans was general reserve driven considering loan growth and qualitative factors associated with the current short-term interest rate environment as well as the current uncertain economic environment including, but not limited to, its potential impact on the New York Metro multifamily and commercial real estate market. At March 31, 2024 June 30, 2024, special mention and substandard loans totaled $4.0 million and $10.9 million, respectively, substantially unchanged from December 31, 2023. The ratio of nonperforming loans to total loans and total assets was 0.89% 0.87% and 0.66% 0.64%,

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respectively, as of March 31, 2024 June 30, 2024, as compared to 0.91% and 0.68%, respectively, as of December 31, 2023. The allowance for credit losses to the nonperforming loans was 160% 169% as of March 31, 2024 June 30, 2024, as compared to 152% as of December 31, 2023.

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Due to increases in short-term interest rates associated with the current inflationary environment since 2022, management enhanced its ongoing credit risk management including risk management of its commercial real estate loan portfolio. The following is a brief summary of our ongoing risk management for our multifamily and CRE portfolios as of March 31, 2024 June 30, 2024:

- The multifamily portfolio, excluding one nonperforming loan, totaling $348.7 million $341.2 million, has a current weighted average DSCR and an original LTV (defined as unpaid principal balance as of March 31, 2024 June 30, 2024 divided by appraised value at origination) of approximately 1.67 1.66 and 54%, respectively, and the CRE portfolio, totaling $89.0 million $88.4 million, has a current weighted average DSCR and an original LTV of approximately 1.61 1.53 and 60% 59%, respectively.

- Multifamily loans maturing in less than one year totaled $36.7 million $47.0 million and had a current weighted average DSCR and an original LTV of approximately 1.49 1.42 and 57% 55%, respectively. CRE loans maturing in less than one year totaled $5.5 million $2.2 million and had a current weighted average DSCR and an original LTV of approximately 3.79 3.54 and 52% 47%, respectively.

- Multifamily loans maturing in one to two years totaled $39.0 million $50.3 million and had a current weighted average DSCR and an original LTV of approximately 1.36 1.38 and 56% 66%, respectively. CRE loans maturing in one to two years totaled $2.2 million and had a current weighted average DSCR and an original LTV of approximately 1.57 1.49 and 61%, respectively.

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Average Balance Sheets and Rate/Volume Analysis

The following tables present average balance sheet information, interest income, interest expense and the corresponding average yields earned and rates paid for periods indicated. The average balances are daily averages and, for loans, include both performing and nonperforming balances. Interest income on loans includes the effects of net premium amortization and net deferred loan origination fees accounted for as yield adjustments. No tax-equivalent yield adjustments were made, as we have no tax exempt investments.

Three Months Ended March 31,					
2024			2023		
Average Balance	Interest	Average Yield/Cost	Average Balance	Interest	Average Yield/Cost

Three Months Ended June 30,						
2024			2023			
Average		Average	Average		Average	
			Balance	Interest	Yield/Cost	Balance

(Dollars in thousands)

INTEREST EARNING ASSETS										
Loans, held for investment	$1,208,429	$ 23,389	7.78 %	$ 951,925	$ 17,615	7.50 %	$1,240,599	$24,216	7.85 %	$ 993,353
Securities, includes restricted stock	226,175	1,605	2.85 %	208,819	1,154	2.24 %	253,328	2,023	3.21 %	208,211
Securities purchased under agreements to resell	—	—	—	49,405	653	5.36 %	—	—	—	49,963
Interest earning cash and other	81,740	1,079	5.31 %	88,209	943	4.34 %	87,025	1,146	5.30 %	85,991
Total interest earning assets	1,516,344	26,073	6.92 %	1,298,358	20,365	6.36 %	1,580,952	27,385	6.97 %	1,337,518
NONINTEREST EARNING ASSETS	48,602			44,186			50,688			44,004
TOTAL AVERAGE ASSETS	$1,564,946			$ 1,342,544			$1,631,640			$1,381,522
INTEREST BEARING LIABILITIES										
Savings, NOW, Money Market deposits	$ 860,159	$ 3,098	1.45 %	$ 648,183	$ 1,012	0.63 %	$ 899,419	$ 2,932	1.31 %	$ 673,154
Time deposits	11,041	111	4.04 %	9,424	63	2.71 %	11,702	130	4.47 %	16,234
Total interest bearing deposits	871,200	3,209	1.48 %	657,607	1,075	0.66 %	911,121	3,062	1.35 %	689,388
Borrowings	45	1	8.94 %	47	1	8.63 %	44	1	9.14 %	46
Total interest bearing liabilities	871,245	3,210	1.48 %	657,654	1,076	0.66 %	911,165	3,063	1.35 %	689,434
NONINTEREST BEARING LIABILITIES										
Demand deposits	477,020			504,765			499,348			500,058
Other liabilities	15,787			17,897			11,894			18,231
Total noninterest bearing liabilities	492,807			522,662			511,242			518,289
Stockholders' equity	200,894			162,228			209,233			173,799

TOTAL AVG. LIABILITIES AND EQUITY	$1,564,946			$ 1,342,544			$1,631,640			$1,381,522
Net interest income		$ 22,863			$ 19,289			$24,322		
Net interest spread			5.44 %			5.70 %			5.62 %	
Net interest margin			6.06 %			6.03 %			6.19 %	
Deposits (including noninterest bearing demand deposits)	$1,348,220	$ 3,209	0.96 %	$ 1,162,372	$ 1,075	0.37 %	$1,410,469	$ 3,062	0.87 %	$1,189,446

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	Six Months Ended June 30,					
	2024			2023		
	Average Balance	Interest	Average Yield/Cost	Average Balance	Interest	Average Yield/Cost
INTEREST EARNING ASSETS						
Loans, held for investment	$ 1,224,513	$ 47,605	7.82 %	$ 972,753	$ 36,752	7.62 %
Securities, includes restricted stock	239,752	3,628	3.04 %	208,513	2,343	2.27 %
Securities purchased under agreements to resell	—	—	—	49,686	1,368	5.55 %
Interest earning cash and other	84,382	2,225	5.30 %	87,094	1,957	4.53 %
Total interest earning assets	1,548,647	53,458	6.94 %	1,318,046	42,420	6.49 %
NONINTEREST EARNING ASSETS	49,646			44,094		
TOTAL AVERAGE ASSETS	$ 1,598,293			$ 1,362,140		
INTEREST BEARING LIABILITIES						
Savings, NOW, Money Market deposits	$ 879,789	$ 6,030	1.38 %	$ 660,737	$ 2,821	0.86 %
Time deposits	11,372	241	4.26 %	12,848	219	3.44 %
Total interest bearing deposits	891,161	6,271	1.42 %	673,585	3,040	0.91 %
Borrowings	45	2	8.94 %	46	2	8.77 %
Total interest bearing liabilities	891,206	6,273	1.42 %	673,631	3,042	0.91 %
NONINTEREST BEARING LIABILITIES						
Demand deposits	488,184			502,399		
Other liabilities	13,840			18,065		
Total noninterest bearing liabilities	502,024			520,464		
Stockholders' equity	205,063			168,045		

TOTAL AVG. LIABILITIES AND EQUITY	$ 1,598,293			$ 1,362,140		
Net interest income		$ 47,185			$ 39,378	
Net interest spread			5.52 %			5.58 %
Net interest margin			6.13 %			6.02 %
Deposits (including noninterest bearing demand deposits)	$ 1,379,345	$ 6,271	0.91 %	$ 1,175,984	$ 3,040	0.52 %

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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.

	Three Months Ended March 31, 2024 vs. 2023			Three Months Ended June 30, 2024 vs. 2023			Six Months Ended June 30, 2024 vs. 2023		
	Increase (Decrease) due to		Total	Increase (Decrease) due to		Total	Increase (Decrease) due to		Total
	Volume	Rate	Increase	Volume	Rate	Increase	Volume	Rate	Increase
	(In thousands)			(In thousands)					
Interest earned on:									
Loans held for investment	$ 5,217	$ 557	$ 5,774	$ 4,904	$175	$ 5,079	$ 10,121	$ 732	$10,853
Securities, includes restricted stock	105	346	451	286	548	834	391	894	1,285
Securities purchased under agreements to resell	(653)	—	(653)	(715)	—	(715)	(1,368)	—	(1,368)
Interest earning cash and other	(72)	208	136	10	122	132	(62)	330	268
Total interest income	4,597	1,111	5,708	4,485	845	5,330	9,082	1,956	11,038
Interest paid on:									
Savings, NOW, money market deposits	707	1,379	2,086	375	748	1,123	1,082	2,127	3,209
Time deposits	12	36	48	(39)	13	(26)	(27)	49	22
Total deposits	719	1,415	2,134	336	761	1,097	1,055	2,176	3,231
Borrowings	—	—	—	—	—	—	—	—	—
Total interest expense	719	1,415	2,134	336	761	1,097	1,055	2,176	3,231

Change in net interest income	$ 3,878	$ (304)	$ 3,574	$ 4,149	$ 84	$ 4,233	$ 8,027	$ (220)	$ 7,807

Comparison of Operating Results for the Three Months Ended March 31, 2024 June 30, 2024 and 2023

General. Net income decreased $2.1 million increased $1.4 million, or 17.4% 15.1%, to $10.1 $10.5 million for the three months ended March 31, 2024 June 30, 2024 from $12.2 million $9.1 million for the three months ended March 31, 2023 June 30, 2023. The increase resulted from a $4.2 million increase in net interest income, partially offset by an increase of $2.3 million in noninterest expense and a decrease of $420 thousand in noninterest income.

Net Interest Income. Net interest income increased $4.2 million, or 21.1%, to $24.3 million for the three months ended June 30, 2024 from $20.1 million for the three months ended June 30, 2023, due to a $5.3 million increase in interest income, partially offset by a $1.1 million increase in interest expense.

Our net interest margin increased 17 basis points, which was positively impacted by growth in higher yielding variable rate commercial loans and low-cost litigation-based deposits, to 6.19% for the three months ended June 30, 2024 from 6.02% for the three months ended June 30, 2023.

Interest Income. Interest income increased $5.3 million, or 24.2%, to $27.4 million for the three months ended June 30, 2024 from $22.1 million for the three months ended June 30, 2023 and was attributable to increases in loan, securities and interest earning cash and other interest income, and partially offset by a decrease in reverse repurchase interest income.

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Loan interest income increased $5.1 million, or 26.5%, to $24.2 million for the three months ended June 30, 2024 from $19.1 million for the three months ended June 30, 2023. This increase was attributable to a $247.2 million, or 24.9%, increase in the average loan balance primarily due to growth in our national commercial lending platform and, to a lesser extent, our regional multifamily loan portfolio during 2023, and a 12 basis point increase in loan yields to 7.85%. Our commercial loan platform drove a $4.3 million increase in interest income, of which, $4.4 million was due to increased volume, offset slightly by a $199 thousand decrease due to yields decreasing 3 basis points. Commercial loans had an approximate portfolio yield of 10.00%. Additionally, our multifamily platform contributed $1.0 million to the increase in interest income, of which, $678 thousand was due to increased volume and $354 thousand was due to a 47 basis point increase in yields, driving an approximate portfolio yield of 4.26%.

Securities interest income increased $834 thousand, or 70.1%, to $2.0 million for the three months ended June 30, 2024 from $1.2 million for the three months ended June 30, 2023. This increase was primarily attributable to management proactively increasing the investment portfolio as part of our balance sheet management strategy, at current peak interest rates, to approximately 15% of total assets, while simultaneously moderating multifamily and CRE growth due to the current economic and interest rate environment. Average securities increased $45.1 million, or 21.7%, and yields increased 92 basis points to 3.21%.

Interest earning cash interest income increased $132 thousand to $1.1 million for the three months ended June 30, 2024 from $1.0 million for the three months ended June 30, 2023, attributable to a 57 basis point increase in yields which was positively impacted by increases in short-term interest rates, and a $1.0 million, or 1.2%, increase in the average balance of interest earning cash.

Securities purchased under agreements to resell interest income decreased $715 thousand as management elected to close out its reverse repurchase agreements and reinvest funds into higher yielding commercial loans.

Interest Expense. Interest expense increased $1.1 million, or 55.8%, to $3.1 million for the three months ended June 30, 2024 from $2.0 million for the three months ended June 30, 2023, primarily attributable to increases in average rate (primarily IOLTA) comprising $756 thousand and an increase of $340 thousand (primarily IOLTA) attributable to average deposit balances. Average interest bearing deposit balances (primarily IOLTA) increased $221.7 million, or 32.2%, when compared to June 30, 2023. Our deposit cost-of-funds, excluding demand deposits, increased 21 basis points for the three months ended June 30, 2024 as compared to the three months ended June 30, 2023, due to increases in short-term interest rates as well as management pro-actively increasing rates on IOLTA accounts in the various states we operate.

Provision for Credit Losses. Our provision for credit losses was $1.0 million for the three months ended June 30, 2024, a decrease of $325 thousand from the $1.3 million provision for the three months ended June 30, 2023. As of June 30, 2024, our allowance to loans ratio was 1.47% as compared to 1.34% as of June 30, 2023. The increase in the allowance as a percentage of loans was general reserve driven considering loan growth and qualitative factors associated with the current short-term interest rate environment as well as the current uncertain economic environment including, but not limited to, its potential impact on the New York Metro multifamily and commercial real estate market.

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Noninterest Income. Noninterest income information is as follows:

	Three Months Ended June 30,		Change	
	2024	2023	Amount	Percent
	(Dollars in thousands)			
Payment processing fees:				
Payment processing income	$ 5,140	$ 5,550	$ (410)	(7.4)%
ACH income	182	214	(32)	(15.0)
Total payment processing fees	5,322	5,764	(442)	(7.7)
Customer related fees, service charges and other:				
Administrative service income	620	739	(119)	(16.1)
Other	333	192	141	73.4
Total customer related fees, service charges and other	953	931	22	2.4
Total noninterest income	$ 6,275	$ 6,695	$ (420)	(6.3)%

Payment processing volumes for the credit and debit card processing platform increased $810 million, or 9.6%, to $9.3 billion and transactions decreased 1.2 million, or 0.8%, to 155.6 million, for the quarter ended June 30, 2024, as compared to the same period in 2023. We continue to focus on the expansion of sales channels through ISOs, prudently managing risk while increasing the number of merchants, growing volumes, and expanding our technology and other resources in the payments vertical. Administrative service income decreased $119 thousand, or 16.1%, to $620 thousand for the second quarter of 2024. Off-balance sheet sweep funds totaled $408.0 million at June 30, 2024, demonstrating the continued strength of our branchless core business model. Other income increased $141 thousand, or 73.4%, to $333 thousand due to increases in client loan related fees. During the second quarter of 2024, the Company received cash consideration resulting in a realized gain on its Litify investment of approximately $500 thousand, offset by an equity method loss of approximately $500 thousand recognized on its investment in a third party sponsored NFL consumer post settlement loan fund.

Noninterest Expense. Noninterest expense information is as follows:

	Three Months Ended June 30,		Change	
	2024	2023	Amount	Percent
	(Dollars in thousands)			
Noninterest expense:				
Employee compensation and benefits	$ 9,525	$ 7,803	$ 1,722	22.1 %
Occupancy and equipment	1,156	835	321	38.4

Professional and consulting services	857	1,615	(758)	(46.9)
FDIC and regulatory assessments	233	182	51	28.0
Advertising and marketing	881	320	561	175.3
Travel and business relations	180	246	(66)	(26.8)
Data processing	1,722	1,249	473	37.9
Other operating expenses	678	726	(48)	(6.6)
Total noninterest expense	$ 15,232	$ 12,976	$ 2,256	17.4 %

Employee compensation and benefits costs increased due to increases in employees to support growth and excellence in client service as well as the impact of year end salary, bonus and stock-based compensation increases. Our overall staffing levels increased by eight employees, or 6%, year-over-year to 141 full-time equivalents as we expanded our sales, lending, and risk management areas. Advertising and marketing costs increased as we continued to grow our digital marketing platform, expand our thought leadership in our national verticals, and support our regional Business

Development Officers ("BDOs") recently hired in 2023. Data processing costs increased due to increased processing volume, primarily driven by our core banking platform, and additional costs related to our technology implementations. Occupancy and equipment costs increased due to amortization of our investments in internally developed software to support our digital platform and additional office space to support our growth. Professional services costs decreased due to the costs in 2023 associated with our executive search firm. Our investments in current resources (people, technology, and digital marketing) will continue to support our long-term growth goals.

Income Tax Expense. We recorded an income tax expense of $3.9 million for the three months ended June 30, 2024, reflecting an effective tax rate of 27.0%, compared to $3.4 million, or 27.0%, for the three months ended June 30, 2023.

Comparison of Operating Results for the Six Months Ended June 30, 2024 and 2023

General. Net income decreased $747 thousand, or 3.5%, to $20.5 million for the six months ended June 30, 2024 from $21.3 million for the six months ended June 30, 2023. The decrease resulted from a $3.9 million $4.3 million decrease in noninterest income, which was primarily attributable to a $4.0 million nonrecurring gain on our equity investment in a litigation fintech company in the first quarter of 2023, and an increase of $2.1 million $4.3 million in noninterest expense, partially offset by an increase in net interest income of $3.6 million $7.8 million.

Net Interest Income. Net interest income increased $3.6 million $7.8 million, or 18.5% 19.8%, to $22.9 $47.2 million for the three six months ended March 31, 2024 June 30, 2024 from $19.3 million $39.4 million for the three six months ended March 31, 2023 June 30, 2023, due to a $5.7 million an $11.0 million increase in interest income, partially offset by a $2.1 million $3.2 million increase in interest expense.

Our net interest margin increased 3 11 basis points, which was positively impacted by growth in higher yielding variable rate commercial loans and low-cost litigation-based deposits, to 6.06% 6.13% for the three six months ended March 31, 2024 June 30, 2024 from 6.03% 6.02% for the three six months ended March 31, 2023 June 30, 2023.

Interest Income. Interest income increased $5.7 million $11.0 million, or 28.0% 26.0%, to $26.1 $53.5 million for the three six months ended March 31, 2024 June 30, 2024 from $20.4 $42.4 million for the three six months ended March 31, 2023 June 30, 2023 and was attributable to increases in loan, securities and interest earning cash and other interest income, and partially offset by a decrease in reverse repurchase interest income.

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Loan interest income increased $5.8 million $10.9 million, or 32.8% 29.5%, to $23.4 million $47.6 million for the three six months ended March 31, 2024 June 30, 2024 from $17.6 million $36.8 million for the three six months ended March 31, 2023 June 30, 2023. This increase was attributable to a $256.5 million $251.8 million, or 26.9% 25.9%, increase in the average loan balance primarily due to growth in our national commercial lending platform and, to a lesser extent, our regional real estate loans multifamily loan portfolio during 2023, and a 28 20 basis point increase in loan yields to 7.78% 7.82%. Our commercial loan platform drove a $4.9 million $9.2 million increase in interest income, of which, $4.7 million $9.1 million was due to increased volume and $199 $149 thousand was due to increases in yields, driving an approximate portfolio yield of 10.00%. Additionally, our real estate multifamily platform contributed $1.2 million $2.2 million to the increase in interest income, of which, $785 thousand $1.5 million was due to increased volume and $393 $746 thousand was due to increases in yields, driving an approximate portfolio yield of 4.20% 4.24%. Approximately 60% 62% of our loan portfolio is comprised of variable rate commercial loans tied to prime that were positively impacted by increases in short-term interest rates.

Securities interest income increased $451 thousand, $1.3 million, or 39.1% 54.8%, to $1.6 million $3.6 million for the three six months ended March 31, 2024 June 30, 2024 from $1.2 million $2.3 million for the three six months ended March 31, 2023 June 30, 2023. This increase was primarily attributable to reinvestment management proactively increasing the investment portfolio as part of portfolio cash flows into securities our balance sheet management strategy, at current market peak interest rates, driving a 61 basis point increase in yields which was positively impacted by increases in short-term to approximately 15% of total assets, while simultaneously moderating multifamily and CRE growth due to the current economic and interest rates, as well as average rate environment. Average securities increased $17.4 million $31.2 million, or 8.3% 15.0%, and yields increased 77 basis points to 3.04%.

Interest earning cash interest income increased $136 $268 thousand to $1.1 million $2.2 million for the three six months ended March 31, 2024 June 30, 2024 from $943 thousand $2.0 million for the three six months ended March 31, 2023 June 30, 2023, attributable to a 97 77 basis point increase in yields which was positively impacted by increases in short-term interest rates, partially offset by a $6.5 million $2.7 million, or 7.3% 3.1%, decrease in the average balance of interest earning cash.

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Securities purchased under agreements to resell interest income decreased $653 thousand $1.4 million as management elected to close out its reverse repurchase agreements and reinvest funds into higher yielding commercial loans.

Interest Expense. Interest expense increased $2.1 million $3.2 million, or 198.3% 106.2%, to $3.2 million $6.3 million for the three six months ended March 31, 2024 June 30, 2024 from $1.1 million $3.0 million for the three six months ended March 31, 2023 June 30, 2023, primarily attributable to increases in average rate (primarily IOLTA relationship and to a lesser extent money market deposits) accounting for $1.4 million comprising $2.2 million of the increase and increases related the remaining increase of $1.1 million (primarily IOLTA and to a lesser extent money market deposits) attributable to average deposit balances accounting for $719 thousand (primarily relationship money market deposits) of the increase. balances. Average interest bearing deposit balances (primarily IOLTA relationship deposits) IOLTA) increased $213.6 million $217.6 million, or 32.5% 32.3%, when compared to March 31, 2023 June 30, 2023. Our deposit cost-of-funds, excluding demand deposits, increased 82 51 basis points for the three six months ended March 31, 2024 June 30, 2024 as compared to the three six months ended March 31, 2023 June 30, 2023, due to increases in short-term interest rates as well as management pro-actively increasing rates on escrow IOLTA accounts in the various states we operate.

Provision for Credit Losses. Our provision for credit losses was $1.0 million $2.0 million for the three six months ended March 31, 2024 June 30, 2024, an increase of $500 $175 thousand from the $500 thousand $1.8 million provision for the three six months ended March 31, 2023 June 30, 2023. As of March 31, 2024 June 30, 2024, our allowance to loans ratio was 1.43% 1.47% as compared to 1.34% as of March 31, 2023 June 30, 2023. The increase in the allowance as a percentage of loans was general reserve driven considering loan growth and qualitative factors associated with the current short-term interest rate environment as well as the current uncertain economic environment including, but not limited to, its potential impact on the New York Metro multifamily and commercial real estate market.

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Noninterest Income. Noninterest income information is as follows:

	Three Months Ended March 31,		Change		Six Months Ended June 30,		Change	
	2024	2023	Amount	Percent	2024	2023	Amount	Percent
	(Dollars in thousands)				(Dollars in thousands)			
Payment processing fees:								
Payment processing income	$5,100	$ 5,300	$ (200)	(3.8)%	$10,240	$10,850	$ (610)	(5.6)%
ACH income	196	213	(17)	(8.0)	378	427	(49)	(11.5)
Total payment processing fees	5,296	5,513	(217)	(3.9)	10,618	11,277	(659)	(5.8)
Customer related fees, service charges and other:								
Administrative service income	746	529	217	41.0	1,366	1,268	98	7.7
Gain on equity investment	—	4,027	(4,027)	(100.0)				
Net gain on equity investments					—	4,027	(4,027)	(100.0)
Other	347	193	154	79.8	680	385	295	76.6
Total customer related fees, service charges and other	1,093	4,749	(3,656)	(77.0)	2,046	5,680	(3,634)	(64.0)
Total noninterest income	$6,389	$10,262	$(3,873)	(37.7)%	$12,664	$16,957	$(4,293)	(25.3)%

Payment processing volumes and transactions for the credit and debit card processing platform increased $937 million $1.7 billion, or 12.2% 10.8%, to $8.6 billion $17.9 billion and 7.6 million 6.4 million, or 5.3% 2.1%, to 150.5 million 306.1 million transactions, respectively, for the quarter six months ended March 31, 2024 June 30, 2024, as compared to the same period in 2023.

These increases were due to the expansion of sales channels through ISOs, an increased number of merchants, volume increases, and were facilitated by our focus on technology and other resources in the payments vertical. Administrative service income increased $217 $98 thousand, or 41.0% 7.7%, to $746 thousand $1.4 million for the first quarter of 2024. six months ended June 30, 2024. Off-balance sheet sweep funds totaled $466.6 million $408.0 million at March 31, 2024 June 30, 2024, demonstrating the continued strength of our branchless core business model. Other income increased $295 thousand, or 76.6%, to $680 thousand primarily due to increases in client loan related fees. Net gain on equity investments decreased $4.0 million due to a nonrecurring gain on our Litify fintech investment in the first quarter of 2023. In February 2023, Litify, Inc. ("Litify") was reorganized into a partnership and an unrelated third party acquired a majority ownership in the reorganized entity. As an equity holder and party to the reorganization and sale transaction, a majority of the Company's partnership interests were exchanged for cash and undiscounted noncash consideration of approximately $5.4 million. As a result, the Company recognized a gain on its investment of $4.0 million in the first quarter of 2023. During the second quarter of 2024, the Company received cash consideration resulting in a realized gain on its Litify investment of approximately $500 thousand, offset by an equity method loss of approximately $500 thousand recognized on its investment in a third party sponsored NFL consumer post settlement loan fund.

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Noninterest Expense. Noninterest expense information is as follows:

	Three Months Ended March 31,		Change		Six Months Ended June 30,		Change	
	2024	2023	Amount	Percent	2024	2023	Amount	Percent
	(Dollars in thousands)				(Dollars in thousands)			
Noninterest expense:								
Employee compensation and benefits	$ 9,161	$ 7,484	$ 1,677	22.4 %	$18,686	$15,287	$ 3,399	22.2 %
Occupancy and equipment	927	829	98	11.8	2,083	1,664	419	25.2
Professional and consulting services	951	1,543	(592)	(38.4)	1,808	3,158	(1,350)	(42.7)
FDIC and regulatory assessments	222	144	78	54.2	455	326	129	39.6
Advertising and marketing	872	429	443	103.3	1,753	749	1,004	134.0
Travel and business relations	278	148	130	87.8	458	394	64	16.2
Data processing	1,511	1,133	378	33.4	3,233	2,382	851	35.7
Other operating expenses	646	771	(125)	(16.2)	1,324	1,497	(173)	(11.6)
Total noninterest expense	$ 14,568	$ 12,481	$ 2,087	16.7 %	$29,800	$25,457	$ 4,343	17.1 %

Employee compensation and benefits costs increased due to increases in employees to support growth and excellence in client service as well as the impact of year end salary, bonus and stock-based compensation increases. Our

Table In 2024, we experienced the full year impact of Contents

overall staffing levels increased by 21 employees, or 18%, year-over-year our 2023 key hires including, but not limited to, 139 full time equivalents as of March 31, 2024, primarily from our hiring of six regional managing directors/senior business development officers ("BDOs"), resources within our commercial underwriting/lending area, BDOs, sales support, staff, operational staff to lending/lending support, Esquire's growth plans as well as our and risk management and compliance areas, and our new chief legal officer throughout 2023. Data processing costs increased due to increased processing volume, primarily driven by our core banking platform, and additional costs related to our technology implementations. staffing initiatives. Advertising and marketing costs increased as we continued to grow our digital marketing platform, expand our thought leadership in our national verticals, and support our new regional BDOs. Travel and business relations Data processing costs increased as a result of due to increased processing volume, primarily driven by our high touch marketing and sales efforts which complement our digital marketing efforts core banking platform, and additional travel costs related to our newly hired regional BDOs. technology implementations. Occupancy and equipment costs increased due to amortization of our investments in internally developed software to support our digital platform and additional office space to support our growth. Professional services costs decreased due to the hiring costs associated with a global our executive search firm in 2023. Our investment in current resources (people, technology, and digital marketing) should will continue to support our long-term growth goals.

Income Tax Expense. We recorded an income tax expense of $3.6 million $7.5 million for the three six months ended March 31, 2024 June 30, 2024, reflecting an effective tax rate of 26.5% 26.75%, compared to $4.4 million $7.8 million, or 26.5% 26.71%, for the three six months ended March 31, 2023 June 30, 2023.

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

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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.

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The following table presents the estimated changes in net interest income of Esquire Bank, National Association, calculated on a bank-only basis, which would result from changes in market interest rates over a twelve-month period.

Changes in Interest Rates (Basis Points)	March 31, 2024 Estimated 12-Months Net Interest Income	March 31, 2024 Change	June 30, 2024 Estimated 12-Months Net Interest Income	June 30, 2024 Change
	(Dollars in thousands)		(Dollars in thousands)	
300	$ 119,158	$ 15,718	$ 127,923	$ 17,503
200	113,999	10,559	122,172	11,752
100	108,835	5,395	116,380	5,960
0	103,440	—	110,420	—
-100	98,794	(4,646)	105,190	(5,230)
-200	93,933	(9,507)	99,543	(10,877)
-300	88,594	(14,846)	93,546	(16,874)

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.

The following table presents the estimated changes in EVE of Esquire Bank, National Association, calculated on a bank-only basis that would result from changes in market interest rates at March 31, 2024 June 30, 2024.

	March 31, 2024	June 30, 2024
Changes in	Economic	Economic

Interest Rates (Basis Points)	Value of Equity	Change	Value of Equity	Change
	(Dollars in thousands)		(Dollars in thousands)	
300	$ 365,740	$ 35,599	$ 398,435	$ 42,031
200	355,949	25,808	387,066	30,662
100	344,422	14,281	373,491	17,087
0	330,141	—	356,404	—
-100	312,816	(17,325)	335,342	(21,062)
-200	291,754	(38,387)	309,554	(46,850)
-300	265,666	(64,475)	278,525	(77,879)

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

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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.

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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 March 31, 2024 June 30, 2024, cash and cash equivalents totaled $158.2

million $152.7 million.

At March 31, 2024 June 30, 2024, through pledging of our securities and certain loans, we had the ability to borrow up to $300.1 $324.8 million from the FHLB of New York and $55.9 million $54.4 million from the FRB of New York discount window. At March 31, 2024 June 30, 2024, we also had $17.5 million in aggregated unsecured lines of credit with unaffiliated correspondent banks. No amounts were outstanding on any of the aforementioned lines as of March 31, 2024 June 30, 2024. Subsequent to June 30, 2024, through the pledging of additional loans, we increased our FHLB borrowing capacity $59.2 million to $384.0 million.

At March 31, 2024 June 30, 2024, our off-balance sheet sweeps funds totaled $466.6 million $408.0 million, of which $290.9 million $273.6 million, or 62.3% 67.1%, was able to be swept onto our balance sheet as reciprocal client relationship deposits.

Our overall liquidity position (cash, borrowing capacity, and available reciprocal client sweep balances) totaled $822.6 million $823.0 million at March 31, 2024 June 30, 2024, or 57% 55% of total deposits, creating a highly liquid and unlevered balance sheet.

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 FHLB, FRB, other correspondent bank lines or obtain additional funds through reciprocal deposits.

Esquire Bank is subject to various regulatory capital requirements administered by the Office of the Comptroller of the Currency (the "OCC"), and the Federal Deposit Insurance Corporation. At March 31, 2024 June 30, 2024, Esquire Bank exceeded all applicable regulatory capital requirements, and was considered "well capitalized" under regulatory guidelines.

We manage our capital to comply with our internal planning targets and regulatory capital standards administered by the OCC and review capital levels on a monthly basis.

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

	"Well Capitalized"	For Capital Adequacy Purposes Minimum Capital with Conservation Buffer	Actual At March 31, 2024	"Well Capitalized"	For Capital Adequacy Purposes Minimum Capital with Conservation Buffer	Actual At June 30, 2024
Total Risk-based Capital Ratio						
Bank	10.00 %	10.50 %	15.66 %	10.00 %	10.50 %	16.14 %
Tier 1 Risk-based Capital Ratio						
Bank	8.00 %	8.50 %	14.41 %	8.00 %	8.50 %	14.89 %

Common Equity Tier 1 Capital Ratio						
Bank	6.50 %	7.00 %	14.41 %	6.50 %	7.00 %	14.89 %
Tier 1 Leverage Ratio						
Bank	5.00 %	4.00 %	12.42 %	5.00 %	4.00 %	12.53 %

Effective January 1, 2020, the federal banking agencies adopted a rule to establish for institutions with assets of less than $10 billion that meet other specified criteria a "community bank leverage ratio" (the ratio of a bank's tangible equity capital to average total consolidated assets) of 9% that such institutions may elect to utilize in lieu of the generally

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applicable leverage and risk-based capital requirements noted above. A "qualifying community bank" with capital exceeding 9% will be considered compliant with all applicable regulatory capital and leverage requirements, including the requirement to be "well capitalized". For the current period, the Bank has elected to continue to utilize the generally applicable leverage and risk based requirements and not apply the community bank leverage ratio.

Effects of Inflation. The impact of inflation, as it affects banks, differs substantially from the impact on non-financial institutions. Banks have assets which are primarily monetary in nature and which tend to move with inflation. This is especially true for banks with a high percentage of rate sensitive interest-earning assets and interest-bearing liabilities. A bank can further reduce the impact of inflation with proper management of its rate sensitivity gap. This gap represents the difference between interest rate sensitive assets and interest rate sensitive liabilities. The Company attempts to structure its assets and liabilities and manages its gap to protect against substantial changes in interest rate scenarios, in order to minimize the potential effects of inflation.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Item 4. Controls and Procedures

An evaluation was performed under the supervision and with the participation of the Company's management, including the Principal Executive Officer and the Principal Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Securities and Exchange Act of 1934, as amended) as of March 31, 2024June 30, 2024. Based on that evaluation, the Company's management, including the Principal Executive Officer and the Principal Financial Officer, concluded that the Registrant's disclosure controls and procedures were effective.

During the quarter ended March 31, 2024June 30, 2024, there have been no changes in the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II – OTHER INFORMATION

Item 1. Legal Proceedings

Periodically, we are involved in claims and lawsuits, such as claims to enforce liens, condemnation proceedings on properties in which we hold security interests, claims involving the making and servicing of real property loans and other issues incident to our business. At March 31, 2024 June 30, 2024, we are not a party to any pending legal proceedings that we believe would have a material adverse effect on our financial condition, results of operations or cash flows.

Item 1A. Risk Factors

There have been no material changes to our risk factors as disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2023.

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

The following table presents information regarding the purchase of our common stock during the quarter ended March 31, 2024 June 30, 2024 and the stock repurchase program approved by our Board of Directors.

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 (1)
January April 1, 2024 through January 31, 2024 April 30, 2024	—	$ —	—	257,694
February May 1, 2024 through February 29, 2024 May 31, 2024	—	—	—	257,694
March June 1, 2024 through March 31, 2024 June 30, 2024	—	—	—	257,694

(1) On January 9, 2019, the Company announced a share repurchase program, which authorized the purchase of up to 300,000 shares of common stock. There is no expiration date for the stock repurchase program.

Participants in the Company's stock-based incentive plans may have shares withheld to cover income taxes upon the vesting of restricted stock awards and may use a stock swap to exercise stock options. Shares withheld to cover income taxes upon the vesting of restricted stock awards and stock swaps to exercise stock options are repurchased pursuant to the terms of the applicable plan and not under the Company's share repurchase program. Shares repurchased pursuant to these plans during the three months ended March 31, 2024 June 30, 2024 were as follows:

Period	Total number of shares purchased	Average price paid per share
January 1, 2024 through January 31, 2024	6,059	$ 49.31
February 1, 2024 through February 29, 2024	—	—
March 1, 2024 through March 31, 2024	—	—
Period	**Total number of shares purchased**	**Average price paid per share**
April 1, 2024 through April 30, 2024	—	$ —
May 1, 2024 through May 31, 2024	—	—
June 1, 2024 through June 30, 2024	—	—

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

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Item 6. Exhibits

Exhibit Number	Description
3.1	Articles of Incorporation of Esquire Financial Holdings, Inc. (1)
3.2	Amended and Restated Bylaws of Esquire Financial Holdings, Inc. (2)
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Written Statement of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.0	The following materials for the quarter ended March 31, 2024 June 30, 2024, formatted in iXBRL (Inline Extensible Business Reporting Language): (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, tagged as blocks of text and including detailed tags.
104	Cover Page Interactive Data File (embedded within the Inline XBRL document).

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

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SIGNATURES

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

ESQUIRE FINANCIAL HOLDINGS, INC.

Date: May 10, 2024 August 14, 2024	/s/ Andrew C. Sagliocca Andrew C. Sagliocca Vice Chairman, Chief Executive Officer and President
Date: May 10, 2024 August 14, 2024	/s/ Michael Lacapria Michael Lacapria Senior Vice President and Chief Financial Officer

Exhibit 31.1

Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Andrew C. Sagliocca, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: May 10, 2024 August 14, 2024

/s/ Andrew C. Sagliocca

Andrew C. Sagliocca
Vice Chairman, Chief Executive Officer and President

Exhibit 31.2

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

I, Michael Lacapria, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: May 10, 2024 August 14, 2024	/s/ Michael Lacapria
	Michael Lacapria
	Senior Vice President and Chief Financial Officer

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Exhibit 32

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

Andrew C. Sagliocca, Vice Chairman, Chief Executive Officer and President of Esquire Financial Holdings, Inc., (the "Company") and Michael Lacapria, Senior Vice President and Chief Financial Officer of the Company, each certify in his capacity as an officer of the Company that they have reviewed the quarterly report on Form 10-Q for the quarter ended March 31, 2024 June 30, 2024 (the "Report") and that to the best of their knowledge:

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

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

Date: May 10, 2024 August 14, 2024	/s/ Andrew C. Sagliocca
	Andrew C. Sagliocca
	Vice Chairman, Chief Executive Officer and President
Date: May 10, 2024 August 14, 2024	/s/ Michael Lacapria
	Michael Lacapria
	Senior Vice President and Chief Financial Officer

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

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

DISCLAIMER

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