Esquire Financial Holdings

2023 CHAIRMAN OF THE BOARD & CHIEF EXECUTIVE OFFICER LETTER TO STAKEHOLDERS

To Our Fellow Stakeholders,

While the financial services industry has faced many unique challenges in 2023, Esquire's steadfast focus on building long-term stakeholder value has made us one of the top performing financial institutions in the country over the past several years, including 2023. While some companies lose their clarity and purpose in the pursuit of short-term growth and earnings, our strategic path has remained very clear. We have always believed that a strong and fortified balance sheet (excess capital, solid credit quality, strong liquidity, and thoughtful interest rate risk management) anchored by outstanding client relationships will consistently generate long term (safe and sound) growth, industry leading performance metrics, and continued success into the future. Our consistent investment in resources clearly demonstrates the untapped potential growth in both the litigation and payment verticals nationally, while ensuring that we remain focused on strong risk management and steadfast in our pursuit of "excellence in client service." Our 2022 Stakeholders Letter focused on how we serve our clients' unique needs in both national verticals with relationship banking and a robust analysis of our foundational balance sheet management.

Our focus in this letter is to outline: (1) how strong balance sheet management led to industry leading growth and performance in 2023; (2) how we continue to invest in current resources (people and technology) to fuel future growth and excellence in client service; and (3) how past balance sheet management and current risk management position us for future safe and sound growth in light of the current economic and interest rate environment.

Review of 2023

Esquire's focus on strong balance sheet management has, once again, generated consistent industry leading performance metrics in 2023, continuing to demonstrate the value of our unique institution and national business models:

I. Strong Balance Sheet Management

- Core commercial relationship banking clients in our two national verticals represent approximately 85% of our $1.4 billion deposit base at year end. These relationship banking clients are derived from coupling lending facilities, payment processing, and other unique custodial banking needs with our commercial cash management depository services, leading to a stable and reliable core client deposit base.
- Strong liquidity position (cash, borrowing capacity, and available reciprocal client sweep balances) totaled $657.8 million, or 47% of total deposits as of December 31, 2023. Historically, we have not leveraged our balance sheet (no borrowings, brokered deposits, nor municipal deposits) to generate earnings and have always utilized core client deposits to fund asset growth.
- Thoughtful interest rate risk management coupled with low-cost core relationship deposits led to an industry leading net interest margin of 6.09% for the full year 2023.
- Solid credit metrics, asset quality, and reserve coverage ratios with a 1.38% allowance for credit losses to loans ratio and nonperforming loan to total assets ratio of 0.68%, represented by one multifamily loan totaling $10.9 million. Within our commercial real estate portfolio, we have no exposure to commercial office space, no construction loans and only one loan to the hospitality industry totaling $15.5 million at year end.
- Strong capital foundation with common equity tier 1 ("CET1") and tangible common equity to tangible assets ("TCE/TA") ratios of 14.13% and 12.28%, respectively. Including the after-tax unrealized losses on both the available-for-sale and held-to-maturity securities portfolios of $13.2 million and $5.7 million, respectively, the adjusted CET1 and adjusted TCE/TA ratios would have been 12.65% and 11.93%, respectively, at year end.

II. Industry Leading Growth and Performance

Strong balance sheet management over the years has led to industry leading performance metrics including, but not limited to:

- Net income for the full year increased 44% to $41.0 million, or $4.91 per diluted share, generating returns on average assets and equity of 2.89% and 23.20%, respectively. This was fueled by the continued expansion of our total revenue base to $113.5 million, led by an industry-leading net interest margin of 6.09% as well as stable fee-based income, representing 26% of total revenue.
- Strong loan growth in 2023 totaling $260.1 million, or 27%, to $1.2 billion, focused on higher yielding variable rate commercial loans nationally. These newly originated commercial loans have and will continue to create additional opportunities for full

commercial banking relationships (commercial operating and escrow deposits). Loan growth was funded with core deposits coupled with excess liquidity.

- Our consistent industry leading performance and growth has led to increases in regular quarterly cash dividends by $0.05, or 50%, from $0.10 at the start of 2023 to $0.15 per share of common stock announced in January 2024. The current quarterly dividend of $0.15 represents an annualized dividend payout ratio of approximately 12% (based on $4.91 diluted earnings per share in 2023).
- Strong efficiency ratio of 46.8% in 2023 notwithstanding our investments in resources (people and technology) to support future growth and excellence in client service.

Investment in Current Resources to Fuel Future Growth & Excellence in Client Service

We operate a simple, straightforward business model centered on customer-based solutions while taking extraordinary care of our clients and servicing their business needs. We have successfully navigated various macroeconomic and interest rate environments, a pandemic, and today have among the industry's highest rates of client retention and satisfaction, as well as returns and performance metrics. While most financial institutions were downsizing and cutting costs, we continued to invest in people and technology throughout 2023.

As discussed in this Annual Report, we operate in two significant national markets primed for disruption: a $443 billion litigation market with 50,000 contingent fee law firms (approximately 100,000 law firms in total) and a $10.3 trillion payment processing market with 10+ million merchants/small businesses. These two national verticals represent tremendous untapped potential as Esquire is a fraction of both verticals and both are primed for disruption by our client-centric and tech-focused institution. We are thought leaders in the litigation vertical, providing digital content to law firms to help grow their business via our "Lawyer IQ" website, and provide C-suite access to ISOs for flexibility in the payment processing vertical. We differentiate our brand from other financial institutions in the U.S. and are positioned for growth, with client-tailored solution-based products and state-of-the-art technology geared towards effective client acquisition.

In 2023, our non-interest expense increased $11.1 million, or 26.5%, to $53.1 million. This was primarily attributable to increases in employee-related expenses totaling $32.5 million, or 61% of total non-interest expense. During 2023, we hired an additional 25 employees, representing a 22% increase in staffing from 2022, across all departments to support future growth, client-centric relationship banking, operations, and overall compliance and risk management. Key investments in people, technology, and more include:

- Six senior managing directors/regional business development officers ("BDO") with deep industry connections and decades of experience servicing the litigation market to support continued expansion and excellent client service across the country. Esquire's regions, as defined by our current and future high value target clients derived from our CRM, include the Southern, West Coast, Mid-Atlantic, Southwest, North, and Southeast regions of the country. Coupling these talented and seasoned senior BDOs with our proprietary Salesforce platform including our CRM system, digital marketing cloud, and our artificial intelligence ("AI") generated law firm content and communications will continue to enhance our footprint, future growth prospects, and brand recognition nationally.
- Lending underwriters/portfolio managers and staff to support current portfolio management, future growth prospects, and enhanced risk management utilizing our Salesforce nCino based underwriting and risk management platform.
- Merchant services (payments platform) underwriting, risk management and compliance staff to support $33 billion of processing volume across 613 million transactions for 84,000 merchants.
- IT development/maintenance, operations, and retail staff to support technology initiatives and client support.
- A Chief Legal Officer/Corporate Secretary with 35 years of experience in legal, regulatory, risk/compliance, and strategic growth initiatives (16 years of experience with Esquire pre-hire).

As a digital-first disruptor, Esquire continues to invest in technology to support a $443 billion litigation vertical. We nurture and build client relationships across digital channels using targeted or account-based marketing ("ABM") campaigns and we utilize technology to virtually power prospective client engagements. As we continue to expand our technology stack, we have leveraged AI, advanced data analytics, and personalization features to deliver real-time and relevant thought leadership content and experiences to clients and prospective clients. Simply put—we meet our target clients on their terms and timeframe, not during traditional banking hours, with the customized content that helps each one of them achieve their individual business goals.

Coupled with our BDO hires across the country, we recently announced plans to open a "private banking" client branch in Los Angeles, California, underscoring our commitment to law firms nationally and our confidence in the vitality of the litigation market. Los Angeles has been one of our top-performing markets and will play a pivotal role in our continued success in this region.

We believe that the combination of the investments above coupled with our current loan pipeline will allow us to grow loans in 2024 commensurate to prior years. We anticipate 2024 loan growth to be funded by core relationship deposits.

Finally, as part of our strategic focus in the payment vertical, we recently announced our commitment to invest $6 million in United Payment Systems, LLC ("Payzli"), representing a 24.99% ownership interest. Payzli is an end-to-end payment technology company (and independent sales organization or ISO of Esquire) that acts as a single source for payment services, business management software, web enablement and mobile solutions. This strategic fintech investment will be leveraged to support Esquire's future verticals for its national payment and small business platform; and, when combined with Payzli's Visa-direct platform, will enable Payzli to bring to market the technology and products that will revolutionize the merchant or small business experience. This investment should benefit fee income in early 2025, as we currently focus on building out Payzli's technology stack for select direct merchant verticals.

Strong Balance Sheet and Risk Management to Support Future Safe and Sound Growth

In light of the current economic and interest rate environment, we also want to highlight how balance sheet management practices and current risk management processes position us for future safe and sound growth. Strong credit quality starts with a strong underwriting and risk management culture. We prepare monthly risk management reports ("RMR") for both our loan portfolio and payment processing verticals. The lending RMR is presented by loan category and includes, but is not limited to, loan portfolio segments, internal lending limits by portfolio type (derived from our Capital Plan), classified/criticized loan watch list, delinquencies, maturity analysis, interest rate analysis, regional distributions for litigation related loans, real estate property by type/units, policy exception reporting, and more. The following is a brief summary of our overall credit underwriting and risk profile by our two major loan categories:

- Commercial Litigation Related Loans—We perform the underwriting criteria typical for commercial business loans (generally, but not limited to, three years of tax returns, three years of financial data, cash flows, partner guarantees, partner personal financials, credit history, background checks, etc.). We couple this with a review of the firm's case inventory to ascertain the types of cases and values of their future receivables and file a UCC-1 on all cases and assets of the borrower. These loans have a borrowing base component that was developed by us whereby a law firm's case inventory is segmented into various stages and evaluated, taking into account the firm's operating performance and related debt service coverage ratio ("DSCR"). The majority of these loans are fully underwritten on an annual basis or more frequently, as deemed necessary. Our litigation loan portfolio notional loan amount to future contingent fee value (loan-to-value or "LTV" ratio) is less than 13.0%.
- Multifamily and Commercial Real Estate ("CRE")—The primary consideration in commercial and multifamily real estate lending is the borrower's creditworthiness and the feasibility and cash flow of the property. In approving a commercial or

multifamily real estate loan, we consider and review (i) a global cash flow analysis of the borrower, (ii) the net operating income of the property, (iii) the borrower's expertise, credit history and profitability, and (iv) the value of the underlying collateral. We require borrowers and loan principals to provide business and personal financial statements on an annual basis for loans in excess of $1.5 million. The following enhancements were made to our ongoing credit risk management monitoring processes to address the current economic and interest rate environment:

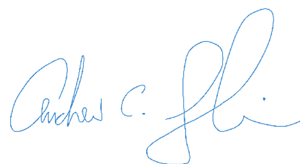
- *On a quarterly basis, management stratifies the multifamily and CRE portfolios, respectively, by LTV. The multifamily portfolio totaling $348.2 million had a weighted average DSCR and LTV of 1.66 and 54%, respectively, and the CRE portfolio totaling $89.5 million had a weighted average DSCR and LTV of 1.57 and 60%, respectively.*
- *Multifamily loans maturing in 2024 totaled $29.1 million and had a weighted average DSCR and LTV of 1.46 and 57%, respectively. CRE loans maturing in 2024 totaled $5.6 million and had a weighted average DSCR and LTV of approximately 3.79 and 53%, respectively.*
- *Multifamily loans maturing in 2025 totaled $51.7 million and had a weighted average DSCR and LTV of approximately 1.40 and 58%, respectively. CRE loans maturing in 2025 totaled $1.8 million and had a weighted average DSCR and LTV of approximately 1.71 and 68%, respectively.*
- *Semiannual stress testing of multifamily and CRE DSCR and LTV at both the individual loan and portfolio level is performed. For illustrative purposes, assuming a 6.25% current market interest rate (DSCR) and a 6.50% capitalization rate (LTV), weighted average DSCR and LTV ratios for the multifamily portfolio were 1.37 and 70%, respectively, and 1.35 and 73%, respectively, for the CRE portfolio. These metrics were well within our Loan Policy guidelines.*
- *Finally, the multifamily portfolio was segregated into rent regulated, free market, and mixed (both rent regulated and free market) to assess exposure to each type of property when analyzing the portfolio. Each category represented approximately 33% of the multifamily portfolio totaling $348.2 million.*

Concluding Thoughts

We believe that our industry leading performance metrics coupled with strong balance sheet management and proven historical growth trends will continue to create value for our stakeholders beyond that of our financial sector peers. We will continue to build a client-centric and tech-focused company that is disruptive and valuable to the national and local markets we serve while generating best-in-class performance and returns. As always, we want to thank our valuable employees for their tireless efforts and dedication to our Company, in servicing our clients, and delivering on our strategic priorities while executing on their day-to-day responsibilities. Their integrity, commitment, and fortitude reinforce our already strong reputation in our marketplace. We want to thank our clients for putting their trust in us—they inspire us to be better every day. We want to thank our Board of Directors for their stewardship and confidence in our management group. And finally, we want to thank our shareholders for their ongoing support of our vision. All of these stakeholders are the reason why we strive to be better each day.

Sincerely,

Anthony Coelho
Chairman of the Board



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