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

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

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

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

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

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

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

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

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: As of November 1, 2024, there were 8,321,308 outstanding shares of the issuer's common stock.

Esquire Financial Holdings, Inc.
Form 10-Q

Table of Contents

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)

	September 30, 2024	December 31, 2023
Assets:		
Cash and cash equivalents	$ 147,663	$ 165,209
Securities available-for-sale, at fair value	211,460	122,107
Securities held-to-maturity, at cost (fair value of $ 65,110 and $69,116, at September 30, 2024 and December 31, 2023, respectively)	70,794	77,001
Securities, restricted, at cost	3,034	2,928
Loans held for investment	1,297,443	1,207,413
Less: allowance for credit losses	(19,451)	(16,631)
Loans, net of allowance	1,277,992	1,190,782
Premises and equipment, net	2,610	2,602
Accrued interest receivable	9,712	9,130
Other assets	59,209	47,117
Total assets	$ 1,782,474	$ 1,616,876
Liabilities:		
Deposits:		
Demand	$ 539,434	$ 473,274
Savings, NOW and money market	982,816	926,264
Time	14,145	7,761
Total deposits	1,536,395	1,407,299
Accrued expenses and other liabilities	13,511	11,022
Total liabilities	1,549,906	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; 8,399,713 and 8,361,185 shares issued, respectively; and 8,320,317 and 8,287,848 shares outstanding, respectively	84	84
Additional paid-in capital	102,936	99,713
Retained earnings	142,434	114,261
Accumulated other comprehensive loss	(10,319)	(13,235)
Treasury stock at cost (79,396 and 73,337 shares, respectively)	(2,567)	(2,268)
Total stockholders' equity	232,568	198,555
Total liabilities and stockholders' equity	$ 1,782,474	$ 1,616,876

See accompanying notes to interim consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Interest income:				
Loans held for investment	$ 25,122	$ 21,408	$ 72,727	$ 58,160
Securities, includes restricted stock	2,389	1,238	6,017	3,581
Securities purchased under agreements to resell	—	158	—	1,526
Interest earning cash and other	1,620	1,097	3,845	3,054
Total interest income	29,131	23,901	82,589	66,321
Interest expense:				
Savings, NOW and money market deposits	3,129	1,988	9,159	4,809
Time deposits	143	187	384	406
Borrowings	1	1	3	3
Total interest expense	3,273	2,176	9,546	5,218
Net interest income	25,858	21,725	73,043	61,103
Provision for credit losses	1,000	1,200	3,000	3,025
Net interest income after provision for credit losses	24,858	20,525	70,043	58,078
Noninterest income:				
Payment processing fees	5,169	5,621	15,787	16,898
Administrative service income	658	619	2,024	1,887
Net (loss) gain on equity investments	—	(14)	—	4,013
Customer related fees, service charges and other	235	302	915	687
Total noninterest income	6,062	6,528	18,726	23,485
Noninterest expense:				
Employee compensation and benefits	9,525	8,433	28,211	23,720
Occupancy and equipment	977	836	3,060	2,500
Professional and consulting services	955	1,325	2,763	4,483
FDIC and regulatory assessments	236	261	691	587
Advertising and marketing	949	467	2,702	1,216
Travel and business relations	264	254	722	648
Data processing	1,690	1,375	4,923	3,757
Other operating expenses	762	808	2,086	2,305
Total noninterest expense	15,358	13,759	45,158	39,216
Net income before income taxes	15,562	13,294	43,611	42,347
Income tax expense	4,202	3,457	11,706	11,218
Net income	$ 11,360	$ 9,837	$ 31,905	$ 31,129
Earnings per share				
Basic	$ 1.45	$ 1.27	$ 4.09	$ 4.04
Diluted	$ 1.34	$ 1.17	$ 3.78	$ 3.74

See accompanying notes to interim consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Net income	$ 11,360	$ 9,837	$ 31,905	$ 31,129
Other comprehensive income (loss):				
Unrealized gains (losses) arising during the period on securities available-for-sale	5,410	(4,081)	4,022	(3,150)
Tax effect	(1,488)	1,122	(1,106)	866
Total other comprehensive income (loss)	3,922	(2,959)	2,916	(2,284)
Total comprehensive income	$ 15,282	$ 6,878	$ 34,821	$ 28,845

See accompanying notes to interim consolidated financial statements.

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 July 1, 2024	—	8,292,948	$ —	$ 84	$ 101,815	$ 132,320	$ (14,241)	$ (2,567)	$ 217,411
Net income	—	—	—	—	—	11,360	—	—	11,360
Other comprehensive income	—	—	—	—	—	—	3,922	—	3,922
Exercise of stock options, net of repurchases (6,063 shares)	—	30,569	—	—	188	—	—	—	188
Restricted stock award forfeitures	—	(3,200)	—	—	—	—	—	—	—
Stock compensation expense	—	—	—	—	933	—	—	—	933
Cash dividends declared to common stockholders ($0.15 per share)	—	—	—	—	—	(1,246)	—	—	(1,246)
Balance at September 30, 2024	—	8,320,317	$ —	$ 84	$ 102,936	$ 142,434	$ (10,319)	$ (2,567)	$ 232,568

	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 July 1, 2023	—	8,192,379	$ —	$ 82	$ 98,018	$ 96,593	$ (14,442)	$ (1,345)	$ 178,906
Net income	—	—	—	—	—	9,837	—	—	9,837
Other comprehensive loss	—	—	—	—	—	—	(2,959)	—	(2,959)
Exercise of stock options, net of repurchases (3,728 shares)	—	10,880	—	1	49	—	—	—	50
Stock compensation expense	—	—	—	—	801	—	—	—	801
Cash dividends declared to common stockholders ($0.125 per share)	—	—	—	—	—	(1,025)	—	—	(1,025)
Balance at September 30, 2023	—	8,203,259	$ —	$ 83	$ 98,868	$ 105,405	$ (17,401)	$ (1,345)	$ 185,610

	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	—	—	—	—	—	31,905	—	—	31,905
Other comprehensive income	—	—	—	—	—	—	2,916	—	2,916
Exercise of stock options, net of repurchases (6,320 shares)	—	41,728	—	—	361	—	—	—	361
Restricted stock award forfeitures	—	(3,200)	—	—	—	—	—	—	—
Stock compensation expense	—	—	—	—	2,862	—	—	—	2,862
Cash dividends declared to common stockholders ($0.45 per share)	—	—	—	—	—	(3,732)	—	—	(3,732)
Shares received related to tax withholding	—	(6,059)	—	—	—	—	—	(299)	(299)
Balance at September 30, 2024	—	8,320,317	$ —	$ 84	$ 102,936	$ 142,434	$ (10,319)	$ (2,567)	$ 232,568

	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	—	—	—	—	—	31,129	—	—	31,129
Other comprehensive loss	—	—	—	—	—	—	(2,284)	—	(2,284)
Exercise of stock options, net of repurchases (7,146 shares)	—	19,632	—	1	102	—	—	—	103
Stock compensation expense	—	—	—	—	2,379	—	—	—	2,379
Cash dividends declared to common stockholders ($0.35 per share)	—	—	—	—	—	(2,868)	—	—	(2,868)
Shares received related to tax withholding	—	(3,706)	—	—	—	—	—	(153)	(153)
Purchase of common stock	—	(8,000)	—	—	—	—	—	(286)	(286)
Balance at September 30, 2023	—	8,203,259	$ —	$ 83	$ 98,868	$ 105,405	$ (17,401)	$ (1,345)	$ 185,610

See accompanying notes to interim consolidated financial statements.

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

	Nine Months Ended September 30,	
	2024	**2023**
Cash flows from operating activities:		
Net income	$ 31,905	$ 31,129
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	3,000	3,025
Depreciation and amortization of premises and equipment	622	529
Stock compensation expense	2,862	2,379
Net gain on equity investments	—	(4,013)
Net amortization (accretion):		
Securities	272	331
Loans	(437)	(1,054)
Right of use asset	422	428
Software	1,422	944
Changes in other assets and liabilities:		
Accrued interest receivable	(582)	(2,040)
Other assets	(11,244)	(9,897)
Operating lease liability	(535)	(452)
Accrued expenses and other liabilities	2,820	4,569
Net cash provided by operating activities	30,527	25,878
Cash flows from investing activities:		
Net change in loans	(89,773)	(165,009)
Net change in securities purchased under agreements to resell	—	49,567
Purchases of securities available-for-sale	(102,701)	(17,879)
Purchases of securities held-to-maturity	—	(5,978)
Principal repayments on securities available-for-sale	17,175	9,370
Principal repayments on securities held-to-maturity	6,130	5,500
Purchases of securities, restricted	(106)	(118)
Proceeds from equity investment	1,467	5,973
Purchase of equity investment	(3,524)	—
Purchases of premises and equipment	(630)	(328)
Development of capitalized software	(1,741)	(1,884)
Net cash used in investing activities	(173,703)	(120,786)
Cash flows from financing activities:		
Net increase in deposits	129,096	54,357
Decrease in borrowings	(1)	(1)
Exercise of stock options, net of repurchases	361	103
Tax withholding payments for vested equity awards	(299)	(153)
Cash dividends paid to common stockholders	(3,527)	(2,588)
Purchase of common stock	—	(286)
Net cash provided by financing activities	125,630	51,432
Decrease in cash and cash equivalents	(17,546)	(43,476)
Cash and cash equivalents at beginning of the period	165,209	164,122
Cash and cash equivalents at end of the period	$ 147,663	$ 120,646
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$ 9,554	$ 5,181
Taxes	13,352	13,865
Noncash transactions:		
Dividends declared but not paid	205	280
Exchange of noncash instruments	(300)	1,750
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 nine months ended September 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 Company recognized an equity method loss of approximately $500 thousand on its investment for the nine months ended September 30, 2024. As of September 30, 2024, the investment’s carrying amount was $9.4 million with a remaining life of 4.5 years. As of December 31, 2023, the investment’s carrying amount was $10.6 million.

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.

New Accounting Pronouncements

In November 2023, the FASB issued Accounting Standards Update (“ASU”) 2023-07, “Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures”, which is intended to improve reportable segment disclosure requirements, primarily through enhanced disclosures about significant segment expenses. In addition, the amendments enhance interim disclosure requirements, clarify circumstances in which an entity can disclose multiple segment measures of profit or loss, provide new segment disclosure requirements for entities with a single reportable segment, and contain other disclosure requirements. The purpose of the amendments is to enable investors to better understand an entity’s overall performance and assess potential future cash flows. A public entity should apply the amendments retrospectively to all prior periods presented in the financial statements. Upon transition, the segment expense categories and amounts disclosed in the prior periods should be based on the significant segment expense categories identified and disclosed in the period of adoption. This ASU is effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024, with early adoption permitted. The Company does not expect a material impact of this standard on the consolidated financial statements and related disclosures.

In December 2023, the FASB issued ASU 2023-09, “Income Taxes (Topic 740): Improvements to Income Tax Disclosures”, intended to enhance the transparency of income tax disclosures, primarily related to the rate reconciliation and income taxes paid information. Specifically, the amendments in this ASU require disclosure of: (i) a tabular reconciliation, using both percentages and reporting currency amounts, with prescribed categories that are required to be disclosed, and the separate disclosure and disaggregation of prescribed reconciling items with an effect equal to 5% or more of the amount determined by multiplying pretax income from continuing operations by the applicable statutory rate; (ii) a qualitative description of the states and local jurisdictions that make up the majority (greater than 50%) of the effect of the state and local income taxes; and (iii) amount of income taxes paid, net of refunds received, disaggregated by federal, state, and foreign taxes and by individual jurisdictions that comprise 5% or more of total income taxes paid, net of refunds received. The ASU also includes other amendments to improve the effectiveness of income tax disclosures. The update is effective for fiscal years beginning after December 15, 2024, with early adoption permitted. The transition method is prospective with retrospective method permitted. The Company is currently evaluating the impact on disclosures.

NOTE 2 — Debt Securities

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

	September 30, 2024			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Securities available-for-sale:				
Mortgage-backed securities – agency	$ 102,359	$ 20	$ (13,416)	$ 88,963
Collateralized mortgage obligations ("CMOs") – agency	123,334	931	(1,768)	122,497
Total available-for-sale	$ 225,693	$ 951	$ (15,184)	$ 211,460

	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
	(In thousands)			
Securities held-to-maturity:				
CMOs – agency	$ 70,794	$ 1	$ (5,685)	$ 65,110
Total held-to-maturity	$ 70,794	$ 1	$ (5,685)	$ 65,110

	December 31, 2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Securities available-for-sale:				
Mortgage-backed securities – agency	$ 107,396	$ 6	$ (16,392)	$ 91,010
CMOs – agency	32,966	264	(2,133)	31,097
Total available-for-sale	$ 140,362	$ 270	$ (18,525)	$ 122,107

	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
	(In thousands)			
Securities held-to-maturity:				
CMOs – agency	$ 77,001	$ 9	$ (7,894)	$ 69,116
Total held-to-maturity	$ 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 nine months ended September 30, 2024 and 2023.

At September 30, 2024, securities having a fair value of $ 219.9 million were pledged to the Federal Home Loan Bank of New York ("FHLB") for borrowing capacity totaling $204.9 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 September 30, 2024 and December 31, 2023, the Company had no outstanding FHLB advances.

At September 30, 2024, securities having a fair value of $ 56.7 million were pledged to the Federal Reserve Bank of New York ("FRB") for borrowing capacity totaling $54.9 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 September 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:

	September 30, 2024					
	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(In thousands)					
Securities available-for-sale:						
Mortgage-backed securities – agency	$ 4,873	$ (28)	$ 82,456	$ (13,388)	$ 87,329	$ (13,416)
CMOs – agency	35,846	(113)	11,566	(1,655)	47,412	(1,768)
Total available-for-sale	$ 40,719	$ (141)	$ 94,022	$ (15,043)	$ 134,741	$ (15,184)

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrecognized Losses	Fair Value	Gross Unrecognized Losses	Fair Value	Gross Unrecognized Losses
	(In thousands)					
Securities held-to-maturity:						
CMOs – agency	$ —	$ —	$ 60,370	$ (5,685)	$ 60,370	$ (5,685)
Total held-to-maturity	$ —	$ —	$ 60,370	$ (5,685)	$ 60,370	$ (5,685)

	December 31, 2023					
	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(In thousands)					
Securities available-for-sale:						
Mortgage-backed securities – agency	$ 3,143	$ (17)	$ 86,082	$ (16,375)	$ 89,225	$ (16,392)
CMOs – agency	—	—	13,176	(2,133)	13,176	(2,133)
Total available-for-sale	$ 3,143	$ (17)	$ 99,258	$ (18,508)	$ 102,401	$ (18,525)

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrecognized Losses	Fair Value	Gross Unrecognized Losses	Fair Value	Gross Unrecognized Losses
	(In thousands)					
Securities held-to-maturity:						
CMOs – agency	$ —	$ —	$ 63,739	$ (7,894)	$ 63,739	$ (7,894)
Total held-to-maturity	$ —	$ —	$ 63,739	$ (7,894)	$ 63,739	$ (7,894)

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 September 30, 2024.

As of September 30, 2024 and December 31, 2023, 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 as of September 30, 2024 and December 31, 2023.

Accrued interest receivable on securities totaling $ 913 thousand at September 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:

	September 30, 2024	December 31, 2023
	(In thousands)	
Real estate:		
Multifamily	$ 350,857	$ 348,241
Commercial real estate	87,544	89,498
1 – 4 family	14,749	17,937
Total real estate	453,150	455,676
Commercial	825,439	737,914
Consumer	18,874	14,491
Total loans held for investment	1,297,463	1,208,081
Deferred fees and unearned premiums, net	(20)	(668)
Allowance for credit losses	(19,451)	(16,631)
Loans held for investment, net	$ 1,277,992	$ 1,190,782

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

	Multifamily	Commercial Real Estate	1-4 Family	Commercial	Consumer	Total
			(In thousands)			
September 30, 2024						
Allowance for credit losses:						
Beginning balance	$ 3,403	$ 744	$ 55	$ 13,535	$ 784	$ 18,521
Provision (credit) for credit losses	(4)	(33)	(1)	1,154	(116)	1,000
Recoveries	—	—	—	—	1	1
Loans charged-off	—	—	—	—	(71)	(71)
Total ending allowance balance	$ 3,399	$ 711	$ 54	$ 14,689	$ 598	$ 19,451
September 30, 2023						
Allowance for credit losses:						
Beginning balance	$ 2,423	$ 867	$ 65	$ 10,566	$ 258	$ 14,179
Provision (credit) for credit losses	652	(23)	(2)	462	111	1,200
Recoveries	—	—	—	—	12	12
Loans charged-off	—	—	—	—	(63)	(63)
Total ending allowance balance	$ 3,075	$ 844	$ 63	$ 11,028	$ 318	$ 15,328

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

	Multifamily	Commercial Real Estate	1-4 Family	Commercial	Consumer	Total
			(In thousands)			
September 30, 2024						
Allowance for credit losses:						
Beginning balance	$ 3,236	$ 823	$ 58	$ 12,056	$ 458	$ 16,631
Provision (credit) for credit losses	163	(112)	(4)	2,633	320	3,000
Recoveries	—	—	—	—	25	25
Loans charged-off	—	—	—	—	(205)	(205)
Total ending allowance balance	$ 3,399	$ 711	$ 54	$ 14,689	$ 598	$ 19,451
September 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	1,050	(69)	2	1,874	168	3,025
Recoveries	—	—	—	—	28	28
Loans charged-off	—	—	—	(5)	(226)	(231)
Total ending allowance balance	$ 3,075	$ 844	$ 63	$ 11,028	$ 318	$ 15,328

As of September 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 September 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
				(In thousands)			
September 30, 2024							
Multifamily	$ —	$ —	$ —	$ 10,940	$ 10,940	$ 339,917	$ 350,857
Commercial real estate	—	—	—	—	—	87,544	87,544
1 – 4 family	—	—	—	—	—	14,749	14,749
Commercial	—	—	—	—	—	825,439	825,439
Consumer	46	51	88	—	185	18,689	18,874
Total	$ 46	$ 51	$ 88	$ 10,940	$ 11,125	$ 1,286,338	$ 1,297,463

	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
				(In thousands)			
December 31, 2023							
Multifamily	$ —	$ —	$ —	$ 10,940	$ 10,940	$ 337,301	$ 348,241
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
Total	$ 24	$ 41	$ 69	$ 10,940	$ 11,074	$ 1,197,007	$ 1,208,081

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.

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:

	September 30, 2024								
	2024	2023	2022	2021	2020	2019 and Prior	Revolving	Revolving-Term	Total
	(In thousands)								
Multifamily:									
Pass	$18,530	$104,998	$ 26,793	$108,155	$23,127	$ 58,481	$ —	$ —	$ 340,084
Special Mention	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	10,940	—	—	—	10,940
Doubtful	—	—	—	—	—	—	—	—	—
Total	18,530	104,998	26,793	108,155	34,067	58,481	—	—	351,024
Current period gross charge-offs	—	—	—	—	—	—	—	—	—
Commercial real estate:									
Pass	—	3,089	57,880	10,378	1,725	14,413	—	—	87,485
Special Mention	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—	—
Total	—	3,089	57,880	10,378	1,725	14,413	—	—	87,485
Current period gross charge-offs	—	—	—	—	—	—	—	—	—
1-4 family:									
Pass	—	—	1,832	—	—	12,920	—	—	14,752
Special Mention	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—	—
Total	—	—	1,832	—	—	12,920	—	—	14,752
Current period gross charge-offs	—	—	—	—	—	—	—	—	—
Commercial:									
Pass	49,828	41,763	18,588	2,873	310	397	704,258	3,292	821,309
Special Mention	—	—	—	—	—	—	3,987	—	3,987
Substandard	—	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—	—
Total	49,828	41,763	18,588	2,873	310	397	708,245	3,292	825,296
Current period gross charge-offs	—	—	—	—	—	—	—	—	—
Consumer:									
Pass	1,614	4,337	3,040	—	296	1,021	8,578	—	18,886
Special Mention	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—	—
Total	1,614	4,337	3,040	—	296	1,021	8,578	—	18,886
Current period gross charge-offs	—	38	167	—	—	—	—	—	205
Total:									
Pass	69,972	154,187	108,133	121,406	25,458	87,232	712,836	3,292	1,282,516
Special Mention	—	—	—	—	—	—	3,987	—	3,987
Substandard	—	—	—	—	10,940	—	—	—	10,940
Doubtful	—	—	—	—	—	—	—	—	—
Total loans	$69,972	$154,187	$108,133	$121,406	$36,398	$ 87,232	$ 716,823	$ 3,292	$1,297,443
Total current period gross charge-offs	$ —	$ 38	$ 167	$ —	$ —	$ —	$ —	$ —	$ 205

	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 nine months ended September 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.

Pledged Loans

At September 30, 2024, loans totaling $294.3 million were pledged to the FHLB for borrowing capacity totaling $190.9 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 September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
	(In thousands)			
Payment processing fees:				
Payment processing income	$ 4,999	$ 5,400	$ 15,239	$ 16,250
ACH income	170	221	548	648
Total payment processing fees	5,169	5,621	15,787	16,898
Customer related fees, service charges and other:				
Administrative service income	658	619	2,024	1,887
Net (loss) gain on equity investments (1)	—	(14)	—	4,013
Other	235	302	915	687
Total customer related fees, service charges and other	893	907	2,939	6,587
Total noninterest income	$ 6,062	$ 6,528	$ 18,726	$ 23,485

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

- 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 nine months ended September 30, 2024 and 2023.

The following table presents a summary of the activity related to options for the nine months ended September 30, 2024:

	Nine Months Ended September 30, 2024		
	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)
Outstanding at beginning of year	639,519	$ 20.76	
Granted	—	—	
Exercised	(48,048)	15.21	
Forfeited	(1,352)	42.99	
Expired	—	—	
Outstanding at period end	590,119	$ 21.17	3.79
Vested or expected to vest	590,119	$ 21.17	3.79
Exercisable at period end	492,338	$ 16.85	2.86

The Company recognized compensation expense related to options of $ 178 thousand and $165 thousand for the three months ended September 30, 2024 and 2023, respectively. The Company recognized compensation expense related to options of $546 thousand and $490 thousand for the nine months ended September 30, 2024 and 2023, respectively. At September 30, 2024, unrecognized compensation cost related to nonvested options was approximately $895 thousand and is expected to be recognized over a weighted average period of 1.81 years. The intrinsic value for options outstanding, vested, or expected to vest was $26.0 million and $23.8 million for exercisable options at September 30, 2024.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
	(In thousands)			
Intrinsic value of options exercised	$ 1,658	$ 476	$ 2,035	$ 806
Cash received from option exercises	188	50	361	103
Excess tax benefit from option exercises	161	108	246	181

The following table presents a summary of the activity related to restricted stock for the nine months ended September 30, 2024:

	Nine Months Ended September 30, 2024	
	Shares	Weighted Average Grant Date Fair Value
Outstanding at beginning of year	514,935	$ 32.44
Granted	—	—
Vested	(20,503)	19.25
Forfeited	(3,200)	46.06
Outstanding at period end	491,232	$ 32.90

The Company recognized compensation expense related to restricted stock of $ 755 thousand and $636 thousand for the three months ended September 30, 2024 and 2023, respectively. The Company recognized compensation expense related to restricted stock of $2.3 million and $1.9 million for the nine months ended September 30, 2024 and 2023, respectively. As of September 30, 2024, there was $9.7 million of total unrecognized compensation cost related to nonvested shares granted under the plan. The cost is expected to be recognized over a weighted-average period of 4.08 years.

NOTE 6 — Earnings per Share

The factors used in the earnings per share computation follow:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
	(Dollars in thousands, except per share data)			
Basic:				
Net income	$ 11,360	$ 9,837	$ 31,905	$ 31,129
Weighted average shares outstanding	7,815,197	7,717,971	7,800,230	7,711,722
Basic earnings per share	$ 1.45	$ 1.27	$ 4.09	$ 4.04
Diluted:				
Net income	$ 11,360	$ 9,837	$ 31,905	$ 31,129
Weighted average shares outstanding for basic earnings per share	7,815,197	7,717,971	7,800,230	7,711,722
Add: Dilutive effects of share based awards	688,769	661,141	639,763	618,387
Weighted average shares and dilutive potential shares	8,503,966	8,379,112	8,439,993	8,330,109
Diluted earnings per share	$ 1.34	$ 1.17	$ 3.78	$ 3.74

Share-based awards totaling 44,156 and 49,496 shares of common stock were not considered in computing diluted earnings per common share for the three and nine months ended September 30, 2024, respectively, 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 nine months ended September 30, 2023, because they were anti-dilutive.

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 September 30, 2024, right of use ("ROU") lease assets and related lease liabilities were $1.3 million and $1.6 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 September 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 September 30, 2024, are summarized as follows:

	Operating Lease Liabilities
	(In thousands)
2024	$ 198
2025	803
2026	754
2027	—
2028	—
Thereafter	—
Total operating lease payments	1,755
Less: interest	107
Present value of operating lease liabilities	$ 1,648

In addition to the table above, as of September 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.

	September 30,	
	2024	2023
Weighted-average remaining lease term	2.17 years	3.17 years
Weighted-average discount rate	3.29 %	3.30 %

The components of total lease cost are as follows:

	Three Months Ended September 30, 2024	Three Months Ended September 30, 2023	Nine Months Ended September 30, 2024	Nine Months Ended September 30, 2023
	(In thousands)			
Operating lease cost	$ 158	$ 158	$ 473	$ 473
Short-term lease cost	34	55	93	176
Total lease cost	$ 192	$ 213	$ 566	$ 649
Cash paid for operating leases	$ 232	$ 237	$ 679	$ 673

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

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

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

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

	Fair Value Measurements Using		
	Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(In thousands)	
September 30, 2024			
Assets			
Securities available-for-sale			
Mortgage-backed securities – agency	$ —	$ 88,963	$ —
CMOs – agency	—	122,497	—
Total available-for-sale	$ —	$ 211,460	$ —
December 31, 2023			
Assets			
Securities available-for-sale			
Mortgage-backed securities – agency	$ —	$ 91,010	$ —
CMOs – agency	—	31,097	—
Total available-for-sale	$ —	$ 122,107	$ —

There were no transfers between Level 1 and Level 2 during the three and nine months ended September 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 September 30, 2024 and December 31, 2023:

	Fair Value Measurement at September 30, 2024, Using:				
	Carrying Value	(Level 1)	(Level 2)	(Level 3)	Total
			(In thousands)		
Financial Assets:					
Cash and cash equivalents	$ 147,663	$ 147,663	$ —	$ —	$ 147,663
Securities, held-to-maturity	70,794	—	65,110	—	65,110
Securities, restricted, at cost	3,034	N/A	N/A	N/A	N/A
Loans held for investment, net	1,277,992	—	—	1,256,389	1,256,389
Accrued interest receivable	9,712	—	1,081	8,631	9,712
Financial Liabilities:					
Time deposits	14,145	—	14,145	—	14,145
Demand and other deposits	1,522,250	1,522,250	—	—	1,522,250
Secured borrowings	43	—	—	43	43
Accrued interest payable	3	—	3	—	3

	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

NOTE 9 — Accumulated Other Comprehensive Loss

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

	Three Months Ended		Nine Months Ended	
	September 30,			
	2024	2023	2024	2023
	(In thousands)			
Unrealized (Losses) Gains on Securities Available-for-Sale				
Beginning balance	$ (14,241)	$ (14,442)	$ (13,235)	$ (15,117)
Other comprehensive income (loss) before reclassifications, net of tax	3,922	(2,959)	2,916	(2,284)
Net current period other comprehensive income (loss)	3,922	(2,959)	2,916	(2,284)
Ending balance	$ (10,319)	$ (17,401)	$ (10,319)	$ (17,401)

There were no reclassifications out of accumulated other comprehensive loss for the three and nine months ended September 30, 2024 and 2023.

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

General

Management's discussion and analysis of financial condition at September 30, 2024 and December 31, 2023 and results of operations for the three and nine months ended September 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;

- 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;

- 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 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 September 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.

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. 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, U.S. tort actions alone are estimated to consume approximately 2.1% of U.S. GDP annually, 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 decades, 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 September 30, 2024. More importantly, since our commercial banking platform is focused on full service relationship banking, for every $1.00 we advance on these loans we receive on average $1.52 of low-cost (our cost-of-funds for the quarter ended September 30, 2024 is 88 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 $828.9 million, or 54%, 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 $488.0 million at September 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 $97.7 million at September 30, 2024 and represented approximately 7.5% 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 10% on a compound annual growth rate from 2019 to 2023 with payment volumes or TAM of $10.9 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 decades, 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 84,000 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 152 million transactions in the quarter ended September 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 September 30, 2024, we have produced industry leading returns including, but not limited to, a return on average assets and average equity of 2.62% and 20.29%, respectively; an industry leading net interest margin of 6.16%; a strong efficiency ratio of 48.1%; and a diversified revenue stream as demonstrated by a strong net interest margin and stable fee income representing 19% of total revenue (our payment processing vertical has a compound annual growth rate of 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 64% of our loans being variable rate tied to prime, interest rate floors in place on 83% of our variable rate loan portfolio, solid credit metrics with limited nonperforming assets, a stable low cost deposit base, and strong available liquidity of $972.4 million, or 63% of deposits, with no outstanding borrowings ensures that our Company is poised for future growth and success.

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

Assets. Our total assets were $1.78 billion at September 30, 2024, an increase of $165.6 million, or 10.2%, from $1.62 billion at December 31, 2023, due to growth in loans held for investment of $90.0 million, or 7.5%, and securities available-for-sale of $89.4 million, or 73.2%, partially offset by a decrease in cash and cash equivalents of $17.5 million, or 10.6%, as we deployed our strong liquidity into higher yielding commercial loans and agency securities.

Loan Portfolio Analysis. At September 30, 2024, loans, net of deferred fees and unearned premiums, were $1.30 billion, or 84.4% 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 $87.5 million, or 11.9%, to $825.4 million at September 30, 2024 from $737.9 million at December 31, 2023, driven by our litigation related loans. Consumer loans increased $4.4 million, or 30.2%, to $18.9 million at September 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:

	September 30, 2024		December 31, 2023	
	Amount	Percent	Amount	Percent
	(Dollars in thousands)			
Real estate:				
Multifamily	$ 350,857	27.0 %	$ 348,241	28.8 %
Commercial real estate	87,544	6.8	89,498	7.4
1 – 4 family	14,749	1.1	17,937	1.5
Total real estate	453,150	34.9	455,676	37.7
Commercial	825,439	63.6	737,914	61.1
Consumer	18,874	1.5	14,491	1.2
Total loans held for investment	$ 1,297,463	100.0 %	$ 1,208,081	100.0 %
Deferred loan fees and unearned premiums, net	(20)		(668)	
Allowance for credit losses	(19,451)		(16,631)	
Loans held for investment, net	$ 1,277,992		$ 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:

	September 30, 2024		December 31, 2023	
	Amount	Percent	Amount	Percent
	(Dollars in thousands)			
Litigation-Related Loans:				
Commercial Litigation-Related:				
Working capital lines of credit	$ 434,338	59.4 %	$ 373,338	60.7 %
Case cost lines of credit	181,590	24.9	152,165	24.8
Term loans	111,821	15.3	86,954	14.1
Total Commercial Litigation-Related	727,749	99.6	612,457	99.6
Consumer Litigation-Related:				
Post-settlement consumer loans	2,628	0.4	2,406	0.4
Structured settlement loans	1	—	16	—
Total Consumer Litigation-Related	2,629	0.4	2,422	0.4
Total Litigation-Related Loans	$ 730,378	100.0 %	$ 614,879	100.0 %

At September 30, 2024, our Litigation-Related loans, which include commercial loans to law firms and consumer lending to plaintiffs/claimants and attorneys, totaled $730.4 million, or 56.3% 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 as our regional Business Development Officers ("BDOs") and related support staff continue to drive growth across our national commercial platform. We also had Commercial Litigation-Related committed and uncommitted undrawn lines of credit totaling $91.1 million and $577.3 million, respectively, at September 30, 2024.

Debt Securities Portfolio. Securities available-for-sale increased $89.4 million, or 73.2%, to $211.5 million at September 30, 2024 from $122.1 million at December 31, 2023, due to our current balance sheet management strategy of deploying funds in short duration agency mortgage-backed securities at peak market interest rates, 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 $102.7 million, and unrealized gains of $4.0 million, partially offset by paydowns of $17.2 million. Securities held-to-maturity decreased $6.2 million, or 8.1%, to $70.8 million at September 30, 2024 from $77.0 million at December 31, 2023, driven by paydowns of $6.1 million and net premium amortization of $77 thousand.

Funding. Total deposits increased $129.1 million, or 9.2%, to $1.54 billion at September 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 $1.52 billion at September 30, 2024, or 99.1% of total deposits, compared to $1.40 billion or 99.4% of total deposits at December 31, 2023. Litigation and payment processing deposits represent $1.27 billion, or 82.9%, of total deposits at September 30, 2024. Savings, NOW and money market deposits increased $56.6 million, or 6.1%, to $982.8 million at September 30, 2024.

Core commercial relationship banking clients in our two national verticals represent approximately 80% of our $1.54 billion deposit base at September 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 $828.9 million, or 54.0%, of total deposits. As of September 30, 2024, uninsured deposits were $458.9 million, or 30%, of our total deposits of $1.54 billion, excluding $10.6 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 September 30, 2024, off-balance sheet sweep funds totaled approximately $488.0 million, of which approximately $356.5 million, or 73.1%, 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 September 30, 2024, we had the ability to borrow a total of $395.8 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 $54.9 million. No borrowing amounts were outstanding as of September 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 $34.0 million to $232.6 million at September 30, 2024, from $198.6 million at December 31, 2023, primarily due to net income of $31.9 million and decreases in other comprehensive losses of $2.9 million, as unrealized losses on our securities available-for-sale declined due to current short-term market interest rates, and amortization of share-based compensation of $2.9 million, partially offset by dividends declared to common stockholders of $3.7 million.

Asset Quality. Nonperforming assets consisted of one multifamily loan totaling $10.9 million as of September 30, 2024 and December 31, 2023. We had no exposure to commercial office space, no construction loans, and $14.8

million in performing loans to the hospitality industry. The allowance for credit losses was $19.5 million, or 1.50% of total loans, as of September 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 September 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 0.84% and 0.61%, respectively, as of September 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 178% as of September 30, 2024, as compared to 152% as of December 31, 2023.

Due to the interest rate environment since 2022, management enhanced its ongoing credit risk management monitoring and testing of its commercial real estate loan portfolio. The following is a brief summary of our risk management results for our multifamily and CRE portfolios as of September 30, 2024:

- The multifamily portfolio, excluding one nonperforming loan, totaling $339.9 million, has a current weighted average DSCR and an original LTV (defined as unpaid principal balance as of September 30, 2024 divided by appraised value at origination) of approximately 1.67 and 54%, respectively, and the CRE portfolio, totaling $87.5 million, has a current weighted average DSCR and an original LTV of approximately 1.51 and 59%, respectively.

- Multifamily loans maturing in less than one year totaled $59.8 million and had a current weighted average DSCR and an original LTV of approximately 1.37 and 57%, respectively. CRE loans maturing in less than one year totaled $1.8 million and had a current weighted average DSCR and an original LTV of approximately 3.54 and 48%, respectively.

- Multifamily loans maturing in one to two years totaled $39.0 million and had a current weighted average DSCR and an original LTV of approximately 1.36 and 66%, respectively. CRE loans maturing in one to two years totaled $5.6 million and had a current weighted average DSCR and an original LTV of approximately 1.46 and 59%, respectively.

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 September 30,					
	2024			2023		
	Average Balance	Interest	Average Yield/Cost	Average Balance	Interest	Average Yield/Cost
	(Dollars in thousands)					
INTEREST EARNING ASSETS						
Loans, held for investment	$ 1,270,491	$ 25,122	7.87 %	$ 1,090,112	$ 21,408	7.79 %
Securities, includes restricted stock	279,768	2,389	3.40 %	207,873	1,238	2.36 %
Securities purchased under agreements to resell	—	—	—	9,932	158	6.31 %
Interest earning cash and other	120,316	1,620	5.36 %	84,581	1,097	5.15 %
Total interest earning assets	1,670,575	29,131	6.94 %	1,392,498	23,901	6.81 %
NONINTEREST EARNING ASSETS	52,008			49,762		
TOTAL AVERAGE ASSETS	$ 1,722,583			$ 1,442,260		
INTEREST BEARING LIABILITIES						
Savings, NOW, Money Market deposits	$ 940,920	$ 3,129	1.32 %	$ 722,684	$ 1,988	1.09 %
Time deposits	12,251	143	4.64 %	18,565	187	4.00 %
Total interest bearing deposits	953,171	3,272	1.37 %	741,249	2,175	1.16 %
Borrowings	44	1	9.04 %	46	1	8.62 %
Total interest bearing liabilities	953,215	3,273	1.37 %	741,295	2,176	1.16 %
NONINTEREST BEARING LIABILITIES						
Demand deposits	531,864			501,841		
Other liabilities	14,762			17,091		
Total noninterest bearing liabilities	546,626			518,932		
Stockholders' equity	222,742			182,033		
TOTAL AVG. LIABILITIES AND EQUITY	$ 1,722,583			$ 1,442,260		
Net interest income		$ 25,858			$ 21,725	
Net interest spread			5.57 %			5.65 %
Net interest margin			6.16 %			6.19 %
Deposits (including noninterest bearing demand deposits)	$ 1,485,035	$ 3,272	0.88 %	$ 1,243,090	$ 2,175	0.69 %

	Nine Months Ended September 30,					
	2024			2023		
	Average Balance	Interest	Average Yield/Cost	Average Balance	Interest	Average Yield/Cost
	(Dollars in thousands)					
INTEREST EARNING ASSETS						
Loans, held for investment	$ 1,239,950	$ 72,727	7.83 %	$ 1,012,469	$ 58,160	7.68 %
Securities, includes restricted stock	253,188	6,017	3.17 %	208,298	3,581	2.30 %
Securities purchased under agreements to resell	—	—	—	36,289	1,526	5.62 %
Interest earning cash and other	96,448	3,845	5.33 %	86,247	3,054	4.73 %
Total interest earning assets	1,589,586	82,589	6.94 %	1,343,303	66,321	6.60 %
NONINTEREST EARNING ASSETS	50,439			45,836		
TOTAL AVERAGE ASSETS	$ 1,640,025			$ 1,389,139		
INTEREST BEARING LIABILITIES						
Savings, NOW, Money Market deposits	$ 900,315	$ 9,159	1.36 %	$ 681,613	$ 4,809	0.94 %
Time deposits	11,667	384	4.40 %	14,774	406	3.67 %
Total interest bearing deposits	911,982	9,543	1.40 %	696,387	5,215	1.00 %
Borrowings	44	3	9.11 %	46	3	8.72 %
Total interest bearing liabilities	912,026	9,546	1.40 %	696,433	5,218	1.00 %
NONINTEREST BEARING LIABILITIES						
Demand deposits	502,851			502,211		
Other liabilities	14,149			17,737		
Total noninterest bearing liabilities	517,000			519,948		
Stockholders' equity	210,999			172,758		
TOTAL AVG. LIABILITIES AND EQUITY	$ 1,640,025			$ 1,389,139		
Net interest income		$ 73,043			$ 61,103	
Net interest spread			5.54 %			5.60 %
Net interest margin			6.14 %			6.08 %
Deposits (including noninterest bearing demand deposits)	$ 1,414,833	$ 9,543	0.90 %	$ 1,198,598	$ 5,215	0.58 %

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 September 30, 2024 vs. 2023			Nine Months Ended September 30, 2024 vs. 2023		
	Increase (Decrease) due to		Total Increase	Increase (Decrease) due to		Total Increase
	Volume	Rate	(Decrease)	Volume	Rate	(Decrease)
	(In thousands)					
Interest earned on:						
Loans held for investment	$ 3,559	$ 155	$ 3,714	$ 13,680	$ 887	$ 14,567
Securities, includes restricted stock	489	662	1,151	880	1,556	2,436
Securities purchased under agreements to resell	(158)	—	(158)	(1,526)	—	(1,526)
Interest earning cash and other	447	76	523	385	406	791
Total interest income	4,337	893	5,230	13,419	2,849	16,268
Interest paid on:						
Savings, NOW, money market deposits	445	696	1,141	1,527	2,823	4,350
Time deposits	(67)	23	(44)	(94)	72	(22)
Total deposits	378	719	1,097	1,433	2,895	4,328
Borrowings	—	—	—	—	—	—
Total interest expense	378	719	1,097	1,433	2,895	4,328
Change in net interest income	$ 3,959	$ 174	$ 4,133	$ 11,986	$ (46)	$ 11,940

Comparison of Operating Results for the Three Months Ended September 30, 2024 and 2023

General. Net income increased $1.5 million, or 15.5%, to $11.4 million for the three months ended September 30, 2024 from $9.8 million for the three months ended September 30, 2023. The increase resulted from a $4.1 million increase in net interest income, partially offset by an increase of $1.6 million in noninterest expense and a decrease of $466 thousand in noninterest income.

Net Interest Income. Net interest income increased $4.1 million, or 19.0%, to $25.9 million for the three months ended September 30, 2024 from $21.7 million for the three months ended September 30, 2023, due to a $5.2 million increase in interest income, partially offset by a $1.1 million increase in interest expense.

Our net interest margin decreased 3 basis points, and was negatively impacted by an 18 basis point increase in our cost-of-funds, partially offset by growth in higher yielding variable rate commercial loans and low-cost escrow or IOLTA deposits, to 6.16% for the three months ended September 30, 2024 from 6.19% for the three months ended September 30, 2023.

Interest Income. Interest income increased $5.2 million, or 21.9%, to $29.1 million for the three months ended September 30, 2024 from $23.9 million for the three months ended September 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.

Loan interest income increased $3.7 million, or 17.3%, to $25.1 million for the three months ended September 30, 2024 from $21.4 million for the three months ended September 30, 2023. This increase was attributable to a $180.4 million, or 16.5%, increase in the average loan balance primarily due to growth in our higher yielding national commercial lending platform and, to a lesser extent, our regional multifamily loan portfolio during the latter part of 2023, and an 8 basis point increase in loan yields to 7.87%. Our commercial loan platform drove a $3.3 million increase in interest income, of which, $3.6 million was due to increased volume, offset slightly by a $275 thousand decrease due to yields decreasing 17 basis points. Commercial loans had a portfolio yield of 9.72%. Additionally, our multifamily platform contributed $561 thousand to the increase in interest income, of which, $337 thousand was due to increased volume and $224 thousand was due to a 27 basis point increase in yields, driving a portfolio yield of 4.33%.

Securities interest income increased $1.2 million, or 93.0%, to $2.4 million for the three months ended September 30, 2024 from $1.2 million for the three months ended September 30, 2023. This increase was primarily attributable to our current balance sheet management strategy of deploying funds in short duration agency mortgage-backed securities at peak market interest rates, while simultaneously moderating multifamily and CRE growth due to the current economic and interest rate environment. Average securities increased $71.9 million, or 34.6%, and yields increased 104 basis points to 3.40%.

Interest earning cash interest income increased $523 thousand to $1.6 million for the three months ended September 30, 2024 from $1.1 million for the three months ended September 30, 2023, attributable to a 21 basis point increase in yields which was positively impacted by increases in short-term interest rates, and a $35.7 million, or 42.2%, increase in the average balance of interest earning cash.

Securities purchased under agreements to resell interest income decreased $158 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 50.4%, to $3.3 million for the three months ended September 30, 2024 from $2.2 million for the three months ended September 30, 2023, primarily attributable to increases in average rate (primarily IOLTA) comprising $681 thousand and an increase of $460 thousand (primarily IOLTA) attributable to average deposit balances. Average interest bearing deposit balances (primarily IOLTA) increased $211.9 million, or 28.6%, when compared to September 30, 2023. Our deposit cost-of-funds, excluding demand deposits, increased 21 basis points for the three months ended September 30, 2024 as compared to the three months ended September 30, 2023, due to increases in short-term interest rates as well as management proactively 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 September 30, 2024, a decrease of $200 thousand from the $1.2 million provision for the three months ended September 30, 2023. As of September 30, 2024, our allowance to loans ratio was 1.50% as compared to 1.38% as of September 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.

Noninterest Income. Noninterest income information is as follows:

	Three Months Ended September 30,		Change	
	2024	2023	Amount	Percent
	(Dollars in thousands)			
Payment processing fees:				
Payment processing income	$ 4,999	$ 5,400	$ (401)	(7.4)%
ACH income	170	221	(51)	(23.1)
Total payment processing fees	5,169	5,621	(452)	(8.0)
Customer related fees, service charges and other:				
Administrative service income	658	619	39	6.3
Net loss on equity investments	—	(14)	14	(100.0)
Other	235	302	(67)	(22.2)
Total customer related fees, service charges and other	893	907	(14)	(1.5)
Total noninterest income	$ 6,062	$ 6,528	$ (466)	(7.1)%

Payment processing income was $5.2 million for the quarter ended September 30, 2024, a $452 thousand decrease from the same period in 2023, primarily due to anticipated ISO and merchant attrition and changes in the volumes of our overall merchant risk profile. Payment processing volumes for the credit and debit card processing platform increased $839 million, or 10.0%, to $9.2 billion and transactions decreased 5.4 million, or 3.4%, to 152.0 million, for the quarter ended September 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 focusing on new merchant originations, increasing overall volumes as well as risk profiles, and expanding our technology and other resources in the payments vertical. Administrative service income increased $39 thousand, or 6.3%, to $658 thousand for the third quarter of 2024. Off-balance sheet sweep funds totaled $488.0 million at September 30, 2024, demonstrating the continued strength of our branchless core business model. Other income decreased $67 thousand, or 22.2%, to $235 thousand due to decreases in loan and other banking fees.

Noninterest Expense. Noninterest expense information is as follows:

	Three Months Ended September 30,		Change	
	2024	2023	Amount	Percent
	(Dollars in thousands)			
Noninterest expense:				
Employee compensation and benefits	$ 9,525	$ 8,433	$ 1,092	12.9 %
Occupancy and equipment	977	836	141	16.9
Professional and consulting services	955	1,325	(370)	(27.9)
FDIC and regulatory assessments	236	261	(25)	(9.6)
Advertising and marketing	949	467	482	103.2
Travel and business relations	264	254	10	3.9
Data processing	1,690	1,375	315	22.9
Other operating expenses	762	808	(46)	(5.7)
Total noninterest expense	$ 15,358	$ 13,759	$ 1,599	11.6 %

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. 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 BDOs 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 investments in compliance and risk management in the payment processing division in 2023. Our investments in current resources, including employees, technology, and digital marketing, continue to support our long-term growth goals.

Income Tax Expense. We recorded an income tax expense of $4.2 million for the three months ended September 30, 2024, reflecting an effective tax rate of 27.0%, compared to $3.5 million, or 26.0%, for the three months ended September 30, 2023, resulting from certain discrete tax benefits related to stock-based compensation.

Comparison of Operating Results for the Nine Months Ended September 30, 2024 and 2023

General. Net income increased $776 thousand, or 2.5%, to $31.9 million for the nine months ended September 30, 2024 from $31.1 million for the nine months ended September 30, 2023. The increase resulted from an $11.9 million increase in net interest income, partially offset by an increase of $5.9 million in noninterest expense and a decrease of $4.8 million 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.

Net Interest Income. Net interest income increased $11.9 million, or 19.5%, to $73.0 million for the nine months ended September 30, 2024 from $61.1 million for the nine months ended September 30, 2023, due to a $16.3 million increase in interest income, partially offset by a $4.3 million increase in interest expense.

Our net interest margin increased 6 basis points, which was positively impacted by growth in higher yielding variable rate commercial loans and low-cost escrow or IOLTA deposits, to 6.14% for the nine months ended September 30, 2024 from 6.08% for the nine months ended September 30, 2023.

Interest Income. Interest income increased $16.3 million, or 24.5%, to $82.6 million for the nine months ended September 30, 2024 from $66.3 million for the nine months ended September 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.

Loan interest income increased $14.6 million, or 25.0%, to $72.7 million for the nine months ended September 30, 2024 from $58.2 million for the nine months ended September 30, 2023. This increase was attributable to a $227.5 million, or 22.5%, increase in the average loan balance primarily due to growth in our higher yielding national commercial lending platform and, to a lesser extent, our regional multifamily loan portfolio during the latter part of 2023, and a 15 basis point increase in loan yields to 7.83%. Our commercial loan platform drove a $12.5 million increase in interest income, of which $12.6 million was due to increased volume, offset by a $114 thousand decrease due to a yield decrease of 3 basis points, driving a portfolio yield of 9.79%. Additionally, our multifamily platform contributed $2.7 million to the increase in interest income, of which, $1.8 million was due to increased volume and $958 thousand was due to a 41 basis point increase in yields, driving a portfolio yield of 4.27%. Approximately 64% 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 $2.4 million, or 68.0%, to $6.0 million for the nine months ended September 30, 2024 from $3.6 million for the nine months ended September 30, 2023. This increase was primarily attributable to our current balance sheet management strategy, of deploying funds in short duration agency mortgage-backed securities at peak market interest rates, while simultaneously moderating multifamily and CRE growth due to the current economic and interest rate environment. Average securities increased $44.9 million, or 21.6%, and yields increased 87 basis points to 3.17%.

Interest earning cash interest income increased $791 thousand to $3.8 million for the nine months ended September 30, 2024 from $3.1 million for the nine months ended September 30, 2023, attributable to a 60 basis point increase in yields which was positively impacted by increases in short-term interest rates, as well as a $10.2 million, or 11.8%, increase in the average balance of interest earning cash.

Securities purchased under agreements to resell interest income decreased $1.5 million as management elected to close out its reverse repurchase agreements and reinvest funds into higher yielding commercial loans.

Interest Expense. Interest expense increased $4.3 million, or 82.9%, to $9.5 million for the nine months ended September 30, 2024 from $5.2 million for the nine months ended September 30, 2023, primarily attributable to increases in average rate (primarily IOLTA) comprising $2.9 million of the increase and the remaining increase of $1.4 million (primarily IOLTA) attributable to average deposit balances. Average interest bearing deposit balances (primarily IOLTA) increased $215.6 million, or 31.0%, when compared to September 30, 2023. Our deposit cost-of-funds, excluding demand deposits, increased 40 basis points for the nine months ended September 30, 2024 as compared to the nine months ended September 30, 2023, due to increases in short-term interest rates as well as management proactively increasing rates on IOLTA accounts in the various states we operate.

Provision for Credit Losses. Our provision for credit losses was $3.0 million for the nine months ended September 30, 2024, a decrease of $25 thousand from the $3.0 million provision for the nine months ended September 30, 2023. As of September 30, 2024, our allowance to loans ratio was 1.50% as compared to 1.38% as of September 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.

Noninterest Income. Noninterest income information is as follows:

	Nine Months Ended September 30,		Change	
	2024	2023	Amount	Percent
	(Dollars in thousands)			
Payment processing fees:				
Payment processing income	$ 15,239	$ 16,250	$ (1,011)	(6.2)%
ACH income	548	648	(100)	(15.4)
Total payment processing fees	15,787	16,898	(1,111)	(6.6)
Customer related fees, service charges and other:				
Administrative service income	2,024	1,887	137	7.3
Net gain on equity investments	—	4,013	(4,013)	(100.0)
Other	915	687	228	33.2
Total customer related fees, service charges and other	2,939	6,587	(3,648)	(55.4)
Total noninterest income	$ 18,726	$ 23,485	$ (4,759)	(20.3)%

Payment processing volumes and transactions for the credit and debit card processing platform increased $2.6 billion, or 10.6%, to $27.1 billion and 1.0 million, or 0.2%, to 458.1 million transactions, respectively, for the nine months ended September 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 $137 thousand, or 7.3%, to $2.0 million for the nine months ended September 30, 2024. Off-balance sheet sweep funds totaled $488.0 million at September 30, 2024, demonstrating the continued strength of our branchless core business model. Other income increased $228 thousand, or 33.2%, to $915 thousand primarily due to loan and other banking 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.

Noninterest Expense. Noninterest expense information is as follows:

	Nine Months Ended September 30,		Change	
	2024	2023	Amount	Percent
	(Dollars in thousands)			
Noninterest expense:				
Employee compensation and benefits	$ 28,211	$ 23,720	$ 4,491	18.9 %
Occupancy and equipment	3,060	2,500	560	22.4
Professional and consulting services	2,763	4,483	(1,720)	(38.4)
FDIC and regulatory assessments	691	587	104	17.7
Advertising and marketing	2,702	1,216	1,486	122.2
Travel and business relations	722	648	74	11.4
Data processing	4,923	3,757	1,166	31.0
Other operating expenses	2,086	2,305	(219)	(9.5)
Total noninterest expense	$ 45,158	$ 39,216	$ 5,942	15.2 %

Employee compensation and benefits costs increased due to increases in employees to support growth and client service as well as the impact of year end salary, bonus and stock-based compensation increases. In 2024, we experienced the full year impact of our 2023 key hires including, but not limited to, our regional senior BDOs, sales support, lending underwriting/lending support, and risk management 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 regional BDOs. 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 growth. Professional services costs decreased due to our 2023 hiring initiatives noted above and related costs associated with our executive search firm. Our investment in current resources, including employees, technology, and digital marketing, continue to support our long-term growth goals.

Income Tax Expense. We recorded an income tax expense of $11.7 million for the nine months ended September 30, 2024, reflecting an effective tax rate of 26.8%, compared to $11.2 million, or 26.5%, for the nine months ended September 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 so in the future. Based upon the nature of our operations, we are not subject to foreign exchange or commodity price risk. We do not own any trading assets.

Net Interest Income Simulation. We use an interest rate risk simulation model to test the interest rate sensitivity of net interest income and the balance sheet. Instantaneous parallel rate shift scenarios are modeled and utilized to evaluate risk and establish exposure limits for acceptable changes in net interest margin. These scenarios, known as rate shocks, simulate an instantaneous change in interest rates and use various assumptions, including, but not limited to, prepayments on loans and securities, deposit decay rates, pricing decisions on loans and deposits, reinvestment and replacement of asset and liability cash flows.

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

	September 30, 2024	
Changes in Interest Rates (Basis Points)	**Estimated 12-Months Net Interest Income**	**Change**
	(Dollars in thousands)	
300	$ 128,851	$ 17,697
200	122,843	11,689
100	116,740	5,586
0	111,154	—
-100	106,134	(5,020)
-200	100,384	(10,770)
-300	94,426	(16,728)

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 September 30, 2024.

Changes in Interest Rates (Basis Points)	September 30, 2024 Economic Value of Equity	Change
	(Dollars in thousands)	
300	$ 408,006	$ 58,334
200	392,080	42,408
100	373,285	23,613
0	349,672	—
-100	321,321	(28,351)
-200	287,009	(62,663)
-300	246,173	(103,499)

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

Liquidity and Capital Resources

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

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

Our most liquid assets are cash and cash equivalents. The levels of these assets are dependent on our operating, financing, lending and investing activities during any given period. At September 30, 2024, cash and cash equivalents totaled $147.7 million.

At September 30, 2024, through pledging of our securities and certain loans, we had the ability to borrow up to $395.8 million from the FHLB of New York and $54.9 million from the FRB of New York discount window. At September 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 September 30, 2024.

At September 30, 2024, our off-balance sheet sweeps funds totaled $488.0 million, of which $356.5 million, or 73.1%, 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 $972.4 million at September 30, 2024, or 63% 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 September 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.

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

	"Well Capitalized"	For Capital Adequacy Purposes Minimum Capital with Conservation Buffer	Actual At September 30, 2024
Total Risk-based Capital Ratio			
Bank	10.00 %	10.50 %	16.64 %
Tier 1 Risk-based Capital Ratio			
Bank	8.00 %	8.50 %	15.39 %
Common Equity Tier 1 Capital Ratio			
Bank	6.50 %	7.00 %	15.39 %
Tier 1 Leverage Ratio			
Bank	5.00 %	4.00 %	12.60 %

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 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 September 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 September 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.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

Periodically, we are involved in claims and lawsuits, such as claims to enforce liens, condemnation proceedings on properties in which we hold security interests, claims involving the making and servicing of real property loans and other issues incident to our business. At September 30, 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 September 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)
July 1, 2024 through July 31, 2024	—	$ —	—	257,694
August 1, 2024 through August 31, 2024	—	—	—	257,694
September 1, 2024 through September 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 September 30, 2024 were as follows:

Period	Total number of shares purchased	Average price paid per share
July 1, 2024 through July 31, 2024	—	$ —
August 1, 2024 through August 31, 2024	—	—
September 1, 2024 through September 30, 2024	—	—

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

During the third quarter of 2024, none of our directors or officers adopted or terminated any contract, instruction or written plan for the purchase or sale of Company securities that was intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) or any “non-Rule 10b5-1 trading arrangement,” as that term is used in SEC regulations.

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 September 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.

SIGNATURES

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

ESQUIRE FINANCIAL HOLDINGS, INC.

Date: November 13, 2024	/s/ Andrew C. Sagliocca Andrew C. Sagliocca Vice Chairman, Chief Executive Officer and President
Date: November 13, 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: November 13, 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: November 13, 2024

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

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 September 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: November 13, 2024	/s/ Andrew C. Sagliocca
	Andrew C. Sagliocca
	Vice Chairman, Chief Executive Officer and President
Date: November 13, 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.