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DELTA REPORT

10-Q

MBINP - MERCHANTS BANCORP

10-Q - SEPTEMBER 30, 2023 COMPARED TO 10-Q - JUNE 30, 2023

The following comparison report has been automatically generated

TOTAL DELTAS	1781
CHANGES	679
DELETIONS	481
ADDITIONS	621

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June September 30, 2023

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. 001-38258

MERCHANTS BANCORP

(Exact name of registrant as specified in its charter)

Indiana	20-5747400
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
410 Monon Blvd. Carmel, Indiana	46032
(Address of principal executive office)	(Zip Code)

(317) 569-7420

(Registrant's telephone number, including area code)

N/A

(Former name or former address, if changed since last report)

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 filing 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 (§ 232.405 of this chapter) 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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

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

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

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

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Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, without par value	MBIN	NASDAQ
Series A Preferred Stock, without par value	MBINP	NASDAQ
Depositary Shares, each representing a 1/40th interest in a share of Series B Preferred Stock, without par value	MBINO	NASDAQ
Depositary Shares, each representing a 1/40th interest in a share of Series C Preferred Stock, without par value	MBINN	NASDAQ
Depositary Shares, each representing a 1/40th interest in a share of Series D Preferred Stock, without par value	MBINM	NASDAQ

As of July 31, 2023 November 1, 2023, the latest practicable date, 43,237,300 43,240,212 shares of the registrant's common stock, without par value, were issued and outstanding.

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Part I – Financial Information

Item 1. Financial Statements

Merchants Bancorp

Condensed Consolidated Balance Sheets

June September 30, 2023 (Unaudited) and December 31, 2022

(In thousands, except share data)

	June 30, 2023	December 31, 2022	September 30, 2023	December 31, 2022
Assets				
Cash and due from banks	$ 15,390	$ 22,170	$ 10,633	$ 22,170
Interest-earning demand accounts	361,920	203,994	396,605	203,994
Cash and cash equivalents	377,310	226,164	407,238	226,164
Securities purchased under agreements to resell	3,412	3,464	3,385	3,464
Mortgage loans in process of securitization	298,907	154,194	476,047	154,194
Securities available for sale	648,003	323,337	624,586	323,337
Securities held to maturity (includes $1,058,590 and $1,118,966 at fair value, respectively)	1,062,017	1,119,078		
Securities held to maturity ($1,010,745 and $1,118,966 at fair value, respectively)			1,012,801	1,119,078
Federal Home Loan Bank (FHLB) stock	39,130	39,130	48,219	39,130
Loans held for sale (includes $82,931 and $82,192 at fair value, respectively)	3,058,013	2,910,576		
Loans receivable, net of allowance for credit losses on loans of $62,986 and $44,014, respectively	9,854,018	7,426,858		
Loans held for sale (includes $90,875 and $82,192 at fair value, respectively)			3,477,036	2,910,576
Loans receivable, net of allowance for credit losses on loans of $66,864 and $44,014, respectively			9,910,681	7,426,858
Premises and equipment, net	36,947	35,438	36,730	35,438
Servicing rights	147,288	146,248	162,141	146,248
Interest receivable	70,509	56,262	78,401	56,262
Goodwill	15,845	15,845	15,845	15,845
Intangible assets, net	949	1,186	831	1,186

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Other assets and receivables	262,524	157,447	241,295	157,447
Total assets	$ 15,874,872	$ 12,615,227	$16,495,236	$12,615,227
Liabilities and Shareholders' Equity				
Liabilities				
Deposits				
Noninterest-bearing	$ 349,387	$ 326,875	$ 287,846	$ 326,875
Interest-bearing	12,710,477	9,744,470	12,719,492	9,744,470
Total deposits	13,059,864	10,071,345	13,007,338	10,071,345
Borrowings	1,016,836	930,392	1,654,075	930,392
Deferred and current tax liabilities, net	16,084	19,613	18,006	19,613
Other liabilities	221,788	134,138	183,102	134,138
Total liabilities	14,314,572	11,155,488	14,862,521	11,155,488
Commitments and Contingencies				
Shareholders' Equity				
Common stock, without par value				
Authorized - 75,000,000 shares				
Issued and outstanding - 43,237,300 shares at June 30, 2023 and 43,113,127 shares at December 31, 2022	138,853	137,781		
Issued and outstanding - 43,240,212 shares at September 30, 2023 and 43,113,127 shares at December 31, 2022			139,609	137,781
Preferred stock, without par value - 5,000,000 total shares authorized				
7% Series A Preferred stock - $25 per share liquidation preference				
Authorized - 3,500,000 shares				
Issued and outstanding - 2,081,800 shares	50,221	50,221	50,221	50,221
6% Series B Preferred stock - $1,000 per share liquidation preference				
Authorized - 125,000 shares				
Issued and outstanding - 125,000 shares (equivalent to 5,000,000 depositary shares)	120,844	120,844	120,844	120,844
6% Series C Preferred stock - $1,000 per share liquidation preference				
Authorized - 200,000 shares				
Issued and outstanding - 196,181 shares (equivalent to 7,847,233 depositary shares)	191,084	191,084	191,084	191,084
8.25% Series D Preferred stock - $1,000 per share liquidation preference				
Authorized - 300,000 shares				
Issued and outstanding - 142,500 shares (equivalent to 5,700,000 depositary shares)	137,459	137,459	137,459	137,459
Retained earnings	928,875	832,871	998,252	832,871
Accumulated other comprehensive loss	(7,036)	(10,521)	(4,754)	(10,521)
Total shareholders' equity	1,560,300	1,459,739	1,632,715	1,459,739
Total liabilities and shareholders' equity	$ 15,874,872	$ 12,615,227	$16,495,236	$12,615,227

See notes to condensed consolidated financial statements.

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Merchants Bancorp

Condensed Consolidated Statements of Income (Unaudited)

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For the Three and Six Nine Months Ended June 30, 2023 September 30, 2023 and 2022

(In thousands, except share data)

	Three Months Ended June 30,		Six Months Ended June 30,		Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022	2023	2022	2023	2022
Interest Income								
Loans	$ 228,732	$ 85,994	$ 418,182	$ 158,190	$ 266,561	$ 129,101	$ 684,743	$ 287,291
Mortgage loans in process of securitization	3,127	1,449	4,775	3,694	2,583	2,162	7,358	5,856
Investment securities:								
Available for sale - taxable	5,564	917	7,830	1,618	6,182	485	14,012	2,103
Held to maturity	17,311	—	33,065	—	17,427	970	50,492	970
Federal Home Loan Bank stock	471	284	898	553	572	379	1,470	932
Other	2,864	626	4,613	1,227	3,351	1,015	7,964	2,242
Total interest income	258,069	89,270	469,363	165,282	296,676	134,112	766,039	299,394
Interest Expense								
Deposits	137,801	14,768	242,243	23,581	162,906	45,002	405,149	68,583
Borrowed funds	14,651	2,471	20,810	3,945	16,334	3,725	37,144	7,670
Total interest expense	152,452	17,239	263,053	27,526	179,240	48,727	442,293	76,253
Net Interest Income	105,617	72,031	206,310	137,756	117,436	85,385	323,746	223,141
Provision for credit losses	22,603	6,212	29,470	8,663	4,014	2,225	33,484	10,888
Net Interest Income After Provision for Credit Losses	83,014	65,819	176,840	129,093	113,422	83,160	290,262	212,253
Noninterest Income								
Gain on sale of loans	11,350	21,564	18,083	39,529	10,758	13,354	28,841	52,883
Loan servicing fees, net	8,616	9,607	10,976	19,338	17,384	8,169	28,360	27,507
Mortgage warehouse fees	2,865	1,350	3,893	3,208	1,858	1,105	5,751	4,313
Syndication and asset management fees	3,896	1,599	5,108	2,213	2,368	3,073	7,476	5,286
Other income	3,155	5,051	6,086	9,480	3,700	3,485	9,786	12,965
Total noninterest income	29,882	39,171	44,146	73,768	36,068	29,186	80,214	102,954
Noninterest Expense								
Salaries and employee benefits	25,724	22,475	47,870	43,768	27,052	23,027	74,922	66,795
Loan expenses	907	1,184	1,711	2,395	1,038	1,226	2,749	3,621
Occupancy and equipment	2,456	2,011	4,688	3,825	2,196	1,967	6,884	5,792
Professional fees	3,723	1,594	5,992	2,897	2,555	2,429	8,547	5,326
Deposit insurance expense	3,806	670	5,984	1,429	3,568	755	9,552	2,184
Technology expense	1,571	1,304	3,148	2,540	1,609	1,325	4,757	3,865
Other expense	6,133	3,719	9,699	7,136	4,912	4,222	14,611	11,358
Total noninterest expense	44,320	32,957	79,092	63,990	42,930	34,951	122,022	98,941
Income Before Income Taxes	68,576	72,033	141,894	138,871	106,560	77,395	248,454	216,266
Provision for income taxes	3,274	18,098	21,637	34,794	25,056	18,907	46,693	53,701
Net Income	$ 65,302	$ 53,935	$ 120,257	$ 104,077	$ 81,504	$ 58,488	$ 201,761	$ 162,565
Dividends on preferred stock	(8,668)	(5,729)	(17,335)	(11,457)	(8,668)	(5,729)	(26,003)	(17,186)

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Net Income Allocated to Common Shareholders	56,634	48,206	102,922	92,620	72,836	52,759	175,758	145,379
Basic Earnings Per Share	$ 1.31	$ 1.12	$ 2.38	$ 2.14	$ 1.68	$ 1.22	$ 4.07	$ 3.37
Diluted Earnings Per Share	$ 1.31	$ 1.11	$ 2.38	$ 2.14	$ 1.68	$ 1.22	$ 4.06	$ 3.36
Weighted-Average Shares Outstanding								
Basic	43,235,398	43,209,824	43,207,655	43,220,198	43,238,724	43,107,975	43,218,125	43,182,380
Diluted	43,309,393	43,335,211	43,300,240	43,367,875	43,351,208	43,258,925	43,317,343	43,331,148

See notes to condensed consolidated financial statements.

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Merchants Bancorp

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

For the Three and Six Nine Months Ended June 30, 2023 September 30, 2023 and 2022

(In thousands)

	Three Months Ended June 30,		Six Months Ended June 30,		Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022	2023	2022	2023	2022
Net Income	$ 65,302	$ 53,935	$ 120,257	$ 104,077	$81,504	$58,488	$201,761	$162,565
Other Comprehensive Income (Loss):								
Net change in unrealized gain/(losses) on investment securities available for sale, net of tax (expense)/benefits of $(402), $553, $(1,336) and $2,203, respectively	693	(1,766)	3,485	(6,616)				
Net change in unrealized gain/(losses) on investment securities available for sale, net of tax (expense)/benefits of $(714), $1,210, $(2,050) and $3,413, respectively					2,282	(3,616)	5,767	(10,232)
Other comprehensive income (loss) for the period	693	(1,766)	3,485	(6,616)	2,282	(3,616)	5,767	(10,232)
Comprehensive Income	$ 65,995	$ 52,169	$ 123,742	$ 97,461	$83,786	$54,872	$207,528	$152,333

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Merchants Bancorp

Condensed Consolidated Statement of Shareholders' Equity (Unaudited)

For the Three and Six Nine Months Ended June 30, 2023 September 30, 2023 and 2022

(In thousands, except share data)

	Three Months Ended June 30,				Six Months Ended June 30,			
	2023		2022		2023		2022	
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount
Common Stock								
Balance beginning of period	43,233,618	$ 138,105	43,267,776	$ 137,882	43,113,127	$ 137,781	43,180,079	$ 137,565
Repurchase of common stock	-	-	(165,037)	(1,761)	-	-	(165,037)	(1,761)
Cash paid in lieu of fractional shares for stock split	-	-	-	-	-	-	(29)	(1)
Distribution to employee stock ownership plan	-	-	-	-	33,293	810	20,709	653
Shares issued for stock compensation plans, net of taxes withheld to satisfy tax obligations	3,682	748	3,766	550	90,880	262	70,783	215
Balance end of period	43,237,300	138,853	43,106,505	136,671	43,237,300	138,853	43,106,505	136,671
7% Series A Preferred Stock								
Balance at beginning and end of period	2,081,800	50,221	2,081,800	50,221	2,081,800	50,221	2,081,800	50,221
6% Series B Preferred Stock								
Balance at beginning and end of period	125,000	120,844	125,000	120,844	125,000	120,844	125,000	120,844
6% Series C Preferred Stock								
Balance at beginning and end of period	196,181	191,084	196,181	191,084	196,181	191,084	196,181	191,084
8.25% Series D Preferred Stock								
Balance at beginning and end of period	142,500	137,459	-	-	142,500	137,459	-	-
Retained Earnings								
Balance beginning of period		875,700		694,776		832,871		657,149
Net income		65,302		53,935		120,257		104,077
Impact from adoption of ASU 2016-13 (Credit Losses)		-		-		-		(3,648)
Impact from adoption of ASU 2016-02 (Leases)		-		-		-		(110)
Dividends on 7% Series A preferred stock, $1.75 per share, annually		(911)		(911)		(1,821)		(1,821)
Dividends on 6% Series B preferred stock, $60.00 per share, annually		(1,875)		(1,875)		(3,750)		(3,750)

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Dividends on 6% Series C preferred stock, $60.00 per share, annually	(2,943)	(2,943)	(5,886)	(5,886)
Dividends on 8.25% Series D preferred stock, $82.50 per share, annually	(2,939)	-	(5,878)	-
Dividends on common stock, $0.32 per share, annually in 2023 and $0.28 per share, annually in 2022	(3,459)	(3,019)	(6,918)	(6,048)
Repurchase of common stock	-	(2,174)	-	(2,174)
Balance end of period	928,875	737,789	928,875	737,789
Accumulated Other Comprehensive Loss				
Balance beginning of period	(7,729)	(6,304)	(10,521)	(1,454)
Other comprehensive income (loss)	693	(1,766)	3,485	(6,616)
Balance end of period	(7,036)	(8,070)	(7,036)	(8,070)
Total shareholders' equity	$ 1,560,300	$ 1,228,539	$ 1,560,300	$ 1,228,539

	Three Months Ended September 30,				**Nine Months Ended September 30,**			
	2023		**2022**		**2023**		**2022**	
	Shares	**Amount**	**Shares**	**Amount**	**Shares**	**Amount**	**Shares**	**Amount**
Common Stock								
Balance beginning of period	43,237,300	$ 138,853	43,106,505	$ 136,671	43,113,127	$ 137,781	43,180,079	$ 137,565
Repurchase of common stock	-	-	-	-	-	-	(165,037)	(1,761)
Cash paid in lieu of fractional shares for stock split	-	-	-	-	-	-	(29)	(1)
Distribution to employee stock ownership plan	-	-	-	-	33,293	810	20,709	653
Shares issued for stock compensation plans, net of taxes withheld to satisfy tax obligations	2,912	756	3,073	555	93,792	1,018	73,856	770
Balance end of period	43,240,212	139,609	43,109,578	137,226	43,240,212	139,609	43,109,578	137,226
7% Series A Preferred Stock								
Balance at beginning and end of period	2,081,800	50,221	2,081,800	50,221	2,081,800	50,221	2,081,800	50,221
6% Series B Preferred Stock								
Balance at beginning and end of period	125,000	120,844	125,000	120,844	125,000	120,844	125,000	120,844
6% Series C Preferred Stock								
Balance at beginning and end of period	196,181	191,084	196,181	191,084	196,181	191,084	196,181	191,084
8.25% Series D Preferred Stock								
Balance beginning of period	142,500	137,459	-	-	142,500	137,459	-	-
Issuance of 8.25% Series D preferred stock, net of $5.1 million in offering expenses	-	-	142,500	137,371	-	-	142,500	137,371
Balance at beginning and end of period	142,500	137,459	142,500	137,371	142,500	137,459	142,500	137,371
Retained Earnings								
Balance beginning of period		928,875		737,789		832,871		657,149
Net income		81,504		58,488		201,761		162,565
Impact from adoption of ASU 2016-13 (Credit Losses)		-		-		-		(3,648)
Impact from adoption of ASU 2016-02 (Leases)		-		-		-		(110)
Dividends on 7% Series A preferred stock, $1.75 per share, annually		(911)		(911)		(2,732)		(2,732)

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Dividends on 6% Series B preferred stock, $60.00 per share, annually	(1,875)	(1,875)	(5,625)	(5,625)
Dividends on 6% Series C preferred stock, $60.00 per share, annually	(2,943)	(2,943)	(8,829)	(8,829)
Dividends on 8.25% Series D preferred stock, $82.50 per share, annually	(2,939)	-	(8,817)	-
Dividends on common stock, $0.32 per share, annually in 2023 and $0.28 per share, annually in 2022	(3,459)	(3,018)	(10,377)	(9,066)
Repurchase of common stock	-	-	-	(2,174)
Balance end of period	998,252	787,530	998,252	787,530
Accumulated Other Comprehensive Loss				
Balance beginning of period	(7,036)	(8,070)	(10,521)	(1,454)
Other comprehensive income (loss)	2,282	(3,616)	5,767	(10,232)
Balance end of period	(4,754)	(11,686)	(4,754)	(11,686)
Total shareholders' equity	$ 1,632,715	$ 1,412,590	$ 1,632,715	$ 1,412,590

See notes to condensed consolidated financial statements.

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Merchants Bancorp

Condensed Consolidated Statements of Cash Flows (Unaudited)

Six Nine Months Ended June 30, 2023 September 30, 2023 and 2022

(In thousands)

	Six Months Ended June 30,		Nine Months Ended September 30,	
	2023	**2022**	**2023**	**2022**
Operating activities:				
Net income	$ 120,257	$ 104,077	$ 201,761	$ 162,565
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation	1,385	1,204	2,119	1,832
Provision for credit losses	29,470	8,663	33,484	10,888
Gain on sale of loans	(18,083)	(39,529)	(28,841)	(52,883)
Proceeds from sales of loans	8,388,537	14,491,319	15,552,382	21,488,416
Loans and participations originated and purchased for sale	(8,900,738)	(13,918,978)	(16,455,580)	(20,209,971)
Purchases of low-income housing tax credits for sale	(30,117)	(9,829)	(44,106)	(22,122)
Proceeds from sale of low-income housing tax credits	19,804	—	23,081	8,556
Change in servicing rights for paydowns and fair value adjustments	3,257	(9,367)	(6,729)	(11,974)
Net change in:				
Mortgage loans in process of securitization	(144,713)	246,193	(321,853)	431,791
Other assets and receivables	(37,233)	(17,738)	(13,383)	(20,958)
Other liabilities	28,294	18,389	(9,986)	50,630

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Other	(3,140)	371	(3,123)	(2,854)
Net cash (used in) provided by operating activities	(543,020)	874,775	(1,070,774)	1,833,916
Investing activities:				
Net change in securities purchased under agreements to resell	52	2,368	79	2,391
Purchases of securities available for sale	(513,520)	(47,866)	(631,676)	(50,274)
Purchases of securities held to maturity	(4,261)	—	(9,786)	(1,005,487)
Proceeds from the sale of securities available for sale	132	—	1,516	11,379
Proceeds from calls, maturities and paydowns of securities available for sale	195,164	12,206	339,995	12,755
Proceeds from calls, maturities and paydowns of securities held to maturity	61,322	—	116,062	—
Purchases of loans	(269,855)	(92,533)	(329,014)	(289,030)
Net change in loans receivable	(1,805,415)	(1,199,040)	(1,829,247)	(1,675,505)
Purchase of FHLB stock	—	(10,326)	(9,089)	(10,326)
Proceeds from sale of FHLB stock	—	784	—	784
Purchases of premises and equipment	(2,943)	(5,113)	(3,459)	(6,178)
Purchase of servicing rights	—	(2,057)	—	(2,057)
Purchase of limited partnership interests	(71,001)	(13,225)	(71,001)	(42,710)
Proceeds from sale of limited partnership interests	52,458	—	52,984	—
Other investing activities	1,322	2,924	1,591	4,314
Net cash used in investing activities	(2,356,545)	(1,351,878)	(2,371,045)	(3,049,944)
Financing activities:				
Net change in deposits	2,988,519	(682,875)	2,935,993	1,336,866
Proceeds from borrowings	42,149,880	21,595,000	69,132,347	44,950,000
Repayment of borrowings	(42,240,205)	(21,190,050)	(68,615,360)	(45,890,075)
Proceeds from notes payable	26,000	2,000	60,000	3,400
Proceeds from issuance of preferred stock			—	137,371
Proceeds from credit linked notes	153,546	—	153,546	—
Payment of credit linked notes	(2,980)	—	(7,253)	—
Repurchase of common stock	—	(3,935)	—	(3,935)
Dividends	(24,253)	(17,505)	(36,380)	(26,252)
Other financing activities	204	—		
Net cash provided by (used in) financing activities	3,050,711	(297,365)		
Net cash provided by financing activities			3,622,893	507,375
Net Change in Cash and Cash Equivalents	151,146	(774,468)	181,074	(708,653)
Cash and Cash Equivalents, Beginning of Period	226,164	1,032,614	226,164	1,032,614
Cash and Cash Equivalents, End of Period	$ 377,310	$ 258,146	$ 407,238	$ 323,961
Supplemental Cash Flows Information:				
Interest paid	$ 238,521	$ 25,191	$ 415,920	$ 63,917
Income taxes paid, net of refunds	29,813	28,331	50,076	47,174
Transfer of loans from loans held for sale to loans receivable	377,460	—	377,460	—
Transfer of loans from loans receivable to loans held for sale			21,960	788,849

See notes to condensed consolidated financial statements.

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Notes to Condensed Consolidated Financial Statements

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(Unaudited)

Note 1: Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of Merchants Bancorp, a registered bank holding company (the "Company") and its wholly owned subsidiaries, Merchants Bank of Indiana ("Merchants Bank"), Farmers-Merchants Bank of Illinois ("FMBI") and Merchants Asset Management, LLC ("MAM"). Merchants Bank's primary operating subsidiaries include Merchants Capital Corp. ('MCC"), Merchants Capital Servicing, LLC ("MCS"), and Merchants Capital Investments, LLC ("MCI"). All direct and indirectly owned subsidiaries owned by Merchants Bancorp are collectively referred to as the "Company".

The accompanying unaudited condensed consolidated balance sheet of the Company as of December 31, 2022, which has been derived from audited financial statements, and unaudited condensed consolidated financial statements of the Company as of June 30, 2023 September 30, 2023 and for the three and six nine months ended June 30, 2023 September 30, 2023 and 2022, were prepared in accordance with the instructions for Form 10-Q and Article 10 of Regulation S-X and, therefore, do not include information or footnotes necessary for a complete presentation of financial position, results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America. Accordingly, these condensed financial statements should be read in conjunction with the audited financial statements and notes thereto of the Company as of and for the year ended December 31, 2022 in its Annual Report on Form 10-K. Reference is made to the accounting policies of the Company described in the Notes to the Financial Statements contained in the Annual Report on Form 10-K.

In the opinion of management, all adjustments (consisting only of normal recurring adjustments) which are necessary for a fair presentation of the unaudited financial statements have been included to present fairly the financial position as of June 30, 2023 September 30, 2023 and the results of operations for the three and six nine months ended June 30, 2023 September 30, 2023 and 2022, and cash flows for the six nine months ended June 30, 2023 September 30, 2023 and 2022. All interim amounts have not been audited and the results of operations for the three and six nine months ended June 30, 2023 September 30, 2023, herein are not necessarily indicative of the results of operations to be expected for the entire year.

Principles of Consolidation

The unaudited condensed consolidated financial statements as of and for the period ended June September 30, 2023 and 2022 include results from the Company, and its wholly owned subsidiaries, Merchants Bank, FMBI and MAM. Also included are Merchants Bank's primary operating subsidiaries, MCC, MCS and MCI, as well as all direct and indirectly owned subsidiaries owned by Merchants Bancorp.

In addition, when the Company makes an equity investment in or has a relationship with an entity for which it holds a variable interest, it is evaluated for consolidation requirements under Accounting Standards Update of Topic 810. Accordingly, the entity is assessed for potential consolidation under the variable interest entity ("VIE") model and would only consolidate those entities for which it is a primary beneficiary. A primary beneficiary is defined as the party that has both the power to direct the activities that most significantly impact the entity, and an interest that could be significant to the entity. To determine if an interest could be significant to the entity, both qualitative and quantitative factors regarding the nature, size and form of the Company's involvement with the entity are evaluated. Alternatively, under the voting interest model, it would only consolidate those entities for which it has a controlling interest.

During the three months ended June 30, 2023, In May 2023, the Company acquired a variable interest in an investment fund for which it is the primary beneficiary of, and its results have been consolidated since the date of acquisition. Additionally, the Company has certain variable interest investments that were it was deemed not deemed to be a primary beneficiaries beneficiary of as of June 30, 2023 September 30, 2023. These VIEs are not consolidated and the equity or cost proportional method of accounting has been applied. The Company will analyze whether the primary beneficiary designation has changed through triggering events on a prospective basis. Changes in facts and circumstances occurring since the previous primary beneficiary determination will be considered as part of this ongoing assessment. See *Note 5: Variable Interest Entities (VIEs)* for additional information about VIEs.

All significant intercompany accounts and transactions have been eliminated in consolidation.

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Sale of Farmers-Merchants Bank of Illinois branches

On September 7, 2023, the Company entered into an agreement with Bank of Pontiac to sell its Farmers-Merchants Bank of Illinois branch locations in Paxton, Melvin, and Piper City, Illinois, and into an agreement with CBI Bank & Trust, to sell its Farmers-Merchants Bank of Illinois branch located in Joy, Illinois.

In addition to the branches, Bank of Pontiac will acquire approximately $157 million in deposits and $22 million in loans, and CBI Bank & Trust will acquire approximately $62 million in deposits and $27 million in loans.

This transaction enhances the Company's ability to focus on its core business of single and multi-family mortgage lending and strategically aligns the branches with institutions that share a similar business model and allows them to provide additional products to their customers.

The acquisitions are subject to customary closing conditions, including regulatory approvals.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for credit losses on loans servicing rights and fair values of servicing rights and financial instruments.

Significant Accounting Policies

The significant accounting policies followed by the Company for interim financial reporting are consistent with the accounting policies followed for annual financial reporting.

On January 1, 2022, the Company adopted FASB Accounting Standards Update (ASU) No. 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("CECL"). The Company revised certain accounting policies and implemented certain accounting policy elections, related to the adoption of CECL, which are described below. All adjustments, which are of a normal recurring nature and are, in the opinion of management, necessary for a fair statement of the results for the periods reported, have been included in the accompanying Condensed Consolidated Financial Statements.

CECL replaces the previous "allowance for loan and lease losses" model for measuring credit losses, which encompassed allowances for current known and inherent losses within the portfolio, with an "expected loss" model for measuring credit losses, which encompasses allowances for losses expected to be incurred over the life of the included assets. The new CECL model requires the measurement of all expected credit losses for financial assets measured at amortized cost and certain off-balance sheet credit exposures ("OBCEs") based on historical experiences, current conditions, and reasonable and supportable forecasts. CECL also requires enhanced disclosures related to the significant estimates and judgments used in estimating credit losses, as well as credit quality and underwriting standards of an organization's portfolio. In addition, CECL includes certain changes to the accounting for investment securities available for sale depending on whether management intends to sell the securities or believes that it is more likely than not they will be required to sell.

As of adoption date on January 1, 2022, the Company recorded a $3.6 million decrease, net of taxes, to retained earnings for the cumulative effect of adopting CECL. The transition adjustment included a $0.3 million increase to retained earnings related to allowance for credit losses on loans ("ACL-Loans") and a $5.2 million decrease to retained earnings related to allowance for OBCEs ("ACL-OBCEs"). The following table summarizes the impact

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ACL-Loans - the ACL-Loans is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on loans over the contractual term. Loans are charged-off against the allowance when the uncollectibility of the loan is confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off. Adjustments to the ACL-Loans are reported in the income statement as a provision for credit loss. Further information regarding the policies and methodology used to estimate the ACL-Loans is detailed in *Note 4: Loans and Allowance for credit losses on loans* of these Notes to Consolidated Condensed Financial Statements.

ACL-OBCEs – the ACL–OBCEs is a liability account representing expected credit losses over the contractual period for which the Company is exposed to credit risk resulting from a contractual obligation to extend credit. No allowance is recognized if the Company has the unconditional right to cancel the obligation. OBCEs primarily consist of amounts available under outstanding lines of credit. For the period of exposure, the estimate of expected credit losses considers both the likelihood that funding will occur and the amount expected to be funded over the estimated remaining

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life of the commitment. The likelihood and expected amount of funding are based on historical utilization rates. The amount of the allowance represents management's best estimate of expected credit losses on commitments expected to be funded over the contractual life of the commitment. The ACL–OBCEs is adjusted through the income statement as a component of provision for credit loss.

Restricted Cash

Included in cash equivalents is an account restricted as collateral for the potential risk of loss on senior credit linked notes issued by the Company in March 2023. As of June 30, 2023 September 30, 2023, there was $35.3 million $52.2 million in restricted cash. Also see *Note 11: Borrowings.*

Certain reclassifications may have been made to the 2022 financial statements to conform to the financial statement presentation as of and for the three and six months ended June 30, 2023. These reclassifications had no effect on net income.

Note 2: Investment Securities

The amortized cost and approximate fair values, together with gross unrealized gains and losses, of securities available for sale and held to maturity were as follows:

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	June 30, 2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Securities available for sale:				
Treasury notes	$ 158,741	$ 43	$ 849	$ 157,935
Federal agencies	249,994	—	8,422	241,572
Mortgage-backed - Government-sponsored entity (GSE)	248,497	6	7	248,496
Total securities available for sale	$ 657,232	$ 49	$ 9,278	$ 648,003
Securities held to maturity:				
Mortgage-backed - Non-GSE multi-family	$ 835,649	$ —	$ 42	$ 835,607
Mortgage-backed - Non-GSE residential	222,119	—	3,075	219,044
Mortgage-backed - Government - sponsored entity (GSE)	4,249	—	310	3,939
Total securities held to maturity	$ 1,062,017	$ —	$ 3,427	$ 1,058,590

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	December 31, 2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Securities available for sale:				
Treasury notes	$ 37,234	$ 1	$ 955	$ 36,280
Federal agencies	284,986	—	13,096	271,890
Mortgage-backed - Government-sponsored entity (GSE)	15,167	7	7	15,167
Total securities available for sale	$ 337,387	$ 8	$ 14,058	$ 323,337
Securities held to maturity:				
Mortgage-backed - Non-GSE multi-family	$ 871,772	$ 12	$ —	$ 871,784
Mortgage-backed - Non-GSE residential	247,306	—	124	247,182
Total securities held to maturity	$ 1,119,078	$ 12	$ 124	$ 1,118,966

At June 30, 2023 and December 31, 2022, GSE mortgage-backed securities included in the tables above are primarily backed by multi-family loans. The tables above for June 30, 2023 and December 31, 2022 primarily include securities held to maturity that were purchased following the September 2022 loan sale and securitization transactions.

Accrued interest on securities available for sale totaled $1.9 million at June 30, 2023 and $0.5 million at December 31, 2022, respectively, and is excluded from the estimate of credit losses.

Accrued interest on securities held to maturity totaled $4.4 million at June 30, 2023 and $4.3 at December 31, 2022, respectively, and is excluded from the estimate of credit losses.

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The amortized cost and fair value of available for sale securities at June 30, 2023 and December 31, 2022, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date are shown separately.

	June 30, 2023		December 31, 2022	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Securities available for sale:	(In thousands)			
Within one year	$ 321,992	$ 316,487	$ 118,984	$ 115,386
After one through five years	86,743	83,020	203,236	192,784
	408,735	399,507	322,220	308,170
Mortgage-backed - Government-sponsored entity (GSE)	248,497	248,496	15,167	15,167
	$ 657,232	$ 648,003	$ 337,387	$ 323,337
Securities held to maturity:				
Mortgage-backed - Non-GSE multi-family	$ 835,649	$ 835,607	$ 871,772	$ 871,784
Mortgage-backed - Non-GSE residential	222,119	219,044	—	—
Mortgage-backed - Government - sponsored entity (GSE)	4,249	3,939	247,306	247,182
	$ 1,062,017	$ 1,058,590	$ 1,119,078	$ 1,118,966

During the three and six months ended June 30, 2023, proceeds from sales of securities available for sale were $132,000 and the net gain was inconsequential. During the three and six months ended June 30, 2022, no

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Note 2: Investment Securities

The amortized cost and approximate fair values, together with gross unrealized gains and losses, of securities available for sale and held to maturity were as follows:

	September 30, 2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Securities available for sale:				
Treasury notes	$ 138,520	$ 33	$ 667	$ 137,886
Federal agencies	229,997	—	5,599	224,398
Mortgage-backed - Government-sponsored entity (GSE)	262,302	6	6	262,302
Total securities available for sale	$ 630,819	$ 39	$ 6,272	$ 624,586
Securities held to maturity:				
Mortgage-backed - Non-GSE multi-family	$ 794,575	$ —	$ 111	$ 794,464
Mortgage-backed - Non-GSE residential	208,475	—	1,059	207,416
Mortgage-backed - Government - sponsored entity (GSE)	9,751	—	886	8,865
Total securities held to maturity	$ 1,012,801	$ —	$ 2,056	$ 1,010,745

	December 31, 2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Securities available for sale:				
Treasury notes	$ 37,234	$ 1	$ 955	$ 36,280
Federal agencies	284,986	—	13,096	271,890
Mortgage-backed - Government-sponsored entity (GSE)	15,167	7	7	15,167
Total securities available for sale	$ 337,387	$ 8	$ 14,058	$ 323,337
Securities held to maturity:				
Mortgage-backed - Non-GSE multi-family	$ 871,772	$ 12	$ —	$ 871,784
Mortgage-backed - Non-GSE residential	247,306	—	124	247,182
Total securities held to maturity	$ 1,119,078	$ 12	$ 124	$ 1,118,966

At September 30, 2023 and December 31, 2022, GSE mortgage-backed securities included in the tables above are primarily backed by multi-family and single-family loans.

Accrued interest on securities available for sale totaled $2.0 million at September 30, 2023 and $0.5 million at December 31, 2022, respectively, and is excluded from the estimate of credit losses.

Accrued interest on securities held to maturity totaled $4.4 million at September 30, 2023 and $4.3 million at December 31, 2022, respectively, and is excluded from the estimate of credit losses.

The amortized cost and fair value of available for sale securities at September 30, 2023 and December 31, 2022, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may

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have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date are shown separately.

	September 30, 2023		December 31, 2022	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Securities available for sale:	(In thousands)			
Within one year	$ 346,753	$ 340,839	$ 118,984	$ 115,386
After one through five years	21,764	21,445	203,236	192,784
	368,517	362,284	322,220	308,170
Mortgage-backed - Government-sponsored entity (GSE)	262,302	262,302	15,167	15,167
	$ 630,819	$ 624,586	$ 337,387	$ 323,337
Securities held to maturity:				
Mortgage-backed - Non-GSE multi-family	$ 794,575	$ 794,464	$ 871,772	$ 871,784
Mortgage-backed - Non-GSE residential	208,475	207,416	247,306	247,182
Mortgage-backed - Government - sponsored entity (GSE)	9,751	8,865	—	—
	$ 1,012,801	$ 1,010,745	$ 1,119,078	$ 1,118,966

During the three and nine months ended September 30, 2023, proceeds from sales of securities available for sale were $1.4 million and $1.5 million, respectively, and the net gain was inconsequential. During the three and nine months ended September 30, 2022 one of the mortgage-backed non-GSE multi-family securities available for sale was sold for $11.4 million, resulting in no gain or loss.

The following tables show the Company’s gross unrealized losses and fair value of the Company’s investment securities with unrealized losses for which an ACL has not been recorded, aggregated by investment class and length of time that individual securities have been in a continuous unrealized loss position at June 30, 2023 September 30, 2023 and December 31, 2022:

	June 30, 2023						September 30, 2023					
	Less than 12 Months		12 Months or Longer		Total		Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(In thousands)						(In thousands)					
Securities available for sale:												
Treasury notes	$ 7,645	$ 101	$ 30,185	$ 748	$ 37,830	$ 849	$ 5,312	$ 52	$ 32,773	$ 615	$ 38,085	$ 667
Federal agencies	14,854	146	226,718	8,276	241,572	8,422	14,878	122	209,520	5,477	224,398	5,599

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Mortgage-backed - Government-sponsored entity (GSE)	444	3	191	4	635	7	384	1	211	5	595	6
	$ 22,943	$ 250	$ 257,094	$ 9,028	$ 280,037	$ 9,278	$ 20,574	$ 175	$ 242,504	$ 6,097	$ 263,078	$ 6,272
Securities held to maturity:												
Mortgage-backed - Non-GSE multi-family	$ 835,607	$ 42	$ —	$ —	$ 835,607	$ 42						
Mortgage-backed - Non-GSE residential	219,044	3,075	—	—	219,044	3,075						
Mortgage-backed - Government - sponsored entity (GSE)	3,939	310	—	—	3,939	310						
	$ 1,058,590	$ 3,427	$ —	$ —	$ 1,058,590	$ 3,427						

	December 31, 2022					
	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:						
Treasury notes	$ 29,560	$ 762	$ 5,798	$ 193	$ 35,358	$ 955
Federal agencies	19,276	724	252,613	12,372	271,889	13,096
Mortgage-backed - Government-sponsored entity (GSE)	709	7	—	—	709	7
	$ 49,545	$ 1,493	$ 258,411	$ 12,565	$ 307,956	$ 14,058
Securities held to maturity:						
Mortgage-backed - Non-GSE residential	247,182	124	—	—	247,182	124
	$ 247,182	$ 124	$ —	$ —	$ 247,182	$ 124

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	December 31, 2022					
	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:						
Treasury notes	$ 29,560	$ 762	$ 5,798	$ 193	$ 35,358	$ 955
Federal agencies	19,276	724	252,613	12,372	271,889	13,096
Mortgage-backed - Government-sponsored entity (GSE)	709	7	—	—	709	7
	$ 49,545	$ 1,493	$ 258,411	$ 12,565	$ 307,956	$ 14,058

Allowance for Credit Losses

For available for sale securities with an unrealized loss position, the Company evaluates the securities to determine whether the decline in the fair value below the amortized cost basis (impairment) is due to credit-related factors or non-credit related factors. Any impairment that is not credit-related is recognized in accumulated other comprehensive income (loss), net of tax. Credit-related impairment is recognized as an ACL for available for sale securities on the balance sheet, limited to the amount by which the amortized cost basis exceeds the fair value, with a corresponding adjustment to earnings. Accrued interest receivable is excluded from the estimate of credit losses. Both the ACL and the adjustment to net income may be reversed if conditions change. However, if the Company expects, or is required, to sell an impaired available for sale security before recovering its amortized cost basis, the entire impairment amount would be recognized

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in earnings with a corresponding adjustment to the security's amortized cost basis. Because the security's amortized cost basis is adjusted to fair value, there is no ACL in this situation.

In evaluating available for sale securities in unrealized loss positions for impairment and the criteria regarding its intent or requirement to sell such securities, the Company considers the extent to which fair value is less than amortized cost, whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuers'

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financial condition, among other factors. Unrealized losses on the Company's investment securities portfolio have not been recognized as an expense because the securities are of high credit quality, and the decline in fair values is attributable to changes in the prevailing interest rate environment since the purchase date. Fair value is expected to recover as securities reach maturity and/or the interest rate environment returns to conditions similar to when these securities were purchased. There were no credit related factors underlying unrealized losses on available for sale debt securities at June 30, 2023 September 30, 2023 and December 31, 2022.

Securities held to maturity are comprised of non-GSE mortgage-backed securities secured by multi-family or single-family properties, and GSE mortgage-backed securities secured by multi-family properties. The GSE security is a Government National Mortgage Association ("Ginnie Mae") mortgage-backed security securities and backed by the full faith and credit of the U.S. government. Accordingly, no allowance for credit losses has been recorded for this security. these securities. The non-GSE securities were purchased under securitization arrangements where a credit loss component was purchased by third party investors. These securities were evaluated for credit losses over and above the credit loss percentage sold under the arrangements, and the Company does not anticipate any such losses. Additional qualitative factors are evaluated, including the timeliness of principal and interest payments under the contractual terms of the securities. Accordingly, no allowance for credit losses has been recorded for the non-GSE securities.

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Note 3: Mortgage Loans in Process of Securitization

Mortgage loans in process of securitization are recorded at fair value with changes in fair value recorded in earnings. These include multi-family rental real estate loan originations to be sold as Ginnie Mae mortgage-backed securities and Federal National Mortgage Association ("Fannie Mae") and Federal Home Loan Mortgage Corporation ("Freddie Mac") participation certificates, all of which are pending settlement with firm investor commitments to purchase the securities, typically occurring within 30 days. The A positive fair market value increases adjustment of $1.9 million and a negative fair market value adjustment of $3.7 million was recorded in earnings for mortgage loans the three months ended September 30, 2023 and 2022, respectively. A positive fair market value adjustment of $2.2 million and $1.1 million was recorded in process of securitization totaled $0.3 million and $4.9 million at June 30, 2023 earnings for the nine months ended September 30, 2023 and 2022, respectively.

Note 4: Loans and Allowance for Credit Losses on Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding principal balances adjusted for unearned income, charge-offs, the ACL-Loans, any unamortized deferred fees or costs on originated loans and unamortized premiums or discounts on purchased loans.

For loans at amortized cost, interest income is accrued based on the unpaid principal balance.

The Company has made a policy election to exclude accrued interest from the amortized cost basis of loans and reports accrued interest separately from the related loan balance in the consolidated balance sheets. Accrued interest on loans totaled $47.7 million $53.8 million and $35.0 million at June 30, 2023 September 30, 2023 and December 31, 2022, respectively.

The Company also elected not to measure an allowance for credit losses for accrued interest receivables. The accrual of interest on loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Past-due status is based

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on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged-off is reversed against interest income. The interest collected on these loans is applied to the principal balance until the loan can be returned to

an accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

For all loan portfolio segments, the Company promptly charges off loans, or portions thereof, when available information confirms that specific loans are uncollectable based on information that includes, but is not limited to, (1) the deteriorating financial condition of the borrower, (2) declining collateral values, and/or (3) legal action, including bankruptcy, that impairs the borrower's ability to adequately meet its obligations.

When cash payments for accrued interest are received on nonaccrual loans in each loan class, the Company records a reduction in principle on the balance of the loan. For loan modifications, interest income is recognized on an accrual basis at the renegotiated rate if the loan is in compliance with the modified terms.

The Company offers warehouse lines of credit to fund mortgage loans held for sale from closing until sale to an investor. Under a warehousing arrangement the Company funds a mortgage loan as secured financing. The warehousing arrangement is secured by the underlying mortgages and a combination of deposits, personal guarantees and advance rates. The Company typically holds the collateral until it is sent under a bailee arrangement instructing the investor to send proceeds to the Company. Typical investors are large financial institutions or government agencies. Interest earned from the time of funding to the time of sale is recognized as interest income as accrued. Fees earned agreements Warehouse fees are recognized when collected accrued as noninterest income.

Loan Portfolio Summary

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Loans receivable at June 30, 2023 September 30, 2023 and December 31, 2022 include:

	June 30, 2023	December 31, 2022	September 30, 2023	December 31, 2022
	(In thousands)		(In thousands)	
Mortgage warehouse lines of credit	$ 1,201,932	$ 464,785	$1,022,692	$ 464,785
Residential real estate (1)	1,342,586	1,178,401	1,358,908	1,178,401
Multi-family financing	3,746,333	3,135,535	3,709,320	3,135,535
Healthcare financing	2,128,378	1,604,341	2,218,559	1,604,341
Commercial and commercial real estate (2) (3)	1,394,256	978,661	1,560,031	978,661
Agricultural production and real estate	91,599	95,651	96,490	95,651
Consumer and margin loans	11,920	13,498	11,545	13,498
	9,917,004	7,470,872	9,977,545	7,470,872
Less:				
ACL-Loans	62,986	44,014	66,864	44,014
Loans Receivable	$ 9,854,018	$ 7,426,858	$9,910,681	$7,426,858

(1) Includes $894.7 million $1.2 billion and $1.1 billion of All-in-One© first-lien home equity lines of credit at September 30, 2023 and December 31, 2022, respectively.

(2) Includes $1.0 billion and $497.0 million of revolving lines of credit collateralized primarily by mortgage servicing rights as of June 30, 2023 September 30, 2023 and December 31, 2022, respectively.

(2) (3) Includes only $8.3 million $8.1 million and $12.8 million of non-owner occupied commercial real estate as of June 30, 2023 September 30, 2023 and December 31, 2022, respectively.

Risk characteristics applicable to each segment of the loan portfolio are described as follows.

Mortgage Warehouse Lines of Credit (MTG WHLOC): Under its warehouse program, the Company provides warehouse financing arrangements to approved mortgage companies for the origination and sale of residential mortgage loans and to a lesser extent multi-family loans. Agency eligible, governmental and jumbo residential mortgage loans that

are secured by mortgages placed on existing one-to-four family dwellings may be originated or purchased and placed on each mortgage warehouse line.

As a secured repurchase agreement, collateral pledged to the Company secures each individual mortgage until the lender sells the loan in the secondary market. A traditional secured warehouse line of credit typically carries a base interest rate of the Federal Reserve's Secured

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Overnight Financing Rate (“SOFR”), or mortgage note rate and a margin.

Risk is evident if there is a change in the fair value of mortgage loans originated by mortgage bankers in warehouse, the sale of which is the expected source of repayment of the borrowings under a warehouse line of credit. However, the warehouse customers are required to hedge the change in value of these loans to mitigate the risk. risk, typically through forward sales contracts.

Residential Real Estate Loans (RES RE): Real estate loans are secured by owner-occupied 1-4 family residences. Repayment of residential real estate loans is primarily dependent on the personal income and credit rating of the borrowers. First-lien HELOC mortgages included in this segment typically carried a base rate of 30-day LIBOR, plus a

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margin. With the sunset of LIBOR, loans will be have been transitioned to the One-Year Constant Maturity Treasury (“CMT”), plus a margin.

Multi-Family Financing (MF FIN): The Company engages in multi-family financing, including construction loans, specializing in originating and servicing loans for multi-family rental properties. In addition, the Company originates loans secured by an assignment of federal income tax credits by partnerships invested in multi-family real estate projects. Construction and land loans are generally based upon estimates of costs and estimated value of the completed project and include independent appraisal reviews and a financial analysis of the developers and property owners. Sources of repayment of these loans are dependent on the cash flow of the property, and may include permanent loans, sales of developed property or an interim loan commitment from the Company until permanent agency-eligible financing is obtained. Credit risk in these loans may be impacted by the creditworthiness of a borrower, property values and the local economy in the Company’s market area. Repayment of these loans depends on the successful operation of a business or property and the borrower’s cash flows. Loans included in this segment typically carry a base rate of SOFR that adjusts on a monthly basis and a margin.

Healthcare Financing (HC FIN): The healthcare financing portfolio includes customized loan products for independent living, assisted living, memory care and skilled nursing projects. A variety of loan products are available to accommodate rehabilitation, acquisition, and refinancing of healthcare properties. Credit risk in these loans are primarily driven by local demographics and the expertise of the operators of the facilities. Repayment of these loans may include permanent loans, sales of developed property or an interim loan commitment from the Company until permanent agency-eligible financing is obtained, as well as successful operation of a business or property and the borrower’s cash flows. Loans included in this segment typically carry a base rate of SOFR that adjusts on a monthly basis and a margin.

Commercial Lending and Commercial Real Estate Loans (CML & CRE): The commercial lending and commercial real estate portfolio includes loans to commercial customers for use in financing working capital needs, equipment purchases and expansions, as well as loans to commercial customers to finance land and improvements. It also includes loans lines of credit collateralized by servicing rights. The loans in this category are repaid primarily from the cash flow of a borrower’s principal business operation. Credit risk in these loans is driven by creditworthiness of a borrower and the economic conditions that impact the cash flow stability from business operations. Small Business Administration (“SBA”) loans are included in this category. Less than 1% of total commercial and commercial real estate loans are made up of non-owner occupied commercial real estate loans. The Company strategically focuses on loan classes that are government backed or can be sold in the secondary market.

Agricultural Production and Real Estate Loans (AG & AGRE): Agricultural production loans are generally comprised of seasonal operating lines of credit to grain farmers to plant and harvest corn and soybeans and term loans to fund the purchase of equipment. The Company also offers long term financing to purchase agricultural real estate. Specific underwriting standards have been established for agricultural-related loans including the establishment of projections for each operating year based on industry-developed estimates of farm input costs and expected commodity

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yields and prices. Operating lines are typically written for one year and secured by the crop and other farm assets as considered necessary. The Company is approved to sell agricultural loans in the secondary market through the Federal Agricultural Mortgage Corporation and uses this relationship to manage interest rate risk within the portfolio. Agricultural real estate loans included in this segment are typically structured with a one-year ARM, 3-year ARM or 5-year ARM CMT and a margin. Agriculture production, livestock, and equipment loans are structured with variable rates that are indexed to prime or fixed for terms not exceeding 5 years.

Consumer and Margin Loans (CON & MAR): Consumer loans are those loans secured by household assets. Margin loans are those loans secured by marketable securities. The term and maximum amount for these loans are determined by considering the purpose of the loan, the margin (advance percentage against value) in all collateral, the primary source of repayment, and the borrower's other related cash flow.

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ACL-Loans

The Company adopted CECL on January 1, 2022. CECL replaces the previous "Allowance for Loan and Lease Losses" standard for measuring credit losses. Upon adoption of CECL, the difference in the two measurements was recorded in the ACL-Loans and retained earnings.

The ACL-Loans is the Company's estimate of current expected credit losses. Loans receivable is presented net of the allowance to reflect the principal balance expected to be collected over the contractual term of the loans. This life of loan allowance is established through a provision for credit losses charged to net interest income as loans are recorded in the financial statements. The provision for a reporting period also reflects increases or decreases in the allowance related to changes in credit loss expectations. Actual credit losses are charged against the allowance when management believes the uncollectability of a loan balance, or a portion thereof, is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The ACL-Loans is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans considering relevant available information from internal and external sources, including historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. The allowance also incorporates reasonable and supportable forecasts. There have been no changes to the credit quality components used to assess risk during the six nine months ended June 30, 2023 September 30, 2023. This evaluation is

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inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. The level of the ACL is believed to be adequate to absorb current expected future losses in the loan portfolio as of the measurement date.

The ACL-Loans consists of individually evaluated loans and pooled loan components. The Company's primary portfolio segmentation is by credit segmenting loans with similar risk grade. characteristics. Loans risk graded substandard and worse are individually evaluated for expected credit losses. For individually evaluated loans that are collateral dependent, the Company may use the fair value of the collateral, less estimated costs to sell, as a practical expedient as of the reporting date to determine the carrying amount of an asset and the allowance for credit losses, as applicable. A loan is considered to be collateral dependent when repayment is expected to be provided substantially through the operation or the sale of the collateral when the borrower is experiencing financial difficulty as of the reporting date.

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To calculate the allowance for expected credit losses on loans risk graded pass through special mention, the portfolio is segmented by loans with similar risk characteristics.

Loan Portfolio Segment	ACL-Loans Methodology
Mortgage warehouse lines of credit	Remaining Life Method
Residential real estate loans	Discounted Cash Flow
Multi-family financing	Discounted Cash Flow
Healthcare financing	Discounted Cash Flow
Commercial and commercial real estate	Discounted Cash Flow
Agricultural production and real estate	Remaining Life Method
Consumer and margin loans	Remaining Life Method

Loan characteristics used in determining the segmentation included the underlying collateral, type or purpose of the loan, and expected credit loss patterns. The initial estimation of expected credit losses for each segment is primarily based on historical credit loss experience. experience and management's judgement. Given the Company's modest historical credit loss experience, peer and industry data was incorporated into the measurement. Expected life of loan credit losses are quantified using discounted cash flows and remaining life methodologies.

Model results are supplemented by qualitative adjustments for risk factors relevant in assessing the expected credit losses within the portfolio segments. These adjustments may increase or decrease the estimate of expected credit losses based upon the assessed level of risk for each qualitative factor.

The models utilized and the applicable qualitative adjustments require assumptions and management judgement that can be subjective in nature. The above measurement approach is also used to estimate the expected credit losses associated with unfunded loan commitments, which also incorporates expected utilization rates.

The following tables present, by loan portfolio segment, the activity in the ACL-Loans for the three and six months ended June 30, 2023 and 2022:

	For the Three Months Ended June 30, 2023							
	MTG WHLOC	RES RE	MF FIN	HC FIN	CML & CRE	AG & AGRE	CON & MAR	TOTAL

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	(In thousands)							
ACL-Loans								
Balance, beginning of period	$ 1,664	$ 7,378	$ 19,851	$ 11,753	$ 10,482	$ 543	$ 167	$ 51,838
Provision for credit losses	1,697	48	13,250	4,370	1,329	13	(29)	20,678
Loans charged to the allowance	—	(13)	(8,400)	—	(1,118)	—	(1)	(9,532)
Recoveries of loans previously charged-off	—	—	—	—	2	—	—	2
Balance, end of period	$ 3,361	$ 7,413	$ 24,701	$ 16,123	$ 10,695	$ 556	$ 137	$ 62,986

	For the Three Months Ended June 30, 2022							
	MTG WHLOC	RES RE	MF FIN	HC FIN	CML & CRE	AG & AGRE	CON & MAR	TOTAL
	(In thousands)							
ACL-Loans								
Balance, beginning of period	$ 1,941	$ 4,547	$ 15,131	$ 5,618	$ 4,102	$ 597	$ 166	$ 32,102
Provision for credit losses	481	363	1,233	2,318	474	(46)	(55)	4,768
Loans charged to the allowance	—	—	—	—	(32)	—	(15)	(47)
Recoveries of loans previously charged-off	—	—	—	—	651	—	—	651
Balance, end of period	$ 2,422	$ 4,910	$ 16,364	$ 7,936	$ 5,195	$ 551	$ 96	$ 37,474

The Company recorded a total provision for credit losses of $22.6 million for the three months ended June 30, 2023. The $22.6 million total provision for credit losses consisted of $20.7 million for the ACL-Loans as shown above and $1.9 million for the ACL-OBCE's.

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experience, peer and industry data was incorporated into the measurement. Expected life of loan credit losses are quantified using discounted cash flows and remaining life methodologies.

Model results are supplemented by qualitative adjustments for risk factors relevant in assessing the expected credit losses within the portfolio segments. These adjustments may increase or decrease the estimate of expected credit losses based upon the assessed level of risk for each qualitative factor. At September 30, 2023, the qualitative factors increased the estimate of expected losses.

The models utilized and the applicable qualitative adjustments require assumptions and management judgement that can be subjective in nature. The above measurement approach is also used to estimate the expected credit losses associated with unfunded loan commitments, which also incorporates expected utilization rates.

The following tables present, by loan portfolio segment, the activity in the ACL-Loans for the three and nine months ended September 30, 2023 and 2022:

	For the Three Months Ended September 30, 2023							
	MTG WHLOC	RES RE	MF FIN	HC FIN	CML & CRE	AG & AGRE	CON & MAR	TOTAL
	(In thousands)							
ACL-Loans								
Balance, beginning of period	$ 3,361	$ 7,413	$ 24,701	$ 16,123	$ 10,695	$ 556	$ 137	$ 62,986

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	MTG WHLOC	RES RE	MF FIN	HC FIN	CML & CRE	AG & AGRE	CON & MAR	TOTAL
Provision for credit losses	(495)	207	1,121	1,876	1,123	34	2	3,868
Loans charged to the allowance	—	(21)	—	—	—	—	—	(21)
Recoveries of loans previously charged-off	—	—	—	—	31	—	—	31
Balance, end of period	$ 2,866	$ 7,599	$ 25,822	$ 17,999	$ 11,849	$ 590	$ 139	$ 66,864

	For the Three Months Ended September 30, 2022							
	MTG WHLOC	RES RE	MF FIN	HC FIN	CML & CRE	AG & AGRE	CON & MAR	TOTAL
	(In thousands)							
ACL-Loans								
Balance, beginning of period	$ 2,422	$ 4,910	$ 16,364	$ 7,936	$ 5,195	$ 551	$ 96	$ 37,474
Provision for credit losses	(230)	1,370	(2,365)	1,061	1,821	1	51	1,709
Loans charged to the allowance	—	(4)	—	—	(275)	—	—	(279)
Recoveries of loans previously charged-off	—	—	—	—	92	—	—	92
Balance, end of period	$ 2,192	$ 6,276	$ 13,999	$ 8,997	$ 6,833	$ 552	$ 147	$ 38,996

The Company recorded a total provision for credit losses of $6.2 million $4.0 million for the three months ended June 30, 2022 September 30, 2023. The $6.2 million $4.0 million total provision for credit losses consisted of $4.8 million $3.9 million for the ACL-Loans as shown above $0.2 million and $0.1 million for the ACL-OBCE's ACL-OBCE's.

The Company recorded a total provision for credit losses of $2.2 million for the three months ended September 30, 2022. The $2.2 million total provision for credit losses consisted of $1.7 million for the ACL-Loans as shown above and $1.2 million $0.5 million for ACL-Guarantees. the ACL-OBCE's.

	For the Six Months Ended June 30, 2023							
	MTG WHLOC	RES RE	MF FIN	HC FIN	CML & CRE	AG & AGRE	CON & MAR	TOTAL
	(In thousands)							
ACL-Loans								
Balance, beginning of period	$ 1,249	$7,029	$16,781	$ 9,882	$ 8,326	$ 565	$ 182	$44,014
Provision for credit losses	2,112	397	16,320	6,241	3,478	(9)	(44)	28,495
Loans charged to the allowance	—	(13)	(8,400)	—	(1,118)	—	(1)	(9,532)
Recoveries of loans previously charged-off	—	—	—	—	9	—	—	9
Balance, end of period	$ 3,361	$7,413	$24,701	$16,123	$ 10,695	$ 556	$ 137	$62,986

	For the Nine Months Ended September 30, 2023							
	MTG WHLOC	RES RE	MF FIN	HC FIN	CML & CRE	AG & AGRE	CON & MAR	TOTAL
	(In thousands)							
ACL-Loans								
Balance, beginning of period	$ 1,249	$7,029	$16,781	$ 9,882	$ 8,326	$ 565	$ 182	$44,014
Provision for credit losses	1,617	604	17,441	8,117	4,601	25	(42)	32,363
Loans charged to the allowance	—	(34)	(8,400)	—	(1,118)	—	(1)	(9,553)
Recoveries of loans previously charged-off	—	—	—	—	40	—	—	40
Balance, end of period	$ 2,866	$7,599	$25,822	$17,999	$ 11,849	$ 590	$ 139	$66,864

	For the Six Months Ended June 30, 2022							
	MTG WHLOC	RES RE	MF FIN	HC FIN	CML & CRE	AG & AGRE	CON & MAR	TOTAL

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	(In thousands)							
ACL-Loans								
Balance, beginning of period	$ 1,955	$ 4,170	$ 14,084	$ 4,461	$ 5,879	$ 657	$ 138	$ 31,344
Impact of adopting CECL	41	275	520	139	(1,277)	(18)	21	(299)
Provision for credit losses	426	465	1,760	3,336	905	(88)	(55)	6,749
Loans charged to the allowance	—	—	—	—	(963)	—	(15)	(978)
Recoveries of loans previously charged-off	—	—	—	—	651	—	7	658
Balance, end of period	$ 2,422	$ 4,910	$ 16,364	$ 7,936	$ 5,195	$ 551	$ 96	$ 37,474

The Company recorded a total provision for credit losses of $29.5 million for the six months ended June 30, 2023. The $29.5 million total provision for credit losses consisted of $28.5 million for the ACL-Loans as shown above and $1.0

The Company recorded a total provision for credit losses of $8.7 million for the six months ended June 30, 2022. The $8.7 million total provision for credit losses consisted of $6.7 million for the ACL-Loans as shown above, $0.8 million for the ACL-OBCE's and $1.2 million for ACL-Guarantees.

The following table presents the allowance for loan losses and the recorded investment in loans and impairment method as of December 31, 2022:

	December 31, 2022							
	MTG WHLOC	RES RE	MF FIN	HC FIN	CML & CRE	AG & AGRE	CON & MAR	TOTAL
	(In thousands)							
ACL-Loans								
Balance, beginning of period	$ 1,955	$ 4,170	$ 14,084	$ 4,461	$ 5,879	$ 657	$ 138	$ 31,344
Impact of adopting CECL	41	275	520	139	(1,277)	(18)	21	(299)
Provision for credit losses	(747)	2,588	2,177	5,282	4,216	(74)	31	13,473
Loans charged to the allowance	—	(4)	—	—	(1,238)	—	(15)	(1,257)
Recoveries of loans previously charged-off	—	—	—	—	746	—	7	753
Balance, end of period	$ 1,249	$ 7,029	$ 16,781	$ 9,882	$ 8,326	$ 565	$ 182	$ 44,014

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	For the Nine Months Ended September 30, 2022							
	MTG WHLOC	RES RE	MF FIN	HC FIN	CML & CRE	AG & AGRE	CON & MAR	TOTAL
	(In thousands)							
ACL-Loans								
Balance, beginning of period	$ 1,955	$ 4,170	$ 14,084	$ 4,461	$ 5,879	$ 657	$ 138	$ 31,344
Impact of adopting CECL	41	275	520	139	(1,277)	(18)	21	(299)
Provision for credit losses	196	1,835	(605)	4,397	2,726	(87)	(4)	8,458
Loans charged to the allowance	—	(4)	—	—	(1,238)	—	(15)	(1,257)
Recoveries of loans previously charged-off	—	—	—	—	743	—	7	750
Balance, end of period	$ 2,192	$ 6,276	$ 13,999	$ 8,997	$ 6,833	$ 552	$ 147	$ 38,996

The Company recorded a total provision for credit losses of $33.5 million for the nine months ended September 30, 2023. The $33.5 million total provision for credit losses consisted of $32.4 million for the ACL-Loans as shown above and $1.1 million for the ACL-OBCE's.

The Company recorded a total provision for credit losses of $10.9 million for the nine months ended September 30, 2022. The $10.9 million total provision for credit losses consisted of $8.5 million for the ACL-Loans as shown above, $1.2 million for the ACL-OBCE's and $1.2 million for ACL-Guarantees.

The following table presents the allowance for loan losses and the recorded investment in loans and impairment method as of December 31, 2022:

	December 31, 2022							
	MTG WHLOC	RES RE	MF FIN	HC FIN	CML & CRE	AG & AGRE	CON & MAR	TOTAL
	(In thousands)							
ACL-Loans								
Balance, beginning of period	$ 1,955	$ 4,170	$ 14,084	$ 4,461	$ 5,879	$ 657	$ 138	$ 31,344
Impact of adopting CECL	41	275	520	139	(1,277)	(18)	21	(299)
Provision for credit losses	(747)	2,588	2,177	5,282	4,216	(74)	31	13,473
Loans charged to the allowance	—	(4)	—	—	(1,238)	—	(15)	(1,257)
Recoveries of loans previously charged-off	—	—	—	—	746	—	7	753
Balance, end of period	$ 1,249	$ 7,029	$ 16,781	$ 9,882	$ 8,326	$ 565	$ 182	$ 44,014

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The below table presents the amortized cost basis and ACL-Loans allocated for collateral dependent loans, which are individually evaluated to determine expected credit losses:

	June 30, 2023					September 30, 2023				
	Real Estate	Accounts Receivable / Equipment	Other	Total	ACL-Loans Allocation	Real Estate	Accounts Receivable / Equipment	Other	Total	ACL-Loans Allocation
	(In thousands)					(In thousands)				
RES RE	$ 209	$ —	$ 3	$ 212	$ 36	$ 801	$ —	$ 3	$ 804	$ 19
MF FIN	41,335	—	—	41,335	234	32,334	—	—	32,334	188
HC FIN	30,683	—	—	30,683	2,348	30,683	—	—	30,683	2,358
CML & CRE	—	3,830	3,294	7,124	1,145	—	3,829	3,333	7,162	1,124
AG & AGRE	147	—	—	147	1	147	—	—	147	1
CON & MAR	—	—	5	5	—	—	—	3	3	—
Total collateral dependent loans	$ 72,374	$ 3,830	$ 3,302	$ 79,506	$ 3,764	$ 63,965	$ 3,829	$3,339	$71,133	$ 3,690

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There have been no significant changes to the types of collateral securing the Company's collateral dependent loans compared to June 30, 2022 September 30, 2022.

Internal Risk Categories

In adherence with policy, the Company uses the following internal risk grading categories and definitions for loans:

Pass – Loans that are considered to be of acceptable credit quality, and not classified as Special Mention, Substandard or Doubtful.

Special Mention (Watch) – This is a loan that is sound and collectable but contains potential risk. 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.

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The following tables present the credit risk profile of the Company's loan portfolio based on internal risk rating category as of June 30, 2023 September 30, 2023 and December 31, 2022:

	As of June 30, 2023								As of September 30, 2023					
	2023	2022	2021	2020	2019	Prior	Revolving Loans	TOTAL	2023	2022	2021	2020	2019	Prior
	(In thousands)								(In thousands)					
MTG														
WHLOC														
Pass	$ —	$ —	$ —	$ —	$ —	$ —	$ 1,201,932	$1,201,932	$ —	$ —	$ —	$ —	$ —	$ —
Total	$ —	$ —	$ —	$ —	$ —	$ —	$ 1,201,932	$1,201,932	$ —	$ —	$ —	$ —	$ —	$ —
Charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
RES RE														
Pass	10,295	11,246	8,469	23,210	3,349	11,801	1,273,551	1,341,921	26,185	9,563	7,014	23,009	3,325	9,621
Special Mention (Watch)	—	—	—	—	60	393	—	453	—	—	—	—	60	499
Substandard	—	—	—	—	—	212	—	212	—	—	—	—	—	292
Total	$ 10,295	$ 11,246	$ 8,469	$ 23,210	$ 3,409	$12,406	$ 1,273,551	$1,342,586	$ 26,185	$ 9,563	$ 7,014	$ 23,009	$ 3,385	$10,412
Charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ 13	$ 13	$ —	$ —	$ —	$ —	$ —	$ 21
MF FIN														
Pass	770,580	1,001,864	391,935	98,073	30,073	9,467	1,330,469	3,632,461	840,146	827,151	307,639	87,313	29,926	8,866
Special Mention (Watch)	13,102	21,512	3,404	8,000	—	1,491	25,028	72,537	70,681	3,189	3,404	9,926	—	1,484
Substandard	—	28,360	12,975	—	—	—	—	41,335	—	28,360	3,974	—	—	—
Total	$ 783,682	$1,051,736	$408,314	$106,073	$30,073	$10,958	$ 1,355,497	$3,746,333	$ 910,827	$ 858,700	$315,017	$ 97,239	$29,926	$10,350
Charge-offs	$ —	$ 8,400	$ —	$ —	$ —	$ —	$ —	$ 8,400	$ —	$ 8,400	$ —	$ —	$ —	$ —
HC FIN														
Pass	334,477	1,079,976	236,816	69,827	14,769	—	251,640	1,987,505	364,365	1,068,033	214,938	67,266	14,668	—
Special Mention (Watch)	25,600	48,694	35,896	—	—	—	—	110,190	93,291	46,464	31,527	—	—	—
Substandard	—	—	21,783	—	—	—	8,900	30,683	—	—	21,783	—	—	—
Total	$ 360,077	$1,128,670	$294,495	$ 69,827	$14,769	$ —	$ 260,540	$2,128,378	$ 457,656	$1,114,497	$268,248	$ 67,266	$14,668	$ —
Charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
CML & CRE														
Pass	22,265	121,938	75,570	22,578	21,566	18,928	1,099,039	1,381,884	44,605	119,145	70,194	21,533	21,188	18,714
Special Mention (Watch)	16	39	4,510	173	153	334	23	5,248	112	36	8,671	173	145	233
Substandard	—	—	2,018	933	67	52	4,054	7,124	—	80	2,017	904	65	51
Total	$ 22,281	$ 121,977	$ 82,098	$ 23,684	$21,786	$19,314	$ 1,103,116	$1,394,256	$ 44,717	$ 119,261	$ 80,882	$ 22,610	$21,398	$18,998
Charge-offs	$ —	$ 496	$ 36	$ 586	$ —	$ —	$ —	$ 1,118	$ —	$ 496	$ 36	$ 586	$ —	$ —
AG & AGRE														

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Pass	7,377	10,845	6,664	14,699	5,468	18,769	27,570	91,392	11,805	10,023	6,660	14,537	5,077	18,745
Special Mention (Watch)	—	11	49	—	—	—	—	60	—	—	—	—	—	—
Substandard	—	—	—	—	—	147	—	147	—	—	—	—	—	147
Total	$ 7,377	$ 10,856	$ 6,713	$ 14,699	$ 5,468	$18,916	$ 27,570	$ 91,599	$ 11,805	$ 10,023	$ 6,660	$ 14,537	$ 5,077	$18,892
Charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
CON & MAR														
Pass	346	4,502	349	155	37	4,451	2,041	11,881	515	4,432	293	137	31	4,387
Special Mention (Watch)	—	—	—	18	15	1	—	34	—	—	—	16	15	1
Substandard	—	—	—	—	—	5	—	5	—	—	—	—	—	3
Total	$ 346	$ 4,502	$ 349	$ 173	$ 52	$ 4,457	$ 2,041	$ 11,920	$ 515	$ 4,432	$ 293	$ 153	$ 46	$ 4,391
Charge-offs	$ —	$ —	$ —	$ —	$ —	$ 1	$ —	$ 1	$ —	$ —	$ —	$ —	$ —	$ 1
Total Pass	$1,145,340	$2,230,371	$719,803	$228,542	$75,262	$63,416	$ 5,186,242	$9,648,976	$1,287,621	$2,038,347	$606,738	$213,795	$74,215	$60,333
Total Special Mention (Watch)	$ 38,718	$ 70,256	$ 43,859	$ 8,191	$ 228	$ 2,219	$ 25,051	$ 188,522	$ 164,084	$ 49,689	$ 43,602	$ 10,115	$ 220	$ 2,217
Total Substandard	$ —	$ 28,360	$ 36,776	$ 933	$ 67	$ 416	$ 12,954	$ 79,506	$ —	$ 28,440	$ 27,774	$ 904	$ 65	$ 493
Total Loans	$1,184,058	$2,328,987	$800,438	$237,666	$75,557	$66,051	$ 5,224,247	$9,917,004	$1,451,705	$2,116,476	$678,114	$224,814	$74,500	$63,043
Total Charge-offs	$ —	$ 8,896	$ 36	$ 586	$ —	$ 1	$ 13	$ 9,532	$ —	$ 8,896	$ 36	$ 586	$ —	$ 22

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	December 31, 2022							
	2022	**2021**	**2020**	**2019**	**2018**	**Prior**	**Revolving Loans**	**TOTAL**
	(In thousands)							
MTG WHLOC								
Pass	$ —	$ —	$ —	$ —	$ —	$ —	$ 464,785	$ 464,785
Total	$ —	$ —	$ —	$ —	$ —	$ —	$ 464,785	$ 464,785
RES RE								
Pass	13,344	8,192	24,708	3,498	1,722	11,166	1,114,705	1,177,335
Special Mention (Watch)	—	—	—	61	—	668	91	820
Substandard	—	—	—	—	74	172	—	246
Total	$ 13,344	$ 8,192	$ 24,708	$ 3,559	$ 1,796	$ 12,006	$ 1,114,796	$ 1,178,401
MF FIN								
Pass	1,212,008	544,823	200,829	32,349	4,416	7,229	1,042,024	3,043,678
Special Mention (Watch)	32,919	—	8,000	—	—	—	14,178	55,097

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Substandard	36,760	—	—	—	—	—	—	36,760
Total	$ 1,281,687	$ 544,823	$ 208,829	$ 32,349	$ 4,416	$ 7,229	$ 1,056,202	$ 3,135,535
HC FIN								
Pass	987,676	301,103	78,792	13,770	—	—	123,888	1,505,229
Special Mention (Watch)	52,022	25,307	—	—	—	—	—	77,329
Substandard	—	21,783	—	—	—	—	—	21,783
Total	$ 1,039,698	$ 348,193	$ 78,792	$ 13,770	$ —	$ —	$ 123,888	$ 1,604,341
CML & CRE								
Pass	123,757	86,282	23,803	24,730	12,335	8,765	690,114	969,786
Special Mention (Watch)	43	164	963	119	99	228	1,376	2,992
Substandard	—	2,017	591	72	—	666	2,537	5,883
Total	$ 123,800	$ 88,463	$ 25,357	$ 24,921	$ 12,434	$ 9,659	$ 694,027	$ 978,661
AG & AGRE								
Pass	12,112	7,485	15,660	5,808	3,137	20,176	29,566	93,944
Special Mention (Watch)	14	55	462	421	163	389	56	1,560
Substandard	—	—	—	—	—	147	—	147
Total	$ 12,126	$ 7,540	$ 16,122	$ 6,229	$ 3,300	$ 20,712	$ 29,622	$ 95,651
CON & MAR								
Pass	4,673	463	307	101	4,589	9	3,328	13,470
Special Mention (Watch)	—	—	20	—	—	2	—	22
Substandard	—	—	—	—	—	6	—	6
Total	$ 4,673	$ 463	$ 327	$ 101	$ 4,589	$ 17	$ 3,328	$ 13,498
Total Pass	$ 2,353,570	$ 948,348	$ 344,099	$ 80,256	$ 26,199	$ 47,345	$ 3,468,410	$ 7,268,227
Total Special Mention (Watch)	$ 84,998	$ 25,526	$ 9,445	$ 601	$ 262	$ 1,287	$ 15,701	$ 137,820
Total Substandard	$ 36,760	$ 23,800	$ 591	$ 72	$ 74	$ 991	$ 2,537	$ 64,825
Total Loans	$ 2,475,328	$ 997,674	$ 354,135	$ 80,929	$ 26,535	$ 49,623	$ 3,486,648	$ 7,470,872

The Company did not have any material revolving loans converted to term loans at June 30, 2023 September 30, 2023 or December 31, 2022.

The Company evaluates the loan risk grading system definitions and ACL-Loans methodology on an ongoing basis. No significant changes were made to either during the past year.

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Delinquent Loans

The following tables present the Company's loan portfolio aging analysis of the recorded investment in loans as of June 30, 2023 September 30, 2023 and December 31, 2022. December 31, 2022.

June 30, 2023	September 30, 2023

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	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans
			(In thousands)						(In thousands)			
MTG WHLOC	$ —	$ —	$ —	$ —	$1,201,932	$1,201,932	$ —	$ —	$ —	$ —	$1,022,692	$1,022,692
RES RE	40	236	1,364	1,640	1,340,946	1,342,586	749	137	1,787	2,673	1,356,235	1,358,908
MF FIN	9,332	—	41,335	50,667	3,695,666	3,746,333	6,600	—	32,334	38,934	3,670,386	3,709,320
HC FIN	14,500	—	21,783	36,283	2,092,095	2,128,378	32,000	25,600	21,783	79,383	2,139,176	2,218,559
CML & CRE	451	—	3,778	4,229	1,390,027	1,394,256	—	44	4,095	4,139	1,555,892	1,560,031
AG & AGRE	—	—	—	—	91,599	91,599	—	58	147	205	96,285	96,490
CON & MAR	11	—	38	49	11,871	11,920	19	—	19	38	11,507	11,545
	$ 24,334	$ 236	$ 68,298	$92,868	$9,824,136	$9,917,004	$ 39,368	$ 25,839	$ 60,165	$125,372	$9,852,173	$9,977,545

	December 31, 2022					
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans
			(In thousands)			
MTG WHLOC	$ —	$ —	$ —	$ —	$ 464,785	$ 464,785
RES RE	4,053	152	272	4,477	1,173,924	1,178,401
MF FIN	—	—	—	—	3,135,535	3,135,535
HC FIN	—	—	21,783	21,783	1,582,558	1,604,341
CML & CRE	4,759	—	3,778	8,537	970,124	978,661
AG & AGRE	4,903	—	—	4,903	90,748	95,651
CON & MAR	6	24	22	52	13,446	13,498
	$ 13,721	$ 176	$ 25,855	$ 39,752	$ 7,431,120	$ 7,470,872

Nonperforming Loans

Nonaccrual loans, including modified loans that have not met the six-month minimum performance criterion, are reported as nonperforming loans. For all loan classes, it is the Company's policy to have any restructured loans which are on nonaccrual status prior to being restructured remain on nonaccrual status until three six months of satisfactory borrower performance, at which time management would consider its return to accrual status. A loan is generally classified as nonaccrual when the Company believes that receipt of principal and interest is doubtful under the terms of the loan agreement. Most generally, this is at 90 or more days past due. The amount of interest income recognized on nonaccrual financial assets during the six nine months ended June 30, 2023 September 30, 2023 was immaterial. inconsequential.

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The following table presents the Company's nonaccrual loans and loans past due 90 days or more and still accruing at June 30, 2023 September 30, 2023 and December 31, 2022.

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	June 30, 2023		December 31, 2022		September 30, 2023		December 31, 2022	
	Nonaccrual	Total Loans > 90 Days & Accruing	Nonaccrual	Total Loans > 90 Days & Accruing	Nonaccrual	Total Loans > 90 Days & Accruing	Nonaccrual	Total Loans > 90 Days & Accruing
	(In thousands)				(In thousands)			
RES RE	$ 212	$ 1,152	$ 245	$ 96	$ 729	$ 1,058	$ 245	$ 96
MF FIN	41,335	—	—	—	32,334	—	—	—
HC FIN	21,783	—	21,783	—	21,783	—	21,783	—
CML & CRE	3,777	—	4,390	—	4,095	—	4,390	—
AG & AGRE	147	—	147	—	147	—	147	—
CON & MAR	5	34	6	16	3	16	6	16
	$ 67,259	$ 1,186	$ 26,571	$ 112	$ 59,091	$ 1,074	$ 26,571	$ 112

The Company did not have any nonperforming loans without an estimated ACL at June 30, 2023 September 30, 2023.

Modifications to Borrowers Experiencing Financial Difficulty

On January 1, 2023, the Company adopted FASB Accounting Standards Update ("ASU") No. 2022-02, Financial Instruments – Credit Losses (Topic 326) Troubled Debt Restructurings and Vintage Disclosures, which eliminates the recognition and measurement of a troubled debt restructuring ("TDR"). The Company adopted the prospective approach for this new guidance.

Occasionally, the Company modifies loans to borrowers in financial distress by providing principal forgiveness, term extension, an other-than-insignificant payment delay or interest rate reduction. In some cases, the Company provides multiple types of concessions on one loan. Typically, one type of concession, such as a term extension, is granted initially. If the borrower continues to experience financial difficulty, another concession, such as principal forgiveness, may be granted. For the loans included in the "combination" columns below, multiple types of modifications have been made on the same loan within the current reporting period.

The following table presents the amortized cost basis of loans at June 30, 2023 September 30, 2023 that were both experiencing financial difficulty and modified during the six nine months ended June 30, 2023 September 30, 2023, by class and by type of modification. There were no new loans modified for borrowers experiencing financial difficulty during the three months ended June 30, 2023 September 30, 2023. The percentage of the amortized cost basis of loans that were modified to borrowers in financial distress as compared to the amortized cost basis of each class of financing receivable is also presented below:

	For the Six Months Ended June 30, 2023						
	Principal Forgiveness	Payment Delay	Term Extension	Interest Rate Reduction	Combination Term Extension and Principal Forgiveness	Combination Term Extension Interest Rate Reduction	Total Class of Financing Receivable
				(In thousands)			
Commercial and commercial real estate	$ —	$ 3,778	$ —	$ —	$ —	$ —	— %
Total	$ —	$ 3,778	$ —	$ —	$ —	$ —	— %

	For the Nine Months Ended September 30, 2023						
	Principal Forgiveness	Payment Delay	Term Extension	Interest Rate Reduction	Combination Term Extension and Principal Forgiveness	Combination Term Extension Interest Rate Reduction	Total Class of Financing Receivable
				(In thousands)			

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Commercial and commercial real estate	$ —	$ 3,778	$ —	$ —	$ —	$ —	N/M %
Total	$ —	$ 3,778	$ —	$ —	$ —	$ —	N/M %

The financial effects of the modifications in the table above include an increase in the weighted average term for commercial and commercial real estate loans of three twelve months. As part of our ACL analysis, these loans were individually evaluated for impairment and no specific reserve was recorded. The Company has committed to lend no additional amounts to the borrowers included in the table above.

The Company closely monitors the performance of loans that are modified to borrowers experiencing financial difficulty to understand the effectiveness of its modification efforts. The following table presents the performance of such loans that have been modified in the last twelve months:

	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater Than 90 Days	Total Past Due
	(In thousands)			
Commercial and commercial real estate	$ —	$ —	$ 3,778	$ 3,778
Total	$ —	$ —	$ 3,778	$ 3,778

No modified loans defaulted during the three or six and nine months ended June 30, 2023 September 30, 2023.

Foreclosures

There were no residential loans in process of foreclosure as of June 30, 2023 September 30, 2023 and December 31, 2022.

Significant Loan Sales

Freddie Mac Q Series Securitization – 2023 Activity

On August 31, 2023, the Company completed a $303.6 million securitization of 11 multi-family mortgage loans through a Freddie Mac-sponsored Q-Series transaction. The transfer of these loans was accounted for as a sale for financial reporting purposes, in accordance with ASC 860, and a $60,000 loss on sale was recognized. The Company was retained as the mortgage sub-servicer for Freddie Mac on the entire $303.6 million pool of loans. Beyond sub-servicing the loans, the Company's ongoing involvement in this transaction is limited to customary obligations of loan sales, including any material breach in representation. In connection with this transaction, a mortgage servicing right of $1.5 million was established.

Loans Purchased

The Company purchased $269.9 million $329.0 million and $92.5 million $289.0 million of loans during the six nine months ended June 30, 2023 September 30, 2023 and 2022, respectively.

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Note 5: Variable Interest Entities (VIEs)

A VIE is a corporation, partnership, limited liability company, or any other legal structure used to conduct activities or hold assets generally that either:

- Does not have equity investors with voting rights that can directly or indirectly make decisions about the entity's activities through those voting rights or similar rights; or
- Has equity investors that do not provide sufficient equity for the entity to finance its activities without additional subordinated financial support.

The Company has invested in single-family, multi-family, and healthcare debt financing entities, as well as low-income housing syndicated funds that are deemed to be VIEs. The Company also has deemed as a VIE, a real estate mortgage investment conduit ("REMIC") trust that was established in conjunction with the September 2022 multi-family loan sale and securitization transaction. Accordingly, the entities were assessed for potential consolidation under the VIE model that requires primary beneficiaries to consolidate the entity's results. A primary beneficiary is defined as the party that has both the power to direct the activities that most significantly impact the entity, and an interest that could be significant to the entity. To determine if an interest could be significant to the entity, both qualitative and quantitative factors regarding the nature, size and form of involvement with the entity are evaluated.

At June 30, 2023 September 30, 2023 the Company determined it was not the primary beneficiary for most of its VIEs, primarily because the Company did not have the obligation to absorb losses or the rights to receive benefits from the VIE that could potentially be significant to the VIE. Evaluation and assessment of VIEs for consolidation is performed on an

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ongoing basis by management. Any changes in facts and circumstances occurring since the previous primary beneficiary determination will be considered as part of this ongoing assessment.

The Company's maximum exposure to loss associated with its unconsolidated VIEs consists of the capital invested plus any unfunded equity commitments. These investments are recorded in other assets and other liabilities on our consolidated balance sheet. The table below

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reflects the size of the VIEs as well as our maximum exposure to loss in connection with VIEs at June 30, 2023 September 30, 2023 and December 31, 2022.

Assets ($ in thousands)	Total Assets	Total Liabilities (In thousands)	Maximum Exposure to Loss	Total Assets	Total Liabilities (In thousands)	Maximum Exposure to Loss
June 30, 2023						
September 30, 2023						
Unconsolidated VIEs	$ 124,736	$ 82,262	$ 124,736	$82,346	$37,964	$ 82,346
December 31, 2022						
Unconsolidated VIEs	$ 52,125	$ 25,564	$ 52,125	$52,125	$25,564	$ 52,125

In addition to the table above, the Company also has a VIE in a REMIC trust that was established in September 2022 in conjunction with a loan sale and securitization. Although the trust is not recognized on the balance sheet, the maximum exposure to loss is the carrying value of the security acquired as part of the securitization transaction, which was $835.6 794.6 million and $871.8 million at June 30, 2023 September 30, 2023 and December 31, 2022, respectively.

Note 6: Regulatory Matters

The Company, Merchants Bank, and FMBI are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by federal and state banking regulators that, if undertaken, could have a direct material effect on the Company’s financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company, Merchants Bank, and FMBI must meet specific capital guidelines that involve quantitative measures of the Company’s, Merchants Bank’s, and FMBI’s assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company’s, Merchants Bank’s, and FMBI’s capital amounts and classification are also subject to qualitative judgments by the regulators about components, and other factors. Furthermore, the Company’s, Merchants Bank’s, and FMBI’s regulators could require adjustments to regulatory capital not reflected in these financial statements.

Quantitative measures established by regulation to ensure capital adequacy require the Company, Merchants Bank, and FMBI to maintain minimum amounts and ratios (set forth in the table below). Management believes, as of June 30, 2023 September 30, 2023 and December 31, 2022, that the Company, Merchants Bank, and FMBI met all capital adequacy requirements to which they were subject.

As of June 30, 2023 and December 31, 2022, the most recent notifications from the Board of Governors of the Federal Reserve System (“Federal Reserve”) categorized the Company as well capitalized and most recent notifications from the Federal Deposit Insurance Corporation (“FDIC”) categorized Merchants Bank and FMBI as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Company’s, Merchants Bank’s, or FMBI’s category. requirements.

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As of September 30, 2023 and December 31, 2022, the most recent notifications from the Board of Governors of the Federal Reserve System (“Federal Reserve”) categorized the Company as well capitalized and most recent notifications from the Federal Deposit Insurance Corporation (“FDIC”) categorized Merchants Bank and FMBI as well capitalized under the regulatory framework for prompt corrective action.

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There are no conditions or events since that notification that management believes have changed the Company's, Merchants Bank's, or FMBI's category.

The Company's, Merchants Bank's, and FMBI's actual capital amounts and ratios are presented in the following tables.

	Actual		Minimum Amount Required for Adequately Capitalized(1)		Minimum Amount To Be Well Capitalized(1)		Actual		Minimum Amount to be Well Capitalized with Basel III Buffer(1)		Minimum Amount To Be Well Capitalized(1)	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)						(Dollars in thousands)					
June 30, 2023												
September 30, 2023												
Total capital(1) (to risk-weighted assets)												
Company	$1,625,223	11.3 %	$1,148,948	8.0 %	$ —	N/A %	$1,699,507	11.5 %	$1,556,494	10.5 %	$ —	N/A %
Merchants Bank	1,563,433	11.1 %	1,127,989	8.0 %	1,409,986	10.0	1,669,849	11.5 %	1,526,849	10.5 %	1,454,142	10.0
FMBI	37,536	11.3 %	26,636	8.0 %	33,295	10.0 %	38,995	11.2 %	36,546	10.5 %	34,806	10.0 %
Tier I capital(1) (to risk-weighted assets)												
Company	1,549,763	10.8 %	861,711	6.0 %	—	N/A %	1,620,024	10.9 %	1,260,019	8.5 %	—	N/A %
Merchants Bank	1,488,730	10.6 %	845,992	6.0 %	1,127,989	8.0	1,591,057	10.9 %	1,236,021	8.5 %	1,163,314	8.0
FMBI	36,779	11.0 %	19,977	6.0 %	26,636	8.0 %	38,303	11.0 %	29,585	8.5 %	27,845	8.0 %
Common Equity Tier I capital(1) (to risk-weighted assets)												
Company	1,050,155	7.3 %	646,284	4.5 %	—	N/A %	1,120,416	7.6 %	1,037,663	7.0 %	—	N/A %
Merchants Bank	1,488,730	10.6 %	634,494	4.5 %	916,491	6.5	1,591,057	10.9 %	1,017,899	7.0 %	945,192	6.5
FMBI	36,779	11.0 %	14,983	4.5 %	21,642	6.5 %	38,303	11.0 %	24,364	7.0 %	22,624	6.5 %
Tier I capital(1) (to average assets)												
Company	1,549,763	10.6 %	586,227	4.0 %	—	N/A %	1,620,024	10.1 %	640,543	4.0 %	—	N/A %
Merchants Bank	1,488,730	10.4 %	574,725	4.0 %	718,406	5.0	1,591,057	10.1 %	628,478	4.0 %	785,597	5.0
FMBI	36,779	10.6 %	13,823	4.0 %	17,279	5.0 %	38,303	10.6 %	14,440	4.0 %	18,050	5.0 %

(1) As defined by regulatory agencies.

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	Actual		Minimum Amount Required for Adequately Capitalized(1)		Minimum Amount To Be Well Capitalized(1)	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)					
December 31, 2022						
Total capital(1) (to risk-weighted assets)						
Company	$ 1,507,968	12.2 %	$ 992,883	8.0 %	$ —	N/A %
Merchants Bank	1,427,738	11.7 %	975,853	8.0 %	1,219,817	10.0 %
FMBI	34,769	11.3 %	24,703	8.0 %	30,878	10.0 %
Tier I capital(1) (to risk-weighted assets)						
Company	1,452,456	11.7 %	744,662	6.0 %	—	N/A %
Merchants Bank	1,372,941	11.3 %	731,890	6.0 %	975,853	8.0 %
FMBI	34,054	11.0 %	18,527	6.0 %	24,703	8.0 %
Common Equity Tier I capital(1) (to risk-weighted assets)						
Company	952,848	7.7 %	558,497	4.5 %	—	N/A %
Merchants Bank	1,372,941	11.3 %	548,917	4.5 %	792,881	6.5 %
FMBI	34,054	11.0 %	13,895	4.5 %	20,071	6.5 %
Tier I capital(1) (to average assets)						
Company	1,452,456	11.7 %	497,604	4.0 %	—	N/A %
Merchants Bank	1,372,941	11.3 %	487,511	4.0 %	609,389	5.0 %
FMBI	34,054	10.7 %	12,702	4.0 %	15,878	5.0 %

(1) As defined by regulatory agencies.

Note 7: Derivative Financial Instruments

The Company uses derivative financial instruments to help manage exposure to interest rate risk and the effects that changes in interest rates may have on net income and the fair value of assets and liabilities.

Forward Sales Commitments, Interest Rate Lock Commitments, and Interest Rate Swaps

The Company enters into forward contracts for the future delivery of mortgage loans to third party investors and enters into interest rate lock commitments with potential borrowers to fund specific mortgage loans that will be sold into the secondary market. The forward contracts are entered into in order to economically hedge the effect of changes in interest rates resulting from the Company's commitment to fund the loans.

Interest rate swaps are also used by the Company to reduce the risk that significant increases in interest rates may have on the value of certain fixed rate loans held for sale and the respective loan payments received from borrowers. All changes in the fair market value of these interest rate swaps and associated loans held for sale have been included in gain on sale of loans. Any difference between the fixed and floating interest rate components of these transactions have been included in interest income.

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All of these items are considered derivatives, but are not designated as accounting hedges, and are recorded at fair value with changes in fair value reflected in noninterest income on the condensed consolidated statements of income. The fair value of derivative instruments with a positive fair value are reported in other assets in the condensed consolidated balance sheets while derivative instruments with a negative fair value are reported in other liabilities in the condensed consolidated balance sheets.

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The following table presents the notional amount and fair value of interest rate locks, forward contracts, and interest rate swaps utilized by the Company at June 30, 2023 September 30, 2023 and December 31, 2022. December 31, 2022. This table excludes the fair market value adjustment on loans associated with these derivatives.

	Notional Amount	Balance Sheet Location	Fair Value Asset	Fair Value Liability	Notional Amount	Balance Sheet Location	Fair Value Asset	Fair Value Liability
June 30, 2023	(In thousands)		(In thousands)					
September 30, 2023					(In thousands)		(In thousands)	
Interest rate lock commitments	$ 24,216	Other assets/liabilities	$ 94	$ 68	$ 24,495	Other assets/liabilities	$ 44	$ 141
Forward contracts	$ 27,125	Other assets/liabilities	111	7	$ 34,376	Other assets/liabilities	236	1
Interest rate swaps	$ 57,557	Other assets/liabilities	3,291	—	$ 57,548	Other assets/liabilities	5,792	—
			$ 3,496	$ 75			$ 6,072	$ 142

December 31, 2022	Notional Amount	Balance Sheet Location	Fair Value Asset	Fair Value Liability
	(In thousands)		(In thousands)	
Interest rate lock commitments	$ 8,759	Other assets/liabilities	$ 28	$ 23
Forward contracts	$ 13,096	Other assets/liabilities	46	52
Interest rate swaps	$ 57,574	Other assets/liabilities	3,030	—
			$ 3,104	$ 75

Fair values of these derivative financial instruments were estimated using changes in mortgage interest rates from the date the Company entered into the interest rate lock commitment and the balance sheet date. The following table summarizes the periodic changes in the fair value of the derivative financial instruments on the condensed consolidated statements of income for the three and six nine months ended June 30, 2023 September 30, 2023 and 2022.

	Three Months Ended June 30,		Six Months Ended June 30,		Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022	2023	2022	2023	2022
	(In thousands)		(In thousands)		(In thousands)		(In thousands)	

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Derivative gain (loss) included in gain on sale of loans:								
Interest rate lock commitments	$ (188)	$ 837	$ 21	$ (45)	$ (123)	$ (592)	$ (102)	$ (637)
Forward contracts (includes pair-off settlements)	376	1,309	280	4,459	595	1,091	875	5,550
Interest rates swaps	1,597	160	261	160	2,501	3,245	2,762	3,405
Net derivative gains (loss)	$ 1,785	$ 2,306	$ 562	$ 4,574				
Net derivative gains					$ 2,973	$ 3,744	$3,535	$8,318

Derivatives on Behalf of Customers

The Company offers derivative contracts to some customers in connection with their risk management needs. These derivatives include back-to-back interest rate swaps. The Company manages the risk associated with these contracts by entering into an equal and offsetting derivative with a third-party dealer. These derivatives generally work together as an economic interest rate hedge, but the Company does not designate them for hedge accounting treatment. Consequently, changes in fair value of the corresponding derivative financial asset or liability were recorded as either a charge or credit to current earnings during the period in which the changes occurred, typically resulting in no net earnings impact.

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The fair values of derivative assets and liabilities related to derivatives for customers with back-to-back interest rate swaps were recorded in the condensed consolidated balance sheets as follows:

	Notional Amount	Balance Sheet Location	Fair Value Asset	Fair Value Liability	Notional Amount	Balance Sheet Location	Fair Value Asset	Fair Value Liability
	(In thousands)		(In thousands)		(In thousands)		(In thousands)	
June 30, 2023	$ 218,291	Other assets/liabilities	$ 9,477	$ 9,477				
September 30, 2023					$ 270,427	Other assets/liabilities	$11,588	$ 11,588
December 31, 2022	$ 77,495	Other assets/liabilities	$ 3,041	$ 3,041	$ 77,495	Other assets/liabilities	$ 3,041	$ 3,041

The gross gains and losses on these derivative assets and liabilities were recorded in other noninterest income and other noninterest expense in the condensed consolidated statements of income as follows:

	Three Months Ended June 30,		Six Months Ended June 30,		Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022	2023	2022	2023	2022
	(In thousands)		(In thousands)		(In thousands)		(In thousands)	
Gross swap gains	$ 7,016	$ 2,035	$ 6,436	$ 2,531	$ 2,111	$ 249	$8,547	$2,282
Gross swap losses	7,016	2,035	6,436	2,531	2,111	249	8,547	2,282

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Net swap gains (losses)	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —

The Company pledged $0 in collateral to secure its obligations under swap contracts at both June 30, 2023 September 30, 2023 and December 31, 2022. December 31, 2022.

Note 8: Disclosures about Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 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 for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

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Recurring Measurements

The following tables present the fair value measurements of assets and liabilities recognized in the accompanying balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2023 September 30, 2023 and December 31, 2022:

	Fair Value Measurements Using				Fair Value Measurements Using			
Assets	**Fair Value**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Fair Value**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
	(In thousands)				**(In thousands)**			
June 30, 2023								
September 30, 2023								
Mortgage loans in process of securitization	$ 298,907	$ —	$ 298,907	$ —	$ 476,047	$ —	$ 476,047	$ —
Securities available for sale:								
Treasury notes	157,935	157,935	—	—	137,886	137,886	—	—
Federal agencies	241,572	—	241,572	—	224,398	—	224,398	—

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Mortgage-backed - Government-sponsored entity (GSE)	248,496	—	248,496	—	262,302	—	262,302	—
Loans held for sale	82,931	—	82,931	—	90,875	—	90,875	—
Servicing rights	147,288	—	—	147,288	162,141	—	—	162,141
Derivative assets - interest rate lock commitments	94	—	—	94	44	—	—	44
Derivative assets - forward contracts	111	—	111	—	236	—	236	—
Derivative assets - interest rate swaps	3,291	—	3,291	—	5,792	—	5,792	—
Derivative assets - interest rate swaps (back-to-back)	9,477	—	9,477	—	11,588	—	11,588	—
Derivative liabilities - interest rate lock commitments	68	—	—	68	141	—	—	141
Derivative liabilities - forward contracts	7	—	7	—	1	—	1	—
Derivative liabilities - interest rate swaps (back-to-back)	9,477	—	9,477	—	11,588	—	11,588	—
December 31, 2022								
Mortgage loans in process of securitization	$ 154,194	$ —	$ 154,194	$ —	$154,194	$ —	$154,194	$ —
Securities available for sale:								
Treasury notes	36,280	36,280	—	—	36,280	36,280	—	—
Federal agencies	271,890	—	271,890	—	271,890	—	271,890	—
Mortgage-backed - Government-sponsored entity (GSE)	15,167	—	15,167	—	15,167	—	15,167	—
Loans held for sale	82,192	—	82,192	—	82,192	—	82,192	—
Servicing rights	146,248	—	—	146,248	146,248	—	—	146,248
Derivative assets - interest rate lock commitments	28	—	—	28	28	—	—	28
Derivative assets - forward contracts	46	—	46	—	46	—	46	—
Derivative assets - interest rate swaps	3,030	—	3,030	—	3,030	—	3,030	—
Derivative assets - interest rate swaps (back-to-back)	3,041	—	3,041	—	3,041	—	3,041	—
Derivative liabilities - interest rate lock commitments	23	—	—	23	23	—	—	23
Derivative liabilities - forward contracts	52	—	52	—	52	—	52	—
Derivative liabilities - interest rate swaps (back-to-back)	3,041	—	3,041	—	3,041	—	3,041	—

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the six nine months ended June 30, 2023 September 30, 2023 and

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the year ended December 31, 2022. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

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Mortgage Loans in Process of Securitization and Securities Available for Sale

Where quoted market prices are available in an active market, securities such as U.S. Treasuries are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy including federal agencies, mortgage-backed securities, municipal securities and Federal Housing Administration participation certificates. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

Loans Held for Sale

Certain loans held for sale at fair value are saleable into the secondary mortgage markets and their fair values are estimated using observable quoted market or contracted prices, or market price equivalents, which would be used by other market participants. These saleable loans are considered Level 2.

Servicing Rights

Servicing rights do not trade in an active, open market with readily observable prices. Accordingly, fair value is estimated using discounted cash flow models having significant inputs of discount rate, prepayment speed, cost of servicing, interest rates, and default rate. Due to the nature of the valuation inputs, servicing rights are classified within Level 3 of the hierarchy.

The Chief Financial Officer’s (CFO) office contracts with an independent pricing specialist to generate fair value estimates on a quarterly basis. The CFO’s office challenges the reasonableness of the assumptions used and reviews the methodology to ensure the estimated fair value complies with accounting standards generally accepted in the United States.

Derivative Financial Instruments

The Company estimates the fair value of interest rate lock commitments based on the value of the underlying mortgage loan, quoted mortgage backed security prices, estimates of the fair value of the servicing rights, and an estimate of the probability that the mortgage loan will fund within the terms of the interest rate lock commitment, net of expenses. With respect to its interest rate lock commitments, management determined that a Level 3 classification was most appropriate based on the various significant unobservable inputs utilized in estimating the fair value of its interest rate lock commitments. The Company estimates the fair value of forward sales commitments based on market quotes of mortgage-backed security prices for securities similar to the ones used, which are considered Level 2. The fair value of interest rate swaps is based on prices that are obtained from a third party that uses observable market inputs, thereby supporting a Level 2 classification. Changes in fair value of the Company’s derivative financial instruments are recognized through noninterest income and/or noninterest expenses on its condensed consolidated statement of income.

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Level 3 Reconciliation

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying balance sheets using significant unobservable (Level 3) inputs:

	Three Months Ended June 30,		Six Months Ended June 30,		Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022	2023	2022	2023	2022
	(In thousands)		(In thousands)		(In thousands)		(In thousands)	
Servicing rights								
Balance, beginning of period	$ 143,867	$ 121,036	$ 146,248	$ 110,348	$ 147,288	$ 130,710	$ 146,248	$ 110,348
Additions								
Originated servicing	2,124	5,203	4,297	10,995	4,867	11,667	9,164	22,662
Subtractions								
Paydowns	(2,073)	(3,268)	(3,771)	(6,017)	(1,660)	(1,946)	(5,431)	(7,963)
Sales of servicing	—	—	—	—	—	—	—	—
Changes in fair value due to changes in valuation inputs or assumptions used in the valuation model	3,370	7,739	514	15,384	11,646	4,553	12,160	19,937
Balance, end of period	$ 147,288	$ 130,710	$ 147,288	$ 130,710	$ 162,141	$ 144,984	$ 162,141	$ 144,984
Derivative Assets - interest rate lock commitments								
Balance, beginning of period	$ 218	$ 112	$ 28	$ 264	$ 94	$ 299	$ 28	$ 264
Changes in fair value	(124)	187	66	35	(50)	(275)	16	(240)
Balance, end of period	$ 94	$ 299	$ 94	$ 299	$ 44	$ 24	$ 44	$ 24
Derivative Liabilities - interest rate lock commitments								
Balance, beginning of period	$ 4	$ 771	$ 23	$ 41	$ 68	$ 121	$ 23	$ 41
Changes in fair value	64	(650)	45	80	73	317	118	397
Balance, end of period	$ 68	$ 121	$ 68	$ 121	$ 141	$ 438	$ 141	$ 438

Nonrecurring Measurements

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The following table presents the fair value measurement of assets measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2023 September 30, 2023 and December 31, 2022.

Assets	Fair Value Measurements Using: Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value Measurements Using: Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In thousands)				(In thousands)			
June 30, 2023								
September 30, 2023								
Impaired loans (collateral-dependent)	$ 40,839	$ —	$ —	$ 40,839	$40,809	$ —	$ —	$ 40,809
December 31, 2022								
Impaired loans (collateral-dependent)	$ 4,465	$ —	$ —	$ 4,465	$ 4,465	$ —	$ —	$ 4,465

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a nonrecurring basis and recognized in the accompanying balance sheet, as well as the general classification of such assets pursuant to the valuation hierarchy. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

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Collateral Dependent Loans, Net of ACL-Loans

The estimated fair value of collateral dependent loans is based on the appraised fair value of the collateral, less estimated cost to sell. Collateral dependent loans are classified within Level 3 of the fair value hierarchy.

The Company considers the appraisal or evaluation as the starting point for determining fair value and then considers other factors and events in the environment that may affect the fair value. Appraisals of the collateral underlying collateral-dependent loans are obtained when the loan is determined to be collateral-dependent and subsequently as deemed necessary by the Chief Credit Officer's ("CCO)" office. Appraisals and evaluations are reviewed for accuracy and consistency by the CCO's office. Appraisers are selected from the list of approved appraisers maintained by management. The appraised values are reduced by discounts to consider lack of marketability and estimated cost to sell if repayment or satisfaction of the loan is dependent on the sale of the collateral. These discounts and estimates are developed by the CCO's office by comparison to historical results.

Unobservable (Level 3) Inputs:

The following table presents quantitative information about unobservable inputs used in recurring and nonrecurring Level 3 fair value measurements other than goodwill.

Fair Value	Valuation Technique	Unobservable Inputs	Range	Weighted Average	Fair Value	Valuation Technique	Unobservable Inputs	Rang
(In thousands)					(In thousands)			

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At June 30, 2023:											
At September 30, 2023:											
Collateral dependent loans	$	40,839	Market comparable properties	Marketability discount	0% - 23%	1%	$	40,809	Market comparable properties	Marketability discount	0% - 5
Servicing rights - Multi-family	$	111,756	Discounted cash flow	Discount rate	8% - 13%	9%	$	125,111	Discounted cash flow	Discount rate	8% - 1
				Constant prepayment rate	1% - 100%	7%				Constant prepayment rate	1% - 2
Servicing rights - Single-family	$	30,466	Discounted cash flow	Discount rate	9% - 10%	9%	$	31,898	Discounted cash flow	Discount rate	9% - 1
				Constant prepayment rate	7% - 14%	7%				Constant prepayment rate	7% - 1
Servicing rights - SBA	$	5,066	Discounted cash flow	Discount rate	16%	16%	$	5,132	Discounted cash flow	Discount rate	16%
				Constant prepayment rate	3% - 16%	8%				Constant prepayment rate	3% - 1
Derivative assets - interest rate lock commitments	$	94	Discounted cash flow	Loan closing rates	50% - 99%	79%	$	44	Discounted cash flow	Loan closing rates	62% - 9
Derivative liabilities - interest rate lock commitments	$	68	Discounted cash flow	Loan closing rates	50% - 99%	79%	$	141	Discounted cash flow	Loan closing rates	62% - 9
At December 31, 2022:											
Collateral dependent loans	$	4,465	Market comparable properties	Marketability discount	4% - 54%	5%	$	4,465	Market comparable properties	Marketability discount	4% - 5
Servicing rights - Multi-family	$	111,690	Discounted cash flow	Discount rate	8% - 13%	9%	$	111,690	Discounted cash flow	Discount rate	8% - 1
				Constant prepayment rate	0 - 39%	8%				Constant prepayment rate	0 - 39
Servicing rights - Single-family	$	29,926	Discounted cash flow	Discount rate	9% - 10%	9%	$	29,926	Discounted cash flow	Discount rate	9% - 1
				Constant prepayment rate	7% - 10%	7%				Constant prepayment rate	7% - 1
Servicing rights - SBA	$	4,632	Discounted cash flow	Discount rate	16%	16%	$	4,632	Discounted cash flow	Discount rate	16%
				Constant prepayment rate	3% - 12%	8%				Constant prepayment rate	3% - 1
Derivative assets - interest rate lock commitments	$	28	Discounted cash flow	Loan closing rates	60% - 87%	77%	$	28	Discounted cash flow	Loan closing rates	60% - 8

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Derivative liabilities - interest rate lock commitments	$ 23	Discounted cash flow	Loan closing rates	60% - 87%	77%	$ 23	Discounted cash flow	Loan closing rates	60% - 8		

Sensitivity of Significant Unobservable Inputs

The following is a discussion of the sensitivity of significant unobservable inputs, the interrelationships between those inputs and other unobservable inputs used in recurring fair value measurement, and of how those inputs might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement.

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Servicing Rights

The significant unobservable inputs used in the fair value measurement of the Company's servicing rights are discount rates and constant prepayment rates. These two inputs can drive a significant amount of a market participant's valuation of servicing rights. Significant increases (decreases) in the discount rate or assumed constant prepayment rates used to value servicing rights would decrease (increase) the value derived.

Fair Value of Financial Instruments

The following table presents the carrying amount and estimated fair values of the Company's financial instruments not carried at fair value and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2023 September 30, 2023 and December 31, 2022.

			Fair Value Measurements Using					Fair Value Measurements Using		
Assets	Carrying Value	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Carrying Value	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significa Unobserva Inputs (Level 3
			(In thousands)					(In thousands)		
June 30, 2023										
September 30, 2023										
Financial assets:										
Cash and cash equivalents	$ 377,310	$ 377,310	$ 377,310	$ —	$ —	$ 407,238	$ 407,238	$ 407,238	$ —	$

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Securities purchased under agreements to resell	3,412	3,412	—	3,412	—	3,385	3,385	—	3,385	
Securities held to maturity	1,062,017	1,058,590	—	222,983	835,607	1,012,801	1,010,745	—	216,281	794,4
FHLB stock	39,130	39,130	—	39,130	—	48,219	48,219	—	48,219	
Loans held for sale	2,975,082	2,975,082	—	2,975,082	—	3,386,161	3,386,161	—	3,386,161	
Loans receivable, net	9,854,018	9,817,979	—	—	9,817,979	9,910,681	9,871,660	—	—	9,871,6
Interest receivable	70,509	70,509	—	70,509	—	78,401	78,401	—	78,401	
Financial liabilities:										
Deposits	13,059,864	13,057,747	7,878,580	5,179,167	—	13,007,338	13,005,483	7,961,135	5,044,348	
Short-term subordinated debt	47,000	47,000	—	47,000	—	81,000	81,000	—	81,000	
FHLB advances	736,132	735,695	—	735,695	—	1,063,445	1,063,139	—	1,063,139	
Other borrowing	82,934	82,934	—	82,934	—	362,934	362,934	—	362,934	
Credit linked notes	150,770	151,720	—	151,720	—	146,696	146,694	—	146,694	
Interest payable	25,489	25,489	—	25,489	—	49,757	49,757	—	49,757	
December 31, 2022										
Financial assets:										
Cash and cash equivalents	$ 226,164	$ 226,164	$ 226,164	$ —	$ —	$ 226,164	$ 226,164	$ 226,164	$ —	$
Securities purchased under agreements to resell	3,464	3,464	—	3,464	—	3,464	3,464	—	3,464	
Securities held to maturity	1,119,078	1,118,966	—	247,182	871,784	1,119,078	1,118,966	—	247,182	871,7
FHLB stock	39,130	39,130	—	39,130	—	39,130	39,130	—	39,130	
Loans held for sale	2,828,384	2,828,384	—	2,828,384	—	2,828,384	2,828,384	—	2,828,384	
Loans receivable, net	7,426,858	7,431,731	—	—	7,431,731	7,426,858	7,431,731	—	—	7,431,7
Interest receivable	56,262	56,262	—	56,262	—	56,262	56,262	—	56,262	
Financial liabilities:										

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Deposits	10,071,345	10,064,941	7,082,056	2,982,885	—	10,071,345	10,064,941	7,082,056	2,982,885
Short-term subordinated debt	21,000	21,000	—	21,000	—	21,000	21,000	—	21,000
FHLB advances	859,392	858,984	—	858,984	—	859,392	858,984	—	858,984
Other borrowing	50,000	50,000	—	50,000	—	50,000	50,000	—	50,000
Interest payable	23,384	23,384	—	23,384	—	23,384	23,384	—	23,384

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Note 9: Leases

The Company has operating leases for various locations with terms ranging from two to eleven years. Some operating leases include options to extend. The extensions were included in the right-of-use asset if the likelihood of extension was fairly certain. The Company elected not to separate non-lease components from lease components for its operating leases.

The Company has operating lease right-of-use assets of $11.1 million $10.6 million and operating lease right-of-use liabilities of $12.3 million $11.8 million as of June 30, 2023. September 30, 2023.

Balance sheet, income statement and cash flow detail regarding operating leases follows:

Balance Sheet	June 30, 2023 (In thousands)	December 31, 2022 (In thousands)	September 30, 2023 (In thousands)	December 31, 2022 (In thousands)
Operating lease right-of-of use asset (in other assets)	$ 11,050	$ 10,969	$ 10,556	$ 10,969
Operating lease liability (in other liabilities)	12,326	11,992	11,790	11,992

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Weighted average remaining lease term (years)	6.3	6.5	6.1	6.5
Weighted average discount rate	2.86%	2.65%	2.88%	2.65%
Maturities of lease liabilities:				
One year or less	$ 1,243	$ 2,181	$ 622	$ 2,181
Year two	2,441	2,321	2,441	2,321
Year three	2,064	1,881	2,064	1,881
Year four	2,100	1,911	2,100	1,911
Year five	2,046	1,853	2,046	1,853
Thereafter	3,566	2,902	3,566	2,902
Total future minimum lease payments	13,460	13,049	12,839	13,049
Less: imputed interest	1,134	1,057	1,049	1,057
Total	$ 12,326	$ 11,992	$ 11,790	$ 11,992

	Three Months Ended June 30, 2023	Three Months Ended June 30, 2022	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022
Income Statement	(In thousands)	(In thousands)	(In thousands)	(In thousands)
Components of lease expense:				
Operating lease cost (in occupancy and equipment expense)	$ 666	$ 425	$ 591	$ 482

	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
Income Statement	(In thousands)	(In thousands)	(In thousands)	(In thousands)
Components of lease expense:				
Operating lease cost (in occupancy and equipment expense)	$ 1,249	$ 792	$ 1,840	$ 1,274

	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
Cash Flow Statement	(In thousands)	(In thousands)	(In thousands)	(In thousands)
Supplemental cash flow information:				
Operating cash flows from operating leases	$ 886	$ 597	$ 1,506	$ 1,061

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Note 10: Deposits

Deposits were comprised of the following at June 30, 2023 September 30, 2023 and December 31, 2022:

	June 30, 2023 2023	December 31, 2022	September 30, 2023	December 31, 2022
	(In thousands)		(In thousands)	
Noninterest-bearing deposits				
Demand deposits	$ 349,387	$ 326,875	$ 287,846	$ 326,875
Total noninterest-bearing deposits	349,387	326,875	287,846	326,875
Interest-bearing deposits				
Demand deposits	$ 4,583,080	$ 3,720,363	$ 4,616,742	$ 3,720,363
Savings deposits	2,946,113	3,034,818	3,056,547	3,034,818
Certificates of deposit	5,181,284	2,989,289	5,046,203	2,989,289
Total interest-bearing deposits	12,710,477	9,744,470	12,719,492	9,744,470
Total deposits	$ 13,059,864	$ 10,071,345	$13,007,338	$10,071,345

Maturities for certificates of deposit are as follows:

	June 30, 2023	September 30, 2023
	(In thousands)	(In thousands)
Due within one year	$ 5,018,137	$ 4,903,831
Due in one year to two years	117,566	92,483
Due in two years to three years	43,816	48,520
Due in three years to four years	1,016	961
Due in four years to five years	749	408
Due in five years to six years	—	—
	$ 5,181,284	$ 5,046,203

Brokered deposit amounts at June 30, 2023 September 30, 2023 and December 31, 2022, were as follows:

	June 30, 2023	December 31, 2022	September 30, 2023	December 31, 2022
	(In thousands)		(In thousands)	
Brokered certificates of deposit	$ 4,619,798	$ 2,681,198	$ 4,393,282	$ 2,681,198
Brokered savings deposits	6,243	81,532	6,715	81,532
Brokered deposit on demand accounts	125,108	13	306	13
	$ 4,751,149	$ 2,762,743	$ 4,400,303	$ 2,762,743

Note 11: Borrowings

Borrowings were comprised of the following at June 30, 2023 September 30, 2023 and December 31, 2022:

June 30,	December 31,	September 30,	December 31,

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	2023	2022	2023	2022
	(In thousands)		(In thousands)	
Federal Reserve discount window borrowings	$ 75,000	$ 20,000	$ 210,000	$ 20,000
Short-term subordinated debt	47,000	21,000	81,000	21,000
FHLB advances	736,132	859,392	1,063,445	859,392
American Financial Exchange borrowing	—	30,000	145,000	30,000
Credit linked notes	150,770	—	146,696	—
Other borrowings	7,934	—	7,934	—
Total borrowings	$ 1,016,836	$ 930,392	$ 1,654,075	$ 930,392

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On March 30, 2023, Merchants Bank of Indiana issued and sold credit linked notes, due May 26, 2028. The notes are secured by a restricted collateral account which the Company is required to maintain with a third-party financial institution. The collateral account maintains an amount equal to at least the initial aggregate unpaid principal of the notes. As of June 30, 2023 September 30, 2023, the account included $35.3 52.2 million of restricted cash and the acquisition of $119.9 million $98.8 million in short-term Treasury securities. These are reported as cash equivalents and securities available for sale in the consolidated balance sheets.

In April 2023, the Company entered into a warehouse financing arrangement, whereby a customer agreed to invest up to $45 million in the Company's subordinated debt. The subordinated debt balance as of June 30, 2023 was $11.0 million. As of June 30, 2023, interest on the debt is paid quarterly by the Company at a rate equal to SOFR, plus 300 bps. The agreement matures on December 1, 2023, and automatically extends for one year unless 180 day notification is received from either party.

During the three months ended June 30, 2023, the Company acquired a variable interest in an investment fund for which it is the primary beneficiary of, and the results are consolidated since the date of acquisition. The fund obtained a loan from an external party, and had a balance of $7.9 million as of June 30, 2023. Interest on the debt will accrue at the rate of 1.00% per year until it matures in 2047.

Note 12: Earnings Per Share

Earnings per share were computed as follows:

	Three Month Periods Ended June 30,						Three Month Periods Ended September 30,					
	2023			2022			2023			2022		
	Net Income	Weighted-Average Shares	Per Share Amount	Net Income	Weighted-Average Shares	Per Share Amount	Net Income	Weighted-Average Shares	Per Share Amount	Net Income	Weighted-Average Shares	Per Share Amount
	(In thousands)			(In thousands)			(In thousands)			(In thousands)		
Net income	$ 65,302			$ 53,935			$ 81,504			$ 58,488		
Dividends on preferred stock	(8,668)			(5,729)			(8,668)			(5,729)		

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Net income allocated to common shareholders	$ 56,634			$ 48,206			$ 72,836			$ 52,759		
Basic earnings per share		43,235,398	$ 1.31		43,209,824	$ 1.12		43,238,724	$ 1.68		43,107,975	$ 1.22
Effect of dilutive securities-restricted stock awards		73,995			125,387			112,484			150,950	
Diluted earnings per share		43,309,393	$ 1.31		43,335,211	$ 1.11		43,351,208	$ 1.68		43,258,925	$ 1.22

	Six Month Periods Ended June 30,						Nine Month Periods Ended September 30,					
	2023			2022			2023			2022		
	Net Income	Weighted-Average Shares	Per Share Amount	Net Income	Weighted-Average Shares	Per Share Amount	Net Income	Weighted-Average Shares	Per Share Amount	Net Income	Weighted-Average Shares	Per Share Amount
	(In thousands)			(In thousands)			(In thousands)			(In thousands)		
Net income	$ 120,257			$ 104,077			$ 201,761			$ 162,565		
Dividends on preferred stock	(17,335)			(11,457)			(26,003)			(17,186)		
Net income allocated to common shareholders	$ 102,922			$ 92,620			$ 175,758			$ 145,379		
Basic earnings per share		43,207,655	$ 2.38		43,220,198	$ 2.14		43,218,125	$ 4.07		43,182,380	$ 3.37
Effect of dilutive securities-restricted stock awards		92,585			147,677			99,218			148,768	
Diluted earnings per share		43,300,240	$ 2.38		43,367,875	$ 2.14		43,317,343	$ 4.06		43,331,148	$ 3.36

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Note 13: Share-Based Payment Plans

Equity-based incentive awards for Company officers are currently issued pursuant to the 2017 Equity Incentive Plan (the “2017 Incentive Plan”). During the three months ended June 30, 2023 September 30, 2023 and 2022, the Company did not issue any shares. During the six nine months ended June 30, 2023 September 30, 2023 and 2022, the Company issued 84,335 and 64,962 shares, respectively.

During 2018, the Compensation Committee of the Board of Directors approved a plan for non-executive directors to receive a portion of their annual retainer fees in the form of shares of common stock equal to $10,000, rounded up to the nearest whole share. In January 2021, the Board of Directors amended the plan for nonexecutive directors to receive a portion of their annual fees, issued quarterly, in the form of restricted common stock equal to $50,000 per member, rounded up to the nearest whole share, to be effective after the Company’s annual meeting of shareholders held in May 2021. Accordingly, there were 3,682 2,912 and 3,766 3,073 shares, issued to non-executive directors during the three months ended June 30, 2023 September 30, 2023 and 2022, respectively and there were 6,545 9,457 and 5,821 8,894 shares, issued to non-executive directors during the six nine months ended June 30, 2023 September 30, 2023 and 2022, respectively.

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The Company established an employee stock ownership plan (“ESOP”) effective as of January 1, 2020 to provide certain benefits for all employees who meet certain requirements. There was no expense recognized for the contribution to the ESOP during the three months ended June 30, 2023 September 30, 2023 and 2022. Expense recognized for Expenses associated with the contribution to the ESOP totaled $810,000 and $653,000 for the six nine months ended June 30, 2023 September 30, 2023 and 2022, respectively. The Company contributed 33,293 shares and 20,709 shares to the ESOP for the six nine months ended June 30, 2023 September 30, 2023 and 2022, respectively.

Note 14: Segment Information

Our Company’s business segments are defined as Multi-family Mortgage Banking, Mortgage Warehousing, and Banking. The reportable business segments are consistent with the internal reporting and evaluation of the principal lines of business of the Company. The Multi-family Mortgage Banking segment originates and services government sponsored mortgages for multi-family and healthcare facilities. It is also a fully integrated syndicator of low-income housing tax credit and debt funds. The Mortgage Warehousing segment funds agency eligible residential loans from the date of origination or purchase, until the date of sale in the secondary market, as well as commercial loans to non-depository financial institutions. The Banking segment provides a wide range of financial products and services to consumers and businesses, including retail banking, commercial lending, agricultural lending, retail and correspondent residential mortgage banking, and Small Business Administration (“SBA”) lending. The Other segment includes general and administrative expenses that provide services to all segments; internal funds transfer pricing offsets resulting from allocations to/from the other segments, certain elimination entries and investments in qualified affordable housing limited partnerships. All operations are domestic.

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The tables below present selected business segment financial information for the three and six nine months ended June 30, 2023 September 30, 2023 and 2022.

Three Months Ended June 30, 2023	Multi-family Mortgage Banking	Mortgage Warehousing	Banking	Other	Total
			(In thousands)		
Interest income	$ 1,248	$ 64,267	$ 191,406	$ 1,148	$ 258,069
Interest expense	13	42,984	111,311	(1,856)	152,452
Net interest income	1,235	21,283	80,095	3,004	105,617
Provision for credit losses	—	2,320	20,283	—	22,603
Net interest income after provision for credit losses	1,235	18,963	59,812	3,004	83,014
Noninterest income	30,325	2,872	(760)	(2,555)	29,882
Noninterest expense	19,962	3,617	12,118	8,623	44,320
Income (loss) before income taxes	11,598	18,218	46,934	(8,174)	68,576
Income taxes	356	(378)	4,284	(988)	3,274
Net income (loss)	$ 11,242	$ 18,596	$ 42,650	$ (7,186)	$ 65,302
Total assets	$ 373,680	$ 4,474,832	$ 10,784,596	$ 241,764	$ 15,874,872

Three Months Ended June 30, 2022	Multi-family Mortgage Banking	Mortgage Warehousing	Banking	Other	Total
			(In thousands)		
Interest income	$ 383	$ 23,247	$ 63,578	$ 2,062	$ 89,270
Interest expense	—	5,576	12,036	(373)	17,239
Net interest income	383	17,671	51,542	2,435	72,031
Provision for credit losses	1,153	834	4,225	—	6,212
Net interest income after provision for credit losses	(770)	16,837	47,317	2,435	65,819
Noninterest income	49,430	1,350	(10,252)	(1,357)	39,171
Noninterest expense	21,959	2,441	2,634	5,923	32,957
Income (loss) before income taxes	26,701	15,746	34,431	(4,845)	72,033
Income taxes	7,145	3,878	8,499	(1,424)	18,098
Net income (loss)	$ 19,556	$ 11,868	$ 25,932	$ (3,421)	$ 53,935
Total assets	$ 330,676	$ 2,836,998	$ 7,835,152	$ 83,229	$ 11,086,055

Three Months Ended September 30, 2023	Multi-family Mortgage Banking	Mortgage Warehousing	Banking	Other	Total
			(In thousands)		
Interest income	$ 1,580	$ 85,280	$ 208,307	$ 1,509	$ 296,676
Interest expense	19	57,633	123,594	(2,006)	179,240
Net interest income	1,561	27,647	84,713	3,515	117,436

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Provision for credit losses	—	(495)	4,509	—	4,014
Net interest income after provision for credit losses	1,561	28,142	80,204	3,515	113,422
Noninterest income	37,266	1,884	(536)	(2,546)	36,068
Noninterest expense	19,169	4,014	10,945	8,802	42,930
Income (loss) before income taxes	19,658	26,012	68,723	(7,833)	106,560
Income taxes	4,973	6,086	16,278	(2,281)	25,056
Net income (loss)	$ 14,685	$ 19,926	$ 52,445	$ (5,552)	$ 81,504
Total assets	$ 392,754	$ 4,757,817	$ 11,135,651	$ 209,014	$ 16,495,236

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	Multi-family Mortgage Banking	Mortgage Warehousing	Banking	Other	Total
			(In thousands)		
Six Months Ended June 30, 2023					
Interest income	$ 2,354	$ 106,585	358,132	$ 2,292	$ 469,363
Interest expense	13	70,778	195,837	(3,575)	263,053
Net interest income	2,341	35,807	162,295	5,867	206,310
Provision for credit losses	—	3,684	25,786	—	29,470
Net interest income after provision for credit losses	2,341	32,123	136,509	5,867	176,840
Noninterest income	46,922	3,905	(1,949)	(4,732)	44,146
Noninterest expense	34,593	6,372	22,288	15,839	79,092
Income (loss) before income taxes	14,670	29,656	112,272	(14,704)	141,894
Income taxes	1,462	2,419	20,315	(2,559)	21,637
Net income (loss)	$ 13,208	$ 27,237	$ 91,957	$ (12,145)	$ 120,257
Total assets	$ 373,680	$ 4,474,832	$ 10,784,596	$ 241,764	$ 15,874,872

	Multi-family Mortgage Banking	Mortgage Warehousing	Banking	Other	Total
			(In thousands)		
Six Months Ended June 30, 2022					
Interest income	$ 640	$ 43,576	$ 117,303	$ 3,763	$ 165,282
Interest expense	—	7,597	20,553	(624)	27,526
Net interest income	640	35,979	96,750	4,387	137,756
Provision for credit losses	1,153	627	6,883	—	8,663
Net interest income after provision for credit losses	(513)	35,352	89,867	4,387	129,093
Noninterest income	81,616	3,210	(8,063)	(2,995)	73,768
Noninterest expense	38,490	5,367	9,208	10,925	63,990
Income (loss) before income taxes	42,613	33,195	72,596	(9,533)	138,871
Income taxes	11,565	8,168	17,900	(2,839)	34,794

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Net income (loss)	$ 31,048	$ 25,027	$ 54,696	$ (6,694)	$ 104,077
Total assets	$ 330,676	$ 2,836,998	$ 7,835,152	$ 83,229	$ 11,086,055

	Multi-family Mortgage Banking	Mortgage Warehousing	Banking	Other	Total
			(In thousands)		
Three Months Ended September 30, 2022					
Interest income	$ 589	$ 31,240	$ 99,982	$ 2,301	$ 134,112
Interest expense	—	15,089	34,513	(875)	48,727
Net interest income	589	16,151	65,469	3,176	85,385
Provision for credit losses	—	222	2,003	—	2,225
Net interest income after provision for credit losses	589	15,929	63,466	3,176	83,160
Noninterest income	39,421	1,106	(8,317)	(3,024)	29,186
Noninterest expense	21,741	2,332	3,752	7,126	34,951
Income (loss) before income taxes	18,269	14,703	51,397	(6,974)	77,395
Income taxes	4,903	2,902	12,053	(951)	18,907
Net income (loss)	$ 13,366	$ 11,801	$ 39,344	$ (6,023)	$ 58,488
Total assets	$ 343,443	$ 2,735,278	$ 8,760,416	$ 139,585	$ 11,978,722

	Multi-family Mortgage Banking	Mortgage Warehousing	Banking	Other	Total
			(In thousands)		
Nine Months Ended September 30, 2023					
Interest income	$ 3,934	$ 191,865	566,439	$ 3,801	$ 766,039
Interest expense	32	128,411	319,431	(5,581)	442,293
Net interest income	3,902	63,454	247,008	9,382	323,746
Provision for credit losses	—	3,189	30,295	—	33,484
Net interest income after provision for credit losses	3,902	60,265	216,713	9,382	290,262
Noninterest income	84,188	5,789	(2,485)	(7,278)	80,214
Noninterest expense	53,762	10,386	33,233	24,641	122,022
Income (loss) before income taxes	34,328	55,668	180,995	(22,537)	248,454
Income taxes	6,435	8,505	36,593	(4,840)	46,693
Net income (loss)	$ 27,893	$ 47,163	$ 144,402	$ (17,697)	$ 201,761
Total assets	$ 392,754	$ 4,757,817	$ 11,135,651	$ 209,014	$ 16,495,236

	Multi-family Mortgage Banking	Mortgage Warehousing	Banking	Other	Total
			(In thousands)		
Nine Months Ended September 30, 2022					
Interest income	$ 1,229	$ 74,816	$ 217,285	$ 6,064	$ 299,394
Interest expense	—	22,686	55,066	(1,499)	76,253
Net interest income	1,229	52,130	162,219	7,563	223,141
Provision for credit losses	1,153	849	8,886	—	10,888
Net interest income after provision for credit losses	76	51,281	153,333	7,563	212,253
Noninterest income	121,037	4,316	(16,380)	(6,019)	102,954
Noninterest expense	60,231	7,699	12,960	18,051	98,941
Income (loss) before income taxes	60,882	47,898	123,993	(16,507)	216,266
Income taxes	16,468	11,070	29,953	(3,790)	53,701
Net income (loss)	$ 44,414	$ 36,828	$ 94,040	$ (12,717)	$ 162,565
Total assets	$ 343,443	$ 2,735,278	$ 8,760,416	$ 139,585	$ 11,978,722

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Merchants Bancorp
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Note 15: Recent Accounting Pronouncements

The Company continually monitors potential accounting pronouncement and SEC release changes. No new pronouncements or releases are expected to be applicable to the Company.

Note 16: Subsequent Events

No material events were noted.

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Merchants Bancorp

Forward-Looking Statements

Certain statements in this Form 10-Q, including, but not limited to, statements within Management's Discussion and Analysis of Financial Condition and Results of Operations, are "forward-looking statements" within the meaning of the rules and regulations of the Securities and Exchange Commission ("SEC"). These forward-looking statements reflect our current views with respect to, among other things, future events and our financial performance. These statements are often, but not always, made through the use of words or phrases such as "may," "might," "should," "could," "predict," "potential," "believe," "expect," "continue," "will," "anticipate," "seek," "estimate," "intend," "plan," "projection," "goal," "target," "outlook," "aim," "would," "annualized", and "outlook," or the negative version of those words or other comparable words or phrases of a future or forward-looking nature. These forward-looking statements are not historical facts, and are based on current expectations, estimates and projections about our industry, management's beliefs and certain assumptions made by management, many of which, by their nature, are inherently uncertain and beyond our control. Accordingly, we caution that any such forward-looking statements are not guarantees of future performance and are subject to risks, assumptions, estimates and uncertainties that are difficult to predict. Although we believe that the expectations reflected in these forward-looking statements are reasonable as of the date made, actual results may prove to be materially different from the results expressed or implied by the forward-looking statements.

A number of important factors could cause our actual results to differ materially from those indicated in these forward-looking statements, including those factors identified in the "Risk Factors" section of our Annual Report on Form 10-K for the year ended December 31, 2022 or

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"Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Form 10-Q or the following:

- business and economic conditions, particularly those affecting the financial services industry and our primary market areas;
- our ability to successfully manage our credit risk and the sufficiency of our allowance for credit losses on loans;
- factors that can impact the performance of our loan portfolio, including real estate values and liquidity in our primary market areas, the financial health of our commercial borrowers and the success of construction projects that we finance, including any loans acquired in acquisition transactions;
- compliance with governmental and regulatory requirements including the Dodd-Frank Act and others relating to banking, consumer protection, securities, and tax matters;
- our ability to maintain licenses required in connection with residential and multi-family mortgage origination, sale, and servicing operations;
- our ability to identify and address cyber-security risks, fraud, and systems errors;
- our ability to effectively execute our strategic plan and manage our growth;
- changes in our senior management team and our ability to attract, motivate, and retain qualified personnel;
- governmental monetary and fiscal policies, and changes in market interest rates;
- liquidity issues, including fluctuations in the fair value and liquidity of the securities we hold for sale and our ability to raise additional capital, if necessary;
- effects of competition from a wide variety of local, regional, national, and other providers of financial, investment and insurance services;
- the impact of any claims or legal actions to which we may be subject, including any effect on our reputation; and

- changes in federal tax law or policy.

The foregoing factors should not be construed as exhaustive and should be read together with the other cautionary statements included in this Form 10-Q. Any forward-looking statement speaks only as of the date on which it is made, and we do not undertake any obligation to update or review any forward-looking statement, whether as a result of new information, future developments, or otherwise.

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

Management's discussion and analysis of the financial condition at June 30, 2023 September 30, 2023 and results of operations for the three and six nine months ended June 30, 2023 September 30, 2023 and 2022, is intended to assist in understanding the financial condition

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and results of operations of the Company. The information contained in this section should be read in conjunction with the unaudited condensed consolidated financial statements and the notes thereto, appearing in Part I, Item 1 of this Form 10-Q.

The words “the Company,” “we,” “our” and “us” refer to Merchants Bancorp and its consolidated subsidiaries, unless we indicate otherwise.

Financial Highlights for the Three Months Ended June 30, 2023 September 30, 2023

- Net income of $65.3 million $81.5 million increased 21% 39% compared to June 30, 2022 September 30, 2022 and diluted earnings per share of $1.31 $1.68 increased 18% 38% compared to June 30, 2022. September 30, 2022.
- The 21% 39% increase in net income was primarily driven by a $33.6 million $32.1 million, or 47% 38%, increase in net interest income, a $14.8 million, or 82%, decrease in the provision for income tax, a $16.4 million, or 264%, increase in provision for credit losses, a $11.4 million, or 34%, increase in noninterest expense, and a $10.2 million, or 47%, decrease in gain on sale of loans.
- During the three months ended June 30, 2023, the Company recorded a $13.0 million tax benefit related to tax refunds receivable and changes to its state tax apportionment calculations, which was offset by credit events that totaled approximately $14.8 million, primarily for the impact of a multi-family loan charge-off, an increase in specific reserves for a healthcare customer, and changes to qualitative factors and forecasted loss rates. income.
- Total assets of $15.9 billion $16.5 billion increased 11% 4% compared to March 31, 2023 June 30, 2023, and increased 26% 31% compared to December 31, 2022.
- As of June 30, 2023 September 30, 2023, the Company had $5.3 billion $5.4 billion, or 34% 32%, of total assets, in unused borrowing capacity with the Federal Home Loan Bank and the Federal Reserve Discount window, based on available collateral.
- The Company’s most liquid assets are in unrestricted cash, short-term investments, including interest-bearing demand deposits, mortgage loans in process of securitization, loans held for sale, and warehouse lines of credit included in loans receivable. Taken together, with unused borrowing capacity, these totaled $10.2 billion $10.7 billion, or 64% 65%, of the $15.9 billion $16.5 billion in total assets as of June 30, 2023 September 30, 2023.
- Uninsured deposits totaled approximately $2 billion as of June 30, 2023 September 30, 2023, representing less than 20% of total deposits.
- Loans receivable of $9.9 billion, net of allowance for credit losses on loans increased $1.3 billion, or 15%, compared to March 31, 2023, and increased $2.4 billion $2.5 billion, or 33%, compared to December 31, 2022.
- Efficiency ratio was 32.7% 28.0% compared to 29.6% 30.5% for the three months ended June 30, 2022 September 30, 2022.
- As of June 30, 2023 September 30, 2023, approximately 94% of the total net loans at Merchants Bank reprice within three months, which reduces the risk of market rate increases.
- Tangible book value per common share of $24.14 $25.82 increased 23% 24% compared to $19.70 $20.78 for the three months ended June 30, 2022 September 30, 2022.
- On August 31, 2023, the Company completed a $303.6 million securitization of 11 multi-family mortgage loans through a Freddie Mac-sponsored Q-Series transaction.
- On September 7, 2023, the Company entered into an agreement with Bank of Pontiac to sell its Farmers-Merchants Bank of Illinois branch locations in Paxton, Melvin and Piper City, Illinois and an agreement with CBI Bank & Trust, to sell its Farmers-Merchants Bank of Illinois branch located in Joy, Illinois.

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- The volume of warehouse loans funded during the three months ended June 30, 2023 September 30, 2023 amounted to $8.4 billion $10.8 billion, a decrease an increase of $459.1 million $2.0 billion, or 5% 23%, compared to the three months ended June 30, 2022 September 30, 2022. This compared to the 32% 10% industry decrease in single-family residential loan volumes for the three months ended June 30, 2023 to the same period in 2022, September 30, 2023 according to an estimate of industry volume by the Mortgage Bankers Association.

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- The total volume of loans originated and acquired through our multi-family business was $1.4 billion, a decrease of $869.4 million, or 39%, compared to $2.2 billion for the three months ended September 30, 2022. Many of these loans are bridge loans housed in our banking segment while borrowers await conversion to permanent financing. The volume of bridge loans was $785.8 million, a decrease of $705.7 million, or 47%, compared to $1.5 billion for the three months ended September 30, 2022. The volume of loans originated and acquired for sale in the secondary market through our multi-family business increased by $261.8 million $55.1 million, or 64% 15%, to $668.2 million $422.1 million, compared to $406.4 million $367.0 million for the three months ended June 30, 2022 September 30, 2022.

Business Overview

We are a diversified bank holding company headquartered in Carmel, Indiana and registered under the Bank Holding Company Act of 1956, as amended. We currently operate in multiple business segments, including Multi-family Mortgage Banking that offers multi-family housing and healthcare facility financing and servicing, as well as syndicated low-income housing tax credit and debt funds; Mortgage Warehousing that offers mortgage warehouse financing, commercial loans, and deposit services; and Banking that offers portfolio lending for multi-family and healthcare facility loans, retail and correspondent residential mortgage banking, agricultural lending, Small Business Administration ("SBA") lending, and traditional community banking.

Our business consists primarily of funding fixed rate, low risk, multi-family, residential and SBA loans meeting underwriting standards of government programs under an originate to sell model, and retaining adjustable rate loans as held for investment to reduce interest rate risk. The gain on sale of these loans and servicing fees contribute to noninterest income. The funding source is primarily from mortgage custodial, municipal, retail, commercial, and brokered deposits, and short-term borrowing. We believe that the combination of net interest income and noninterest income from the sale of low risk profile assets results in lower than industry charge-offs and a lower expense base which serves to maximize net income and higher than industry shareholder return.

Critical Accounting Policies and Estimates

The preparation of our consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, and expenses. These estimates are based upon historical experience and on various other assumptions that management believes are reasonable under the current circumstances. These estimates form the basis for making judgments about the carrying value of certain assets and liabilities that are not readily available from other sources. Actual results may differ from these estimates under different assumptions or conditions.

The estimates and judgments that management believes have the most effect on its reported financial position and results of operations are set forth within "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022. There have been no significant changes in critical accounting policies or the assumptions and judgments utilized in applying these policies since those reported for the year ended December 31, 2022.

Financial Condition

As of June 30, 2023 September 30, 2023, we had approximately $15.9 billion $16.5 billion in total assets, $13.1 billion $13.0 billion in deposits and $1.6 billion in total shareholders' equity. Total assets as of June 30, 2023 September 30, 2023 included approximately $377.3 million $407.2 million of cash and cash equivalents, $3.1 billion $3.5 billion of loans held for sale and $9.9 billion of loans receivable, net of ACL-loans.

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Assets also included $298.9 million $476.0 million of mortgage loans in process of securitization that represent pre-sold multi-family rental real estate loan originations in primarily Federal National Mortgage Association ("Fannie Mae"), Federal Home Loan Mortgage Corporation ("Freddie Mac"), or Government National Mortgage Association ("GNMA") mortgage backed securities pending settlements that typically occur

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within 30 days. There was also $1.1 billion $1.0 billion in securities held to maturity that were primarily acquired in conjunction with the securitization of loans that the Company originated. Additionally, we

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had $648.0 million $624.6 million in securities available for sale that are typically match funded with related custodial deposits or required to collateralize our credit-linked notes. There are some restrictions on the types of securities we hold, particularly for those that are funded by certain custodial deposits where we set the cost of deposits based on the yield of the related securities. Servicing rights at June 30, 2023 September 30, 2023 were $147.3 million $162.1 million based on the fair value of the loan servicing, which are primarily GNMA multi-family servicing rights with 10-year call protection.

Comparison of Financial Condition at June 30, 2023 September 30, 2023 and December 31, 2022

Total Assets. Total assets of $16.5 billion at September 30, 2023 increased $3.3 billion $3.9 billion, or 26% 31%, compared to $15.9 billion at June 30, 2023 from $12.6 billion at December 31, 2022. December 31, 2022. The increase was due primarily to significant growth in the healthcare, commercial lines of credit collateralized by mortgage servicing rights, multi-family, and mortgage warehouse multi-family, and healthcare loan portfolios.

Cash and Cash Equivalents. Cash and cash equivalents of $407.2 million at September 30, 2023 increased $151.1 million $181.1 million, or 67% 80%, compared to $377.3 million at June 30, 2023 from $226.2 million at December 31, 2022. The 67% 80% increase reflected higher liquidity to fund anticipated loan growth. Included in cash equivalents was $35.3 million $52.2 million in restricted cash associated with the March 2023 issuance of senior credit linked notes described in *Note 11: Borrowings.*

Mortgage Loans in Process of Securitization. Mortgage loans in process of securitization of $476.0 million at September 30, 2023 increased $144.7 million $321.9 million, or 94% 209%, compared to $298.9 million at June 30, 2023, from $154.2 million at December 31, 2022. These represent loans that our banking subsidiary, Merchants Bank, has funded and are held pending settlement, primarily as GNMA or other agency mortgage-backed securities with a firm investor commitment to purchase the securities. The 94% 209% increase was primarily due to an increase in the volume of loans that had not yet settled with government agencies.

Securities Available for Sale. Securities available for sale of $624.6 million at September 30, 2023 increased $324.7 million $301.2 million, or 100% 93%, compared to $648.0 million at June 30, 2023, from $323.3 million at December 31, 2022. The increase in available for sale securities was primarily due to purchases of $513.5 million and a decrease of unrealized loss on securities of $4.8 million $631.7 million, partially offset by calls, maturities, repayments, sales and sales other adjustments of securities totaling $195.2 million $330.5 million during the period. The purchases were primarily related to securities with protections against any loss in fair value.

As of June 30, 2023 September 30, 2023, Accumulated Other Comprehensive Losses ("AOCL") of $7.0 million $4.8 million losses, related to securities available for sale, decreased $3.5 million $5.7 million, or 33% 55%, compared to losses of $10.5 million at December 31, 2022. The $7.0 million $4.8 million of AOCL losses as of June 30, 2023 September 30, 2023 represented less than 1% of total equity and less than 1% of total securities available for sale.

Securities Held to Maturity. Securities held to maturity of $1.0 billion at September 30, 2023 decreased $57.1 million $106.3 million, or 5% 9%, compared to $1.1 billion at June 30, 2023 from December 31, 2022. December 31, 2022. The decrease was primarily due to purchases of $4.3 million $9.8 million offset by calls, maturities and repayments of securities totaling $61.3 million $116.1 million during the period.

Loans Held for Sale. Loans held for sale, comprised primarily of single-family residential real estate loan participations that meet Federal National Mortgage Association ("Fannie Mae"), Federal Home Loan Mortgage Corporation (" Mae, Freddie Mac") Mac, or GNMA eligibility, of $3.5 billion at September 30, 2023 increased $566.5 million, or Ginnie Mae ("GNMA") eligibility, increased $147.4 million 19%, or 5%, compared to $3.1 billion at June 30, 2023 from $2.9 billion at December 31, 2022. The increase in loans held for sale was due primarily to a an increase in warehouse participations, as partially offset by loans associated with credit linked notes that were transferred to loans receivable during the industry experienced higher volume. first quarter of 2023.

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Loans Receivable. Loans receivable, which are comprised of loans held for investment, of $9.9 billion at September 30, 2023 increased $2.4 billion $2.5 billion, or 33%, to $9.9 billion at June 30, 2023 compared to December 31, 2022. $7.4 billion at December 31, 2022. The increase was comprised primarily of:

- an increase of $737.1 million, or 159%, in mortgage warehouse lines of credit, to $1.2 billion at June 30, 2023,
- an increase of $610.8 million, or 19%, in multi-family financing loans, to $3.7 billion at June 30, 2023,
- an increase of $524.0 million, or 33%, in healthcare financing loans, to $2.1 billion at June 30, 2023,

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- an increase of $415.6 million $614.2 million, or 42% 38%, in healthcare financing loans, to $2.2 billion at September 30, 2023,
- an increase of $581.4 million, or 59%, in commercial and commercial real estate loans, to $1.4 billion $1.6 billion at June 30, 2023 September 30, 2023,
- an increase of $573.8 million, or 18%, in multi-family financing loans, to $3.7 billion at September 30, 2023,
- an increase of $557.9 million, or 120%, in mortgage warehouse lines of credit, to $1.0 billion at September 30, 2023, and
- an increase of $164.2 million $180.5 million, or 14% 15%, in residential real estate loans, to $1.3 billion $1.4 billion at June 30, 2023 September 30, 2023.

The $737.1 million $614.2 million increase in mortgage warehouse healthcare financing was due to increased volume associated with the credit link notes transaction where loans were transferred from loans held for sale during the first quarter of 2023.

The $581.4 million increase in commercial and commercial real estate was primarily due to higher revolving lines of credit was due to higher loan volume. on collateralized mortgage servicing rights during the period.

The $610.8 million $573.8 million increase in multi-family financing was due to higher origination volume for construction, bridge and other loans generated through our multi-family segment that will remain on our balance sheet until they convert to permanent financing or are otherwise paid off over an average of one to three years.

The $524.0 million $557.9 million increase in healthcare financing was due to transfers mortgage warehouse lines of loans previously in loans held for sale, associated with our credit link note transaction.

The $415.6 million increase in commercial and commercial real estate was due to higher revolving lines loan volume from increased sales efforts and market exits of credit on collateralized mortgage servicing rights during the period. several competitors.

The $164.2 million $180.5 million increase in residential real estate loans was primarily due an increase in All-in-One®, first-lien HELOCs. home equity line of credit.

As of June 30, 2023 September 30, 2023, approximately 94% of the total net loans at Merchants Bank reprice within three months, which reduces the risk of market rate increases.

Allowance for Credit Losses on Loans ("ACL-Loans"). The ACL-Loans of $63.0 million $66.9 million at June 30, 2023 September 30, 2023 increased $19.0 million $22.9 million compared to $44.0 million at December 31, 2022. The increase was primarily due to:

- loan growth in the period,
- replenishment of $8.2 million related to the charge-off of a loan in the multi-family portfolio,
- a $4.6 million increase related to changes in qualitative factors to loan growth in the period, as well as credit events and forecasted loss rates to reflect changes in industry conditions, such as the impact of higher rates, and
- a $2.0 million increase in net specific reserves, primarily related to a loan in the healthcare portfolio.

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The increases in qualitative factors and forecasted loss rates to reflect changes in industry conditions that were partially offset by charge-offs of $9.5 million, primarily associated with a multi-family customer. reported during the three months ended September 30, 2023.

Also influencing the overall level of the ACL-Loans is our differentiated strategy to typically hold loans with shorter durations and to maintain strict underwriting standards that enable us to sell the majority of our loans to government agencies.

Goodwill. Goodwill of $15.8 million at June 30, 2023 September 30, 2023 remained unchanged compared to December 31, 2022. December 31, 2022. At this time, we do not believe there exists any impairment to goodwill or intangible assets.

Servicing Rights. Servicing rights of $162.1 million at September 30, 2023 increased $1.0 million $15.9 million, or 1% 11%, to $147.3 million at June 30, 2023 compared to $146.3 million $146.2 million at December 31, 2022. During the six nine months ended June 30, 2023 September 30, 2023, originated servicing of $4.3 million $9.2 million and a positive fair market value adjustment of $0.5 million $12.2 million were partially offset by paydowns of $3.8 million $5.4 million. Servicing rights are recognized in connection with sales of loans when we retain servicing of the sold loans, as well as upon purchases of loan servicing portfolios. loans. The servicing rights are recorded and carried at fair value. The fair value increase recorded during the six nine months ended June 30, 2023 September 30, 2023 was driven by higher loan balances of mortgages serviced and higher interest rates that impacted fair market value adjustments. The value of servicing rights generally increases in rising interest rate environments and declines in falling interest rate environments due to expected prepayments.

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environments which impact the value of escrow deposits, and declines in falling interest rate environments due to expected prepayments.

Other Assets and Receivables. Other assets and receivables of $241.3 million at September 30, 2023 increased $105.1 million $83.8 million, or 67% 53%, to $262.5 million at June 30, 2023 compared to $157.4 million at December 31, 2022. The 67% 53% increase in other assets and receivables was primarily due to the acquisition of low-income housing tax credit investments.

Deposits. Deposits of $13.0 billion at September 30, 2023 increased $3.0 billion $2.9 billion, or 30% 29%, compared to $13.1 billion at June 30, 2023 from $10.1 billion at December 31, 2022. The 30% 29% increase in total deposits was primarily due to a $2.2 billion $2.1 billion increase in certificates of deposit, and a $885.2 million $857.4 million increase in demand deposits partially offset by a decrease and an increase of $88.7 million $21.7 million in savings deposits. As of June 30, 2023, September 30, 2023, approximately 83% 88% of the total deposits at Merchants Bank reprice within three months.

Uninsured deposits totaled approximately $2 billion as of June 30, 2023 September 30, 2023, representing less than 20% of total deposits. Since 2018, the Company has offered its customers an opportunity to insure balances in excess of $250,000 through our insured cash sweep program that extends FDIC protection up to $100 million. The balance of deposits in this program was $1.7 billion $1.8 billion as of June 30, 2023 September 30, 2023.

Core deposits increased by $1.3 billion, or 18%, to $8.6 billion at September 30, 2023 compared to December 31, 2022. Core deposits represented 66% of total deposits at September 30, 2023 compared to 73% of total deposits at December 31, 2022.

We increased our use of brokered deposits by $2.0 billion $1.6 billion, or 72% 59%, to $4.8 billion $4.4 billion at June 30, 2023 September 30, 2023 compared to December 31, 2022. Brokered deposits represented 36% 34% of total deposits at June 30, 2023, September 30, 2023 compared to 27% of total deposits at December 31, 2022.

- Brokered certificates of deposit accounts of $4.4 billion at September 30, 2023 increased by $1.9 billion $1.7 billion, or 72% 64%, to $4.6 billion at June 30, 2023 compared to December 31, 2022.
- Brokered demand deposit accounts of $0.3 million at September 30, 2023 increased by $125.1 million $0.3 million, to $125.1 million at June 30, 2023 compared to December 31, 2022.
- Brokered savings deposits accounts of $6.7 million at September 30, 2023 decreased $75.3 million $74.8 million, or 92%, to $6.2 million at June 30, 2023 compared to December 31, 2022.

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As of September 30, 2023, brokered certificates of deposit had a weighted average remaining duration of 49 days. Although our brokered deposits are short-term in nature, they may be more rate sensitive compared to other sources of funding. In the future, those depositors may not replace their brokered deposits with us as they mature, or we may have to pay a higher rate of interest to keep those deposits or to replace them with other deposits or other sources of funds. Not being able to maintain or replace those deposits as they mature would adversely affect our liquidity. Additionally, if Merchants Bank does not maintain its well-capitalized position, it may not accept or renew any brokered deposits without a waiver granted by the Federal Deposit Insurance Corporation ("FDIC").

Compared to December 31, 2022, interest-bearing deposits increased $3.0 billion, or 30% 31%, to $12.7 billion at June 30, 2023 September 30, 2023, and noninterest-bearing deposits increased $22.5 million decreased $39.0 million, or 7% 12%, to $349.4 $287.8 million at June 30, 2023 September 30, 2023.

Borrowings. Borrowings totaled $1.0 billion of $1.7 billion at June 30, 2023 September 30, 2023, an increase of $86.4 million $723.7 million, or 9% 78%, from compared to December 31, 2022. The increase was primarily due to additional borrowings from the FHLB and Federal Reserve, along with the issuance of senior credit linked notes described in *Note 11: Borrowings.* Depending on rates and timing, borrowing can be a more effective liquidity management alternative than utilizing brokered certificates of deposits. The Company primarily utilizes borrowing facilities from the FHLB, the Federal Reserve's discount window, and the American Financial Exchange ("AFX").

The Company continues to have significant borrowing capacity based on available collateral. As of June 30, 2023 September 30, 2023, unused lines of credit totaled $5.3 billion $5.4 billion, compared to $3.1 billion at December 31, 2022.

Other Liabilities. Other liabilities of $183.1 million at September 30, 2023 increased $87.7 million $49.0 million, or 65% 37%, to $221.8 million at June 30, 2023 compared to $134.1 million at December 31, 2022. December 31, 2022. The 65% 37% increase in other liabilities was primarily due to interest payable and unfunded commitments for low-income housing tax credit investments.

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Total Shareholders' Equity. Total shareholders' equity was of $1.6 billion as of June 30, 2023 at September 30, 2023, increased $173.0 million, or 12%, compared to $1.5 billion as of December 31, 2022. December 31, 2022. The $100.6 million $173.0 million increase resulted primarily from net income of $120.3 million $201.8 million, which was partially offset by dividends paid on common and preferred shares of $24.3 million $36.4 million during the period.

Asset Quality

Total nonperforming loans (nonaccrual and greater than 90 days late but still accruing) were $68.4 million $60.2 million, or 0.69% 0.60%, of total loans at June 30, 2023 September 30, 2023, compared to $26.7 million, or 0.36%, of total loans at December 31, 2022 and $4.8 million $26.6 million, or 0.07% 0.38%, at June 30, 2022. September 30, 2022. The increase in non-performing nonperforming loans compared to both periods was primarily due to 3 customers, while the remainder of our loan portfolio continued to generally perform as expected.

As a percentage of nonperforming loans, the ACL-Loans was 92% 111% at June 30, 2023 September 30, 2023 compared to 165% at December 31, 2022 December 31, 2022 and 778.6% 147% at June 30, 2022 September 30, 2022. The decrease in percentage was due to an increase in nonperforming loans. While this percentage decreased compared to both periods, were the increase in nonperforming loans was

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primarily due related to the increases in the nonperforming loans. nonaccrual classification and have all been individually evaluated for impairment.

Total loans greater than 30 days past due were $92.9 million $125.4 million at June 30, 2023 September 30, 2023, $39.8 million at December 31, 2022, and $4.9 million $26.6 million at June 30, 2022. The September 30, 2022. Since the majority of loans to customers have variable rates, the rapid increase in non-performing interest rates over the last several quarters has negatively impacted borrowers by increasing their required payment amounts.

Special Mention (including Watch) loans were $322.0 million at September 30, 2023, compared to $137.8 million at December 31, 2022 and $142.8 million at September 30, 2022. The increase to both periods was primarily due to 3 customers.

Special Mention (Watch) loans were $188.5 million at June 30, 2023, compared to $137.8 million at December 31, 2022 and $131.2 million at June 30, 2022. the increase in interest rates for our borrowers.

During the three months ended June 30, 2023 September 30, 2023 there were $9.5 million $21,000 of charge-offs and $2,000 $31,000 of recoveries, compared to $47,000 $279,000 of charge-offs and $651,000 $92,000 recoveries for the three months ended June 30, 2022 September 30, 2022.

For the six nine months ended June 30, 2023 September 30, 2023, there were $9.5 million $9.6 million of charge-offs, primarily related to one customer, and $16,000 $40,000 of recoveries, compared to $978,000 $1.3 million of charge-offs and $658,000 $750,000 of recoveries for the six nine months ended June 30, 2022 September 30, 2022.

Comparison of Operating Results for the Three Months Ended June 30, 2023 September 30, 2023 and 2022

General. Net income of $65.3 million $81.5 million for the three months ended June 30, 2023 September 30, 2023 increased by $11.4 million $23.0 million, or 21% 39%, compared to the three months ended June 30, 2022 September 30, 2022. The increase was primarily driven by a $33.6 million $32.1 million, or 47% 38%, increase in net interest income and a $14.8 million $6.9 million, or 82%, decrease in the provision for income tax, a $16.4 million, or 264% 24%, increase in provision for credit losses, a $11.4 million noninterest income. The increases were partially offset by an $8.0 million, or 34% 23%, increase in noninterest expense and a $10.2 million $6.2 million, or 47% 33%, decrease increase in gain on sale of loans. Included in the results were the following: provision for income tax.

- a $13.0 million tax benefit related to tax refunds receivable and changes to its state tax apportionment calculations described in the Provision for Income Tax section below, and
- credit events that totaled approximately $14.8 million for the impact of a multi-family loan charge-off, an increase in specific reserves for a healthcare customer, and changes to qualitative factors and forecasted loss rates, described in the Provision for Credit Losses section below.

Net Interest Income. Net interest income increased $33.6 million, or 47%, to $105.6 million of $117.4 million for the three months ended June 30, 2023 September 30, 2023 increased $32.1 million, or 38%, compared with $72.0 million for to the three months ended June 30, 2022 September 30, 2022. The 47% 38% increase reflected a $168.8 million $162.6 million, or 189% 121%, increase in interest income from higher yields and average loan balances partially offset by a $135.2 million increase in interest expense from as well as higher interest rates on deposits and higher average rates on borrowings, primarily related to the credit linked notes issued by the Company during the three months ended March 31, 2023. The interest rate spread of 2.41% for the three months ended June 30, 2023 decreased 49 basis points compared to 2.90% in the three months ended June 30, 2022.

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average balances of securities held to maturity. The increases were partially offset by a $130.5 million, or 268%, increase in interest expense from higher rates and average balances on deposits, as well as higher rates on borrowings that were primarily related to the credit linked notes issued by the Company in March 2023. The interest rate spread of 2.44% for the three months ended September 30, 2023 decreased 33 basis points compared to 2.77% in the three months ended September 30, 2022.

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Our net interest margin decreased 6 basis points, to 2.97% 2.99%, for the three months ended June 30, 2023 September 30, 2023 from 3.03% 3.05% for the three months ended June 30, 2022. September 30, 2022.

Interest Income. Interest income increased $168.8 million, or 189%, to $258.1 million of $296.7 million for the three months ended June 30, 2023 September 30, 2023 increased $162.6 million, or 121%, compared with $89.3 million to $134.1 million for the three months ended June 30, 2022 September 30, 2022. This increase was primarily attributable to an increase in both higher average yields and average balances of loans and loans held for sale, as well as higher average balances in securities held to maturity. The higher yields were in response to higher interest rates set by the Federal Reserve.

The average balance of loans, including loans held for sale, during the three months ended June 30, 2023 September 30, 2023 increased $3.3 billion $3.2 billion, or 38% 31%, to $12.0 billion $13.4 billion compared to the three months ended June 30, 2022. September 30, 2022. The average yield on loans increased 368 289 basis points, to 7.67% 7.89% for the three months ended June 30, 2023 September 30, 2023, compared to 3.99% 5.00% for the three months ended June 30, 2022 September 30, 2022. The increase in average balances of loans and loans held for sale was primarily due to increases in the multi-family healthcare, commercial lines of credit collateralize by mortgage servicing rights real estate and healthcare multi-family portfolios, but all loan portfolios contributed to the growth during the period.

The average balance of securities held to maturity, during the three months ended June 30, 2023 September 30, 2023 increased $1.1 billion, or 100% $941.7 million, to $1.1 billion compared to the three months ended June 30, 2022, as none were owned as of June 30, 2022. September 30, 2022. The average yield on securities held to maturity was 6.35% increased 274 basis points, to 6.65% for the three months ended June 30, 2023 September 30, 2023, compared to 3.91% for the three months ended September 30, 2022. The increase in average balance of securities held to maturity was primarily related to held maturity securities acquired as part of loan securitizations that the Company originated.

The average balance of securities available for sale increased $342.1 million $324.8 million, or 103% 98%, to $672.9 million $656.6 million for the three months ended June 30, 2023 from $330.8 million September 30, 2023 compared to the three months ended September 30, 2022. The average yield increased 316 basis points, to 3.74% for the three months ended June 30, 2022 September 30, 2023, while the average yield increased 221 basis points, compared to 3.32% 0.58% for the three months ended June 30, 2023, compared to 1.11% for the three months ended June 30, 2022 September 30, 2022.

The average balance of interest-earning deposits and other decreased $117.8 million increased $48.0 million, or 32% 23%, to $249.7 million $259.6 million for the three months ended June 30, 2023 September 30, 2023 from $367.5 million for the three months ended June 30, 2022 September 30, 2022, while the average yield increased 437 338 basis points, to 5.36% 5.99% for the three months ended June 30, 2023 September 30, 2023, compared to 0.99% 2.61% for the three months ended June 30, 2022 September 30, 2022.

The average balance of mortgage loans in process of securitization increased $81.7 million decreased $26.5 million, or 41% 11%, to $280.1 million $208.8 million for the three months ended June 30, 2023 September 30, 2023 compared to the three months ended June 30, 2022 September 30, 2022, while the average yield increased 155 126 basis points, to 4.48% 4.91% for the three months ended June 30, 2023 September 30, 2023, compared to 2.93% 3.65% for the three months ended June 30, 2022 September 30, 2022.

Interest Expense. Total interest expense increased $135.2 million, or 784%, to $152.5 million of $179.2 million for the three months ended June 30, 2023 September 30, 2023 increased $130.5 million, or 268%, compared to $48.7 million for the three months ended June 30, 2022 September 30, 2022.

Interest expense on deposits increased $123.0 million $117.9 million, or 833% 262%, to $137.8 million $162.9 million for the three months ended June 30, 2023 September 30, 2023 from $14.8 million $45.0 million for the three months ended June 30, 2022 September 30, 2022. The increase was primarily due to higher rates on certificates of deposit, interest-bearing checking, and money market accounts.

The average balance of certificates of deposit of $4.7 billion for higher rates on our deposits were in response to higher interest rates set by the three months ended June 30, 2023 increased $4.1 billion, or 639%, compared to the three months ended June 30, 2022. The average yield of certificates of deposit was 4.98% for the three months ended June 30, 2023, which was a 423 basis point increase compared to 0.75% for three months ended June 30, 2022.

The average balance of interest-bearing checking accounts of $4.3 billion for the three months ended June 30, 2023 increased $457.9 million, or 12%, compared to $3.8 billion for the three months ended June 30, 2022. The average yield of interest-bearing checking accounts was 4.50% for the three months ended June 30, 2023, which was a 378 basis point increase compared to 0.72% for three months ended June 30, 2022.

The average balance of money market accounts of $2.7 billion for the three months ended June 30, 2023 increased $122.6, or 5%, compared to $2.6 billion for the three months ended June 30, 2022. The average yield of money market Federal Reserve.

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accounts was 4.45% The average balance of certificates of deposit of $5.3 billion for the three months ended June 30, 2023 September 30, 2023 increased $3.2 billion, or 159%, compared to the three months ended September 30, 2022. The average rate on certificates of deposit was 5.34% for the three months ended September 30, 2023, which was a 345 343 basis point increase compared to 1.00% 1.91% for three months ended June 30, 2022 September 30, 2022.

The average balance of interest-bearing checking accounts of $4.9 billion for the three months ended September 30, 2023 increased $675.5 million, or 16%, compared to $4.2 billion for the three months ended September 30, 2022. The average yield of interest-bearing checking accounts was 4.76% for the three months ended September 30, 2023, which was a 269 basis point increase compared to 2.07% for three months ended September 30, 2022.

The average balance of money market accounts of $2.8 billion for the three months ended September 30, 2023 increased $275.0, or 11%, compared to $2.5 billion for the three months ended September 30, 2022. The average yield of money market accounts was 4.71% for the three months ended September 30, 2023, which was a 265 basis point increase compared to 2.06% for three months ended September 30, 2022.

Interest expense on borrowings increased $12.2 million $12.6 million, or 493% 338%, to $14.7 million $16.3 million for the three months ended June 30, 2023 September 30, 2023 from $2.5 million $3.7 million for the three months ended June 30, 2022 September 30, 2022. The increase reflected an 862 a 659 basis points increase in the average cost of borrowings, to 9.94% 9.10% compared to 1.32% 2.51% for the three months ended June 30, 2022. September 30, 2022. The increase was primarily related to the credit linked notes issued by the Company during in 2023. Also contributing to the three months ended June 30, 2023. Partially offsetting the higher rates on borrowing increase in borrowings was a $158.3 million an increase of $123.4 million, or 21%, decrease in the average balance of borrowings of $591.3 million $711.9 million compared to $749.6 million for the three months ended June 30, 2022 September 30, 2022. Also included in borrowings, our warehouse structured financing agreements provide for additional interest payments for a portion of the earnings generated. As a result, the cost of borrowings increased from a base rate of 9.53% and 0.80%, to an effective rate of 9.94% and 1.32% for the three months ended June 30, 2023 and 2022, respectively.

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The following table presents, for the periods indicated, information about (i) average balances, the total dollar amount of interest income from interest-earning assets and the resultant average yields; (ii) average balances, the total dollar amount of interest expense on interest-bearing liabilities and the resultant average rates; (iii) net interest income; (iv) the interest rate spread; and (v) the net interest margin. Yields have been calculated on a pre-tax basis. Nonaccrual loans are included in loans and loans held for sale.

	Three Months Ended June 30,						Three Months Ended September 30,				
	2023			2022			2023			2022	
	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expens
	(Dollars in thousands)						(Dollars in thousands)				
Assets:											

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Interest-bearing deposits, and other	$ 249,722	$ 3,335	5.36 %	$ 367,540	$ 910	0.99 %	$ 259,630	$ 3,923	5.99 %	$ 211,653	$ 1,39
Securities available for sale - taxable	672,887	5,564	3.32 %	330,759	917	1.11 %	656,561	6,182	3.74 %	331,796	48
Securities held to maturity	1,093,018	17,311	6.35 %	—	—	— %	1,040,070	17,427	6.65 %	98,363	97
Mortgage loans in process of securitization	280,092	3,127	4.48 %	198,349	1,449	2.93 %	208,767	2,583	4.91 %	235,230	2,16
Loans and loans held for sale	11,968,565	228,732	7.67 %	8,643,276	85,994	3.99 %	13,399,854	266,561	7.89 %	10,245,294	129,10
Total interest-earning assets	14,264,284	258,069	7.26 %	9,539,924	89,270	3.75 %	15,564,882	296,676	7.56 %	11,122,336	134,11
Allowance for credit losses on loans	(54,411)			(33,401)			(63,449)			(39,325)	
Noninterest-earning assets	463,384			314,355			529,582			354,794	
Total assets	$ 14,673,257			$ 9,820,878			$ 16,031,015			$ 11,437,805	
Liabilities/Equity:											
Interest-bearing checking	$ 4,307,736	$ 48,296	4.50 %	$ 3,849,876	$ 6,945	0.72 %	$ 4,882,727	$ 58,642	4.76 %	$ 4,207,217	$ 21,98
Savings deposits	236,012	299	0.51 %	238,944	62	0.10 %	241,861	340	0.56 %	239,262	16
Money market	2,749,594	30,521	4.45 %	2,626,973	6,567	1.00 %	2,798,325	33,235	4.71 %	2,523,315	13,09
Certificates of deposit	4,729,242	58,685	4.98 %	639,556	1,194	0.75 %	5,255,573	70,689	5.34 %	2,030,152	9,76
Total interest-bearing deposits	12,022,584	137,801	4.60 %	7,355,349	14,768	0.81 %	13,178,486	162,906	4.90 %	8,999,946	45,00
Borrowings	591,333	14,651	9.94 %	749,628	2,471	1.32 %	711,948	16,334	9.10 %	588,582	3,72
Total interest-bearing liabilities	12,613,917	152,452	4.85 %	8,104,977	17,239	0.85 %	13,890,434	179,240	5.12 %	9,588,528	48,72
Noninterest-bearing deposits	346,837			402,328			333,155			474,925	
Noninterest-bearing liabilities	167,527			97,682			199,647			107,192	
Total liabilities	13,128,281			8,604,987			14,423,236			10,170,645	
Equity	1,544,976			1,215,891			1,607,779			1,267,160	
Total liabilities and equity	$ 14,673,257			$ 9,820,878			$ 16,031,015			$ 11,437,805	
Net interest income		$105,617			$72,031			$117,436			$ 85,38
Interest rate spread			2.41 %			2.90 %			2.44 %		
Net interest-earning assets	$ 1,650,367			$ 1,434,947			$ 1,674,448			$ 1,533,808	
Net interest margin			2.97 %			3.03 %			2.99 %		
Average interest-earning assets to average interest-bearing liabilities			113.08 %			117.70 %			112.05 %		

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Increases and decreases in interest income and interest expense result from changes in average balances (volume) of interest-earning assets and interest-bearing liabilities, as well as changes in weighted average interest rates. The following table sets forth the effects of changing rates and volumes on our net interest income during the periods shown. Information is provided with respect to (i) effects on interest income attributable to changes in volume (changes in volume multiplied by prior rate) and (ii) effects on interest income attributable to changes in rate (changes in rate multiplied by prior volume). Changes applicable to both volume and rate have been allocated to volume. Yields have been calculated on a pre-tax basis.

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The following table summarizes the increases and decreases in interest income and interest expense resulting from changes in average balances (volume) and changes in average interest rates:

	Three Months Ended June 30, 2023 compared to June 30, 2022 Increase (Decrease) Due to			Three Months Ended September 30, 2023 compared to September 30, 2022 Increase (Decrease) Due to		
(Dollars in thousands)	**Volume**	**Rate**	**Total**	**Volume**	**Rate**	**Total**
Interest income						
Interest-bearing deposits and other	$ (292)	$ 2,717	$ 2,425			
Interest-bearing deposits, and other				$ 316	$ 2,213	$ 2,529
Securities available for sale - taxable	949	3,698	4,647	475	5,222	5,697
Securities held to maturity	17,311	—	17,311	9,287	7,170	16,457
Mortgage loans in process of securitization	597	1,081	1,678	(243)	664	421
Loans and loans held for sale	33,084	109,654	142,738	39,751	97,709	137,460
Total interest income	51,649	117,150	168,799	49,586	112,978	162,564
Interest expense						
Deposits						
Interest-bearing checking	826	40,525	41,351	3,529	33,133	36,662
Savings deposits	(1)	238	237	2	176	178
Money market deposits	307	23,647	23,954	1,427	18,714	20,141
Certificates of deposit	7,635	49,856	57,491	15,516	45,407	60,923
Total Deposits	8,767	114,266	123,033	20,474	97,430	117,904
Borrowings	(522)	12,702	12,180	781	11,828	12,609
Total interest expense	8,245	126,968	135,213	21,255	109,258	130,513
Net interest income	$ 43,404	$ (9,818)	$ 33,586	$ 28,331	$ 3,720	$ 32,051

Provision for Credit Losses. We recorded a total provision for credit losses of $22.6 million $4.0 million for the three months ended June 30, 2023 September 30, 2023, an increase of $16.4 million $1.8 million, compared to the three months ended June 30, 2022 September 30, 2022. The increase was primarily due to: to loan growth in the period and increases in qualitative factors and forecasted loss rates to reflect changes in industry conditions.

- loan growth in the period,
- replenishment of $8.2 million related to the charge-off of a loan in the multi-family portfolio,
- a $4.6 million increase related to changes in qualitative factors and forecasted loss rates to reflect changes in industry conditions, such as the impact of higher rates, and
- a $2.0 million increase in net specific reserves, primarily related to a loan in the healthcare portfolio.

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The $22.6 million $4.0 million total provision for credit losses consisted of $20.7 million $3.9 million for the ACL-Loans and $1.9 million $0.1 million for the ACL-OBCE's. The ACL-Loans was $63.0 million $66.9 million, or 0.64% 0.67%, of total loans, at June 30, 2023 September 30, 2023, compared to $44.0 million, or 0.59%, of total loans, at December 31, 2022, and $37.5 million $39.0 million, or 0.53% 0.56%, at June 30, 2023 September 30, 2022.

Noninterest Income. Noninterest income decreased $9.3 million, or 24%, to $29.9 million of $36.1 million for the three months ended June 30, 2023 September 30, 2023 increased $6.9 million, or 24%, compared to $39.2 million $29.2 million for the three months ended June 30, 2022 September 30, 2022. The decrease increase was primarily due to a $10.2 million $9.2 million, or 47% 113%, increase in loan servicing fees that were partially offset by a $2.6 million, or 19%, decrease in gain on sale of loans associated with a business mix shift in multi-family lending, from volumes sold in the secondary market towards those maintained on the balance sheet.

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A summary of the gain on sale of loans for the three months ended June 30, 2023 September 30, 2023 and 2022 is below:

	Gain on Sale of Loans Three Months Ended		Gain on Sale of Loans Three Months Ended	
	June 30, 2023	June 30, 2022	September 30, 2023	September 30, 2022
	(in thousands)		(in thousands)	
Loan Type				
Multi-family	$ 10,361	$ 19,623	$ 8,616	$ 12,002
Single-family	202	406	951	138
Small Business Association (SBA)	787	1,535	1,191	1,214
Total	$ 11,350	$ 21,564	$ 10,758	$ 13,354

A $1.0 million, or 10%, decrease in loan servicing fees also contributed to the lower noninterest income. Loan servicing fees included a $3.4 million $11.6 million positive fair market value adjustment to servicing rights for the three months ended June 30, 2023 September 30, 2023, compared to a $7.7 million $4.6 million positive adjustment to fair value of servicing rights for the three months ended June 30, 2022 September 30, 2022.

Noninterest Expense. Noninterest expense increased $11.4 million, or 34%, to $44.3 million of $42.9 million for the three months ended June 30, 2023 September 30, 2023 increased $8.0 million, or 23%, compared to $35.0 million for the three months ended June 30, 2022 September 30, 2022. The increase was due primarily to a $3.2 million $4.0 million, or 14% 17%, increase in salaries and employee benefits to support loan growth, as well as a $3.1 million $2.8 million, or 468% 373%, increase in FDIC deposit insurance expenses, reflecting our growth in assets, Higher professional fees also contributed $2.1 million to the increase. expenses. The efficiency ratio was at 32.71% 28.0% for the three months ended June 30, 2023 September 30, 2023, compared with 29.64% 30.5% for the three months ended June 30, 2022 September 30, 2022.

Income Taxes. Provision for income tax decreased $14.8 million, or 82%, to $3.3 million of $25.1 million for the three months ended June 30, 2023 September 30, 2023 increased $6.1 million, or 33%, compared to $18.1 million the three months ended September 30, 2022. The increase primarily reflected a 38% increase in net income for the three months ended June 30, 2022 September 30, 2023. The decrease reflected a $13.0 million tax benefit related to tax refunds receivable and changes to state tax apportionment calculations.

During the three months ended June 30, 2023, the Company received an advisory letter it had requested from the State of Indiana related to certain state tax apportionment provisions in the Indiana Financial Institution Tax Code and Regulations. The advisory letter provided guidance related to the methodology used to determine and source the receipts in the state of Indiana for the Company's mortgage origination and warehousing service lines. In effect, the guidance provided the Company the ability to revise its state income tax apportionment calculation to reduce its Indiana tax and related deferred tax liabilities. As such, the Company will amend several of its state returns and request the

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respective refunds. In anticipation of the refunds, a receivable was established as of June 30, 2023. On July 21, 2023, the company received a final revenue ruling from the Indiana Department of Revenue supporting the revised methodology. Additionally, the change in methodology is expected to result in a 1.0% to 1.5% reduction in the Company's overall effective tax rate in the future.

The effective tax rate was 4.8% 23.5% for the three months ended June 30, 2023 September 30, 2023 and 25.1% 24.4% for the three months ended June 30, 2022 September 30, 2022.

Comparison of Operating Results for the Six Nine Months Ended June 30, 2023 September 30, 2023 and 2022

General. Net income of $201.8 million for the six nine months ended June 30, 2023 was $120.3 million, an increase of $16.2 million September 30, 2023 increased $39.2 million, or 16% 24%, from net income of $104.1 million $162.6 million for the six nine months ended June 30, 2022 September 30, 2022. The increase was primarily due to a $68.6 million $100.6 million increase in net interest income and a $13.2 million $7.0 million decrease in provision for income taxes that was

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partially offset by a $29.6 million $23.1 million increase in noninterest expense, a $22.7 million decrease in noninterest income and a $20.8 million $22.6 million increase in the provision for credit losses, and an $15.1 million increase in noninterest expense. Included in the results were the following:losses.

- a $13.0 million tax benefit related to tax refunds receivable and changes to its state tax apportionment calculations described in the Provision for Income Tax section below, and
- credit events that occurred during the three months ended June 30, 2023 totaling approximately $14.8 million for the impact of a multi-family loan charge-off, an increase in specific reserves for a healthcare customer, and changes to qualitative factors and forecasted loss rates, described in the Provision for Credit Losses section below.

Net Interest Income. Net interest income of $323.7 million for the nine months ended September 30, 2023 increased $68.6 million $100.6 million, or 50%, to $206.3 million for the six months ended June 30, 2023 45%, compared to $223.1 million for the six nine months ended June 30, 2022 September 30, 2022. The 50% 45% increase reflected a $304.1 million $466.6 million, or 184% 156%, increase in interest income from higher yields and average loan balances, partially offset by a $235.5 million $366.0 million, or 856% 480%, increase in interest expense from higher interest rates and average balances of deposits. The interest rate spread of 2.57% 2.52% for the six nine months ended June 30, 2023 September 30, 2023 decreased 15 21 basis points compared to 2.72% in 2.73% for the six nine months ended June 30, 2022. September 30, 2022.

Our net interest margin increased 29 17 basis points, to 3.11% 3.07%, for the six nine months ended June 30, 2023 September 30, 2023 from 2.82% 2.90% for the six nine months ended June 30, 2022. September 30, 2022.

Interest Income. Interest income of $766.0 million for the nine months ended September 30, 2023 increased $304.1 million $466.6 million, or 184%, to $469.4 million for the six months ended June 30, 2023 156%, compared with $165.3 million $299.4 million for the six nine months ended June 30, 2022 September 30, 2022. This increase was primarily attributable to an increase in higher average yields and loan balances, as well as higher balances of held to maturity securities that were acquired after June 30, 2022.

The average balance of loans, including loans held for sale, during the six months ended June 30, 2023 increased $2.9 billion, or 35%, to $11.3 billion compared to the six months ended June 30, 2022, and the average yield on loans increased 365 basis points, to 7.47% for the six months ended June 30, 2023, compared to 3.82% for the six months ended June 30, 2022.

The average balance of securities held to maturity, during the six months ended June 30, 2023 increased $1.1 billion, or 100%, to $1.1 billion compared to the six months ended June 30, 2022, as none were owned as of June 30, 2022. The average yield on securities held to maturity was 6.04% for the three months ended June 30, 2023.

The average balance of securities available for sale increased $241.6 million, or 76%, to $559.9 million for the six months ended June 30, 2023, from the six months ended June 30, 2022, and the average yield increased 179 basis points, to 2.82% for the six months ended June 30,

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2023, compared to 1.03% for the six months ended June 30, 2022.

The average balance of interest-earning deposits and other decreased $693.7 million, or 76%, to $217.3 million for the six months ended June 30, 2023, from $911.0 million for the six months ended June 30, 2022, and the average yield increased 472 basis points, to 5.11% for the six months ended June 30, 2023, compared to 0.39% for the six months ended June 30, 2022.

Interest Expense. Total interest expense increased $235.5 million, or 856%, to $263.1 million for the six months ended June 30, 2023, compared to the six months ended June 30, 2022.

Interest expense on deposits increased $218.7 million, or 927%, to $242.2 million for the six months ended June 30, 2023, compared to the six months ended June 30, 2022. The increase was primarily due to increases in interest rates on certificates of deposit, interest-bearing checking and money market accounts.

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was primarily attributable to an increase in higher average yields and average loan balances, as well as higher average balances of held to maturity securities that were acquired after September 30, 2022.

The average balance of loans, including loans held for sale, during the nine months ended September 30, 2023 increased $3.0 billion, or 33%, to $12.0 billion compared to $9.0 billion for the nine months ended September 30, 2022, and the average yield on loans increased 336 basis points, to 7.63% for the nine months ended September 30, 2023, compared to 4.27% for the nine months ended September 30, 2022.

The average balance of securities held to maturity, during the nine months ended September 30, 2023 increased $1.0 billion to $1.1 billion compared to the nine months ended September 30, 2022. The average yield on securities held to maturity increased 233 basis points, to 6.24% for the nine months ended September 30, 2023 ended, compared to 3.91% for the nine months ended September 30, 2022.

The average balance of securities available for sale increased $269.6 million, or 84%, to $592.5 million for the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022, and the average yield increased 229 basis points, to 3.16% for the nine months ended September 30, 2023, compared to 0.87% for the nine months ended September 30, 2022.

The average balance of interest-earning deposits and other decreased $443.8 million, or 66%, to $231.5 million for the nine months ended September 30, 2023, from $675.3 million for the nine months ended September 30, 2022, and the average yield increased 482 basis points, to 5.45% for the nine months ended September 30, 2023, compared to 0.63% for the nine months ended September 30, 2022.

Interest Expense. Total interest expense of $442.3 million for the nine months ended September 30, 2023 increased $366.0 million, or 480%, compared to $76.3 million for the nine months ended September 30, 2022.

Interest expense on deposits increased $336.6 million, or 491%, to $405.1 million for the nine months ended September 30, 2023, compared to the nine months ended September 30, 2022. The increase was primarily due to increases in rates on certificates of deposit, interest-bearing checking and money market accounts.

The average balance of certificates of deposit accounts was $4.0 billion $4.4 billion for the six nine months ended June 30, 2023 September 30, 2023, an increase of $3.2 billion, or 369% 254%, compared to the six nine months ended June 30, 2022 September 30, 2022. The average yield rate on certificates of deposit accounts was 4.68% 4.94% for the six nine months ended June 30, 2023 September 30, 2023, which was a 409 363 basis point increase compared to 0.59% 1.31% for six the nine months ended June 30, 2022 September 30, 2022.

The average balance of interest-bearing checking accounts of $4.2 billion $4.4 billion for the six nine months ended June 30, 2023 September 30, 2023 increased $248.3 million $392.3 million, or 6% 10%, compared to $3.9 billion $4.0 billion for the six nine months ended June 30, 2022 September 30, 2022. The average yield of rate on interest-bearing checking accounts was 4.29% 4.47% for the six nine months ended June 30, 2023 September 30, 2023, which was a 382 344 basis point increase compared to 0.47% 1.03% for six the nine months ended June 30, 2022 September 30, 2022.

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The average balance of money market accounts of $2.8 billion for the six nine months ended June 30, 2023 September 30, 2023 increased $130.0 million $179.0 million, or 5% 7%, compared to $2.7 million $2.6 million for the six nine months ended June 30, 2022 September 30, 2022. The average yield of rate on money market accounts was 4.26% 4.41% for the six nine months ended June 30, 2023 September 30, 2023, which was a 337 314 basis point increase compared to 0.89% 1.27% for six the nine months ended June 30, 2022 September 30, 2022.

Interest expense on borrowings increased $16.9 million $29.5 million, or 428% 384%, to $20.8 million $37.1 million for the six nine months ended June 30, 2023 September 30, 2023 from the six nine months ended June 30, 2022. September 30, 2022. The increase was due primarily to a 662 673 basis points increase in the average cost rate of borrowings to 7.81% 8.33% compared to 1.19% 1.60% for the six nine months ended June 30, 2022 September 30, 2022. The increase was primarily related to the credit linked notes issued by the Company during the three months ended June 30, 2023. in 2023. The higher average rates were partially offset by a $132.7 million $46.4 million decrease in average balances compared to the six nine months ended June 30, 2022 September 30, 2022. Additionally, borrowings include our warehouse structured financing agreements that provide for

additional interest payments for a portion of the earnings generated. As a result, the cost of borrowings increased from a base rate of 7.43% 8.12% and 0.61% 1.03%, to an effective rate of 7.81% 8.33% and 1.19% 1.60% for the six nine months ended June 30, 2023 September 30, 2023 and 2022, respectively.

The following table presents, for the periods indicated, information about (i) average balances, the total dollar amount of interest income from interest-earning assets and the resultant average yields; (ii) average balances, the total dollar amount of interest expense on interest-bearing liabilities and the resultant average rates; (iii) net interest income; (iv) the interest rate spread; and (v) the net interest margin. Yields have been calculated on a pre-tax basis. Nonaccrual loans are included in loans and loans held for sale.

	Six Months Ended June 30,						Nine Months Ended September 30,				
	2023			2022			2023			2022	
	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense
	(Dollars in thousands)						(Dollars in thousands)				
Assets:											
Interest-bearing deposits, and other	$ 217,276	$ 5,511	5.11 %	$ 910,994	$ 1,780	0.39 %	$ 231,549	$ 9,434	5.45 %	$ 675,318	$ 3,17
Securities available for sale - taxable	559,878	7,830	2.82 %	318,249	1,618	1.03 %	592,460	14,012	3.16 %	322,814	2,10
Held to maturity securities	1,104,069	33,065	6.04 %	—	—	— %	1,082,502	50,492	6.24 %	33,148	97

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Mortgage loans in process of securitization	220,046	4,775	4.38 %	273,272	3,694	2.73 %	216,245	7,358	4.55 %	260,452	5,85
Loans and loans held for sale	11,285,909	418,182	7.47 %	8,348,216	158,190	3.82 %	11,998,301	684,743	7.63 %	8,987,526	287,29
Total interest-earning assets	13,387,178	469,363	7.07 %	9,850,731	165,282	3.38 %	14,121,057	766,039	7.25 %	10,279,258	299,39
Allowance for credit losses on loans	(49,826)			(32,219)			(54,417)			(34,614)	
Noninterest-earning assets	447,082			308,451			474,883			324,068	
Total assets	$13,784,434			$10,126,963			$14,541,523			$10,568,712	
Liabilities/Equity:											
Interest-bearing checking	$ 4,180,614	$ 88,943	4.29 %	$ 3,932,334	$ 9,149	0.47 %	$ 4,417,224	$147,585	4.47 %	$ 4,024,969	$ 31,12
Savings deposits	236,647	565	0.48 %	234,846	95	0.08 %	238,404	905	0.51 %	236,334	25
Money market	2,798,774	59,129	4.26 %	2,668,735	11,819	0.89 %	2,798,622	92,364	4.41 %	2,619,729	24,91
Certificates of deposit	4,030,001	93,606	4.68 %	858,779	2,518	0.59 %	4,443,014	164,295	4.94 %	1,253,527	12,28
Total interest-bearing deposits	11,246,036	242,243	4.34 %	7,694,694	23,581	0.62 %	11,897,264	405,149	4.55 %	8,134,559	68,58
Borrowings	537,328	20,810	7.81 %	670,055	3,945	1.19 %	596,174	37,144	8.33 %	642,599	7,67
Total interest-bearing liabilities	11,783,364	263,053	4.50 %	8,364,749	27,526	0.66 %	12,493,438	442,293	4.73 %	8,777,158	76,25
Noninterest-bearing deposits	325,596			459,914			328,143			464,973	
Noninterest-bearing liabilities	154,547			107,319			169,746			107,276	
Total liabilities	12,263,507			8,931,982			12,991,327			9,349,407	
Equity	1,520,927			1,194,981			1,550,196			1,219,305	
Total liabilities and equity	$13,784,434			$10,126,963			$14,541,523			$10,568,712	
Net interest income		$206,310			$137,756			$323,746			$223,14
Interest rate spread			2.57 %			2.72 %			2.52 %		
Net interest-earning assets	$ 1,603,814			$ 1,485,982			$ 1,627,619			$ 1,052,100	
Net interest margin			3.11 %			2.82 %			3.07 %		
Average interest-earning assets to average interest-bearing liabilities			113.61 %			117.76 %			113.03 %		

Increases and decreases in interest income and interest expense result from changes in average balances (volume) of interest-earning assets and interest-bearing liabilities, as well as changes in weighted average interest rates. The

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Merchants Bancorp

following table sets forth the effects of changing rates and volumes on our net interest income during the periods shown. Information is provided with respect to (i) effects on interest income attributable to changes in volume (changes in volume multiplied by prior rate) and (ii) effects on interest income attributable to changes in rate (changes in rate multiplied by prior volume). Changes applicable to both volume and rate have been allocated to volume. Yields have been calculated on a pre-tax basis.

Merchants Bancorp

The following table summarizes the increases and decreases in interest income and interest expense resulting from changes in average balances (volume) and changes in average interest rates:

	Six Months Ended June 30, 2023 compared to June 30, 2022			Nine Months Ended September 30, 2023 compared to September 30, 2022		
	Increase (Decrease) Due to			Increase (Decrease) Due to		
(Dollars in thousands)	Volume	Rate	Total	Volume	Rate	Total
Interest income						
Interest-bearing deposits and other	$ (1,355)	$ 5,086	$ 3,731			
Interest-bearing deposits, and other				$ (2,086)	$ 8,346	$ 6,260
Securities available for sale - taxable	1,228	4,984	6,212	1,757	10,152	11,909
Securities held to maturity	33,065	—	33,065	30,707	18,815	49,522
Mortgage loans in process of securitization	(719)	1,800	1,081	(994)	2,496	1,502
Loans and loans held for sale	55,666	204,326	259,992	96,241	301,211	397,452
Total interest income	87,885	216,196	304,081	125,625	341,020	466,645
Interest expense						
Deposits						
Interest-bearing checking	578	79,216	79,794	3,034	113,423	116,457
Savings deposits	1	469	470	2	646	648
Money market deposits	576	46,734	47,310	1,701	65,749	67,450
Certificates of deposit	9,298	81,790	91,088	31,256	120,755	152,011
Total Deposits	10,453	208,209	218,662	35,993	300,573	336,566
Borrowings	(781)	17,646	16,865	(554)	30,028	29,474
Total interest expense	9,672	225,855	235,527	35,439	330,601	366,040
Net interest income	$ 78,213	$ (9,659)	$ 68,554	$ 90,186	$ 10,419	$ 100,605

Provision for Loan Credit Losses. We recorded a provision for credit losses of $29.5 million $33.5 million for the six nine months ended June 30, 2023 September 30, 2023, an increase of $20.8 million $22.6 million, or 240% 208%, compared to $8.7 million $10.9 million for the six nine months ended June 30, 2022 September 30, 2022. The increase was primarily due to: to loan growth in the period, as well as credit events and increases in qualitative factors and forecasted loss rates to reflect changes in industry conditions that were reported during the three months ended June 30, 2023, including:

- loan growth in the period,
- replenishment of $8.2 million related to the charge-off of a loan in the multi-family portfolio,

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- a $4.6 million increase related to changes in qualitative factors and forecasted loss rates to reflect changes in industry conditions, such as the impact of higher rates, and
- a $2.0 million increase in net specific reserves, primarily related to a loan in the healthcare portfolio.

The $29.5 million $33.5 million total provision for credit losses consisted of $28.5 million $32.4 million for the ACL-Loans and $1.0 million $1.1 million for the ACL-OBCE's. The ACL-Loans was $63.0 million $66.9 million, or 0.64% 0.67%, of total loans, at June 30, 2023 September 30, 2023, compared to $44.0 million, or 0.59%, of total loans, at December 31, 2022, and $37.5 million $39.0 million, or 0.53% 0.56%, at June 30, 2022 September 30, 2022.

Noninterest Income. Noninterest income of $80.2 million for the nine months ended September 30, 2023 decreased $29.6 million $22.7 million, or 40% 22%, compared to $44.1 million $103.0 million for the six nine months ended June 30, 2023 compared to the six months ended June 30, 2022 September 30, 2022. The decrease was primarily due to a $21.4 million $24.0 million, or 54% 45%, decrease in gain on sale of loans associated with a shift in

business mix to programs with lower average trade pricing in the multi-family loan portfolio, as well as lower single-family and multi-family secondary market volumes.

A summary of the gain on sale of loans for the six nine months ended June 30, 2023 September 30, 2023 and 2022 is below:

	Gain on Sale of Loans Six Months Ended		Gain on Sale of Loans Nine Months Ended	
	June 30, 2023	June 30, 2022	September 30, 2023	September 30, 2022
	(in thousands)		(in thousands)	
Loan Type				
Multi-family	$ 15,281	$ 34,576	$ 23,897	$ 46,578
Single-family	479	863	1,430	1,001
Small Business Association (SBA)	2,323	4,090	3,514	5,304
Total	$ 18,083	$ 39,529	$ 28,841	$ 52,883

Also contributing to Partially offsetting the lower decreases in noninterest income was an $8.4 million decrease a $2.2 million increase in syndication and asset management fees compared to the nine months ended September 30, 2022. This line of business is becoming a more meaningful source of noninterest income.

Also offsetting the decreases in noninterest income was a $0.9 million increase in loan servicing fees compared to the six nine months ended June 30, 2022. September 30, 2022. The decrease reflected lower positive adjustments to fair value of servicing rights partially offset by higher servicing fees. Included in loan servicing fees was a $0.5 million $12.2 million positive adjustment to the fair value of servicing rights for

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the six nine months ended June 30, 2023 September 30, 2023, compared to a positive adjustment of $15.4 million $19.9 million for the six nine months ended June 30, 2022 September 30, 2022.

Partially offsetting the decreases in noninterest income was a $2.9 million increase in syndication and asset management fees compared to the six months ended June 30, 2022. This line of business is becoming a meaningful source of noninterest income.

Noninterest Expense. Noninterest expense increased $15.1 million, or 24%, to $79.1 million of $122.0 million for the six nine months ended June 30, 2023 September 30, 2023 increased $23.1 million, compared to $98.9 million for the six nine months ended June 30, 2022 September 30, 2022. The increase was primarily due to a $4.6 million $8.1 million, or 319% 12%, increase in salaries and employee benefits as well as a $7.4 million, or 337%, increase in deposit insurance expense, reflecting asset growth. Also contributing to the higher noninterest expenses was a $4.1 million increase in salaries and employee benefits to support loan growth, as well as a $3.1 million increase in professional fees. The efficiency ratio was at 31.58% in 30.2% for the six nine months ended June 30, 2023 September 30, 2023, compared with 30.25% 30.3% in the six nine months ended June 30, 2022 September 30, 2022.

Income Taxes. Provision for income taxes of $46.7 million for the nine months ended September 30, 2023 decreased $13.2 million $7.0 million, or 38% 13%, compared to $21.6 million $53.7 million for the six nine months ended June 30, 2023 from $34.8 million for the six months ended June 30, 2022 September 30, 2022. The decrease reflected a $13.0 million tax benefit related to tax refunds receivable and changes to state tax apportionment calculations. calculations that were partially offset by taxes on higher pre-tax income.

During the three months ended June 30, 2023, the Company received an advisory letter that it requested from the State of Indiana related to certain state tax apportionment provisions in the Indiana Financial Institution Tax Code and Regulations. The advisory letter provided guidance related to the methodology used to determine and source the receipts in the state of Indiana for the Company's mortgage origination and warehousing service lines. In effect, the guidance provided the Company the ability to revise its state income tax apportionment calculation to reduce its Indiana tax and related deferred tax liabilities. As such, the Company will amend several of its state returns and request the respective refunds. In anticipation of the refunds, a receivable was established as of June 30, 2023. On July 21, 2023, the company received a final revenue ruling from the Indiana Department of Revenue supporting the revised methodology. Additionally, the change in methodology is expected to result in a 1.0% to 1.5% reduction in the Company's overall effective tax rate in the future.

The effective tax rate was 15.2% 18.8% for the six nine months ended June 30, 2023 September 30, 2023 and 25.1% 24.8% for the six nine months ended June 30, 2022 September 30, 2022.

Our Segments

We operate in three primary segments: Multi-Family Mortgage Banking, Mortgage Warehousing, and Banking. The reportable segments are consistent with the internal reporting and evaluation of the principal lines of business of the

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Company. The Multi-family Mortgage Banking segment originates and services government sponsored mortgages for multi-family and healthcare facilities. It is also a fully integrated syndicator of low-income housing tax credit and debt funds. As one of the top ranked agency lenders in the nation, our licenses with Fannie Mae, Freddie Mac, and FHA, coupled with our bank financing products, provide sponsors custom beginning-to-end financing solutions that adapt to an ever-changing market. We are also one of the largest GNMA servicers in the country based on aggregate loan principal value. As of June 30, 2023 September 30, 2023 the Company's total servicing portfolio had an unpaid principal balance of $23.5 billion $24.5 billion, primarily managed in the Multi-Family Mortgage Banking segment. Included in this amount was an

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unpaid principal balance of loans serviced for others of $13.8 billion $14.5 billion, an unpaid principal balance of loans sub-serviced for others of $2.1 billion, and other servicing balances of $0.7 billion at June 30, 2023 September 30, 2023. These loans are not included in the accompanying balance sheets. The Company also manages $7.0 billion $7.2 billion of loans for customers that have loans on the balance sheet at June 30, 2023 September 30, 2023. The servicing portfolio is primarily GNMA, Fannie Mae, and Freddie Mac loans and is a significant source of our noninterest income and deposits.

Our Mortgage Warehousing segment funds agency eligible loans for non-depository financial institutions from the date of origination or purchase until the date of sale to an investor, which typically takes less than 30 days and is a significant source of our net interest income, loans, and deposits. Mortgage Warehousing has grown to fund over $78 billion $78.3 billion in 2021, $33.2 billion in 2022, and $13.8 billion $24.6 billion for the six nine months ended June 30, 2023 September 30, 2023. Mortgage Warehousing also provides commercial loans secured by GNMA, Fannie Mae, and Freddie Mac servicing rights and collects deposits related to the mortgage escrow accounts of its customers. Merchants was recently ranked as the third largest producer of warehouse lender ranked by total commitments by *Inside Mortgage Finance.*

The Banking segment includes retail banking, commercial lending, agricultural lending, retail and correspondent residential mortgage banking, and SBA lending. Banking operates primarily in Indiana and Illinois, except for correspondent mortgage banking which, like Multi-family Mortgage Banking and Mortgage Warehousing, is a national business. The Banking segment has a well-diversified customer and borrower base and has experienced significant growth over the past three years.

Our segments diversify the net income of Merchants Bank and provide synergies across the segments. The strategic opportunities include that MCC loans are funded by Merchants Banking segment and the Banking segment provides GNMA custodial services to MCC. The securities available for sale funded by MCC custodial deposits, as well as loans generated by Merchants Bank, are pledged to the FHLB to provide advance capacity during periods of high residential loan volume for Mortgage Warehousing. Mortgage Warehousing provides leads to correspondent residential lending in the banking segment. and Correspondent Mortgage Banking share customer leads. MCC also provides leads to Merchants Bank for core deposit opportunities. Retail and commercial customers provide cross selling opportunities within the banking segment. These and other synergies form a part of our strategic plan.

For the three months ended June 30, 2023 September 30, 2023 and 2022, we had total net income of $65.3 million $81.5 million and $53.9 million $58.5 million, respectively. For the six nine months ended June 30, 2023 September 30, 2023 and 2022, we had total net income of $120.3 million $201.8 million and $104.1 million $162.6 million, respectively. Net income for our three segments for the respective periods was as follows:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,		For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2023	2022	2023	2022	2023	2022	2023	2022
	(In thousands)				(In thousands)			
Multi-family Mortgage Banking	$ 11,242	$ 19,556	$ 13,208	$ 31,048	$14,685	$13,366	$ 27,893	$ 44,414
Mortgage Warehousing	18,596	11,868	27,237	25,027	19,926	11,801	47,163	36,828
Banking	42,650	25,932	91,957	54,696	52,445	39,344	144,402	94,040
Other	(7,186)	(3,421)	(12,145)	(6,694)	(5,552)	(6,023)	(17,697)	(12,717)
Total	$ 65,302	$ 53,935	$ 120,257	$ 104,077	$81,504	$58,488	$201,761	$162,565

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Multi-family Mortgage Banking.

Comparison of results for the three months ended June 30, 2023 September 30, 2023 and 2022:

The Multi-family Mortgage Banking segment reported net income of $11.2 million $14.7 million for the three months ended June 30, 2023 September 30, 2023, a decrease an increase of $8.3 million $1.3 million, or 43% 10%, compared to the three months ended June 30, 2022 September 30, 2022. The decrease

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increase was primarily due to a $19.2 $1.0 million increase in net interest income and a $2.6 million decrease in gain on sale of loans, partially offset by a $6.8 million decrease in the provision for income tax that reflected a tax benefit for tax refunds receivable and changes to state tax apportionment calculations.

Also included in the results was a $2.4 million increase in syndication and asset management fees noninterest expenses, that was partially offset by a $50,000 $2.2 million decrease in noninterest income.

Noninterest income included a $9.3 million increase in loan servicing fees that reflected higher underlying growth was offset by lower positive fair market value adjustments. The a $10.7 million decrease in loan on gain on sale of loans for the three months ended September 30, 2023. Loan servicing fees reflected included a positive fair market value adjustment of $2.1 million $10.4 million on servicing rights, for the three months ended June 30, 2023 compared to a positive fair market value adjustment of $6.6 million $3.7 million for the three months ended June 30, 2022 September 30, 2022.

The total volume of loans originated and acquired through our multi-family business was $1.4 billion for the three months ended September 30, 2023, a decrease of $869.4 million, or 39%, compared to $2.2 billion for the three months ended September 30, 2022. Many of these loans are bridge loans housed in our banking segment while borrowers await conversion to permanent financing. The volume of bridge loans was $785.8 million for the three months ended September 30, 2023, a decrease of $705.7 million, or 47%, compared to $1.5 billion for the three months ended September 30, 2022. The volume of loans originated and acquired for sale in the secondary market increased by $261.8 million $55.1 million, or 64% 15%, to $668.2 million $422.1 million, compared to $367.0 million for the three months ended June 30, 2023, compared to $406.4 million for the three months ended June 30, 2022 September 30, 2022.

Comparison of results for the six nine months ended June 30, 2023 September 30, 2023 and 2022:

The Multi-family Mortgage Banking segment reported net income of $13.2 million $27.9 million for the six nine months ended June 30, 2023 September 30, 2023, a decrease of $17.8 million $16.5 million, or 57% 37%, from the $31.0 million $44.4 million of net income reported for the six nine months ended June 30, 2022. September 30, 2022. The decrease was primarily due to a $34.7 million $36.8 million decrease in noninterest income, including a $32.1 million $42.9 million decrease in gain on sale of loans and that was partially offset by a $1.3 million decrease $8.1 million increase in loan servicing fees. The decrease in loan

Loan servicing fees reflected for the nine months ended September 30, 2023 included a negative positive fair market value adjustment of $0.1 million $10.4 million on servicing rights, for the six months ended June 30, 2023 compared to a positive fair market value adjustment of $9.9 million $13.6 million for the six nine months ended June 30, 2022 September 30, 2022.

The lower noninterest income was partially offset by a $10.1 million $10.0 million decrease in the provision for income tax that was associated with a tax benefit for tax refunds receivable and changes to state tax apportionment calculations, as well as a $6.5 million decrease in noninterest expense that was associated with lower commission expenses associated with on lower gain on sale for the six nine months ended June 30, 2023 September 30, 2023.

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The total volume of loans originated and acquired through our multi-family business was $3.7 billion for the nine months ended September 30, 2023, a decrease of $3.1 billion, or 46%, compared to $6.8 billion for the nine months ended September 30, 2022. Many of these loans are bridge loans housed in our banking segment while borrowers await conversion to permanent financing. The volume of bridge loans was $1.8 billion for the nine months ended September 30, 2023, a decrease of $3.0 billion, or 62%, compared to $4.8 billion for the nine months ended September 30, 2022. The volume of loans originated and acquired for sale in the secondary market decreased by $165.7 million $110.6 million, or 17% 8%, to $782.3 million $1.2 billion, compared to $1.3 billion for the six nine months ended June 30, 2023 compared to the six months ended June 30, 2022 September 30, 2022.

Mortgage Warehousing.

Comparison of results for the three months ended June 30, 2023 September 30, 2023 and 2022:

The Mortgage Warehousing segment reported net income of $18.6 million $19.9 million for the three months ended June 30, 2023 September 30, 2023, an increase of $6.7 million $8.1 million, or 57% 69%, compared to the three months ended June 30, 2022 September 30, 2022. The higher net income reflected a $41.0 million $11.5 million increase in net interest income primarily from higher yields and volumes on loans held for sale and revolving lines of credit that are collateralized by mortgage servicing rights, as well as a decrease of $4.3 million in the provision for income tax that included a tax benefit for tax refunds receivable and changes to state tax apportionment calculations. Mortgage warehouse fees also increased by $1.5 million. These increases to net income were partially offset by a $37.4 million increase in interest expenses that reflected higher costs of deposits, a $1.5 million increase in the provision for credit losses, and a $0.8 million increase in deposit insurance expenses. rights.

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There was a 5% decrease 23% increase in warehouse loan volume of $8.4 billion $10.8 billion compared to $8.8 billion for the three months ended June 30, 2022, September 30, 2022, which compared to an industry volume decrease of 32% 10%, according to the Mortgage Bankers Association.

Comparison of results for the six nine months ended June 30, 2023 September 30, 2023 and 2022:

The Mortgage Warehousing segment reported net income for the six nine months ended June 30, 2023 September 30, 2023 of $27.2 million $47.2 million, an increase of $2.2 million $10.3 million, or 9% 28%, over the $25.0 million reported for the six nine months ended June 30, 2022. September 30, 2022. The higher net income was primarily due to a $63.0 million $11.3 million increase in net interest income associated with higher interest income due to higher yields and volume on loans held for sale and revolving lines of credit that are collateralized by mortgage servicing rights, as well as a decrease of $5.7 million in the provision for income tax that reflected a tax benefit for tax refunds receivable and changes to state tax apportionment calculations. Mortgage warehouse fees also increased by $0.7 million. These increases to net income were partially offset by a $63.2 million increase in interest expenses that reflected higher costs of deposits, a $3.1 million increase in the provision for credit losses, and a $1.1 million increase in deposit insurance expenses. rights.

There was a 24% 9% decrease in warehouse loan volume of $13.8 billion $24.6 billion compared to $18.2 billion $26.9 billion for the six nine months ended June 30, 2022, September 30, 2022, which compared to an industry volume decrease of 42%, 35% according to the Mortgage Bankers Association.

Banking.

Comparison of results for the three months ended June 30, 2023 September 30, 2023 and 2022:

The Banking segment reported net income of $42.7 million $52.4 million for the three months ended June 30, 2023 September 30, 2023, an increase of $16.7 million $13.1 million, or 64% 33%, compared to the three months ended June 30, 2022. September 30, 2022. The increase was primarily due to a $28.6 million $19.2 million increase in net interest income and a $9.0 million $7.8 million increase in gain on sale of loans, noninterest income, which were partially offset by a $7.2 million increase in noninterest expense and a $4.2 million decrease increase in

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the provision for income taxes, partially offset by a $16.1 million increase in the provision for credit losses and a $5.4 million increase in salaries and employee benefits. taxes.

Noninterest income for the three months ended June 30, 2023 September 30, 2023 included a positive fair market value adjustment of $1.3 million $1.2 million on single-family servicing rights, compared to a positive fair market value adjustment of $1.2 million $0.9 million for the three months ended June 30, 2022 September 30, 2022.

Comparison of results for the six nine months ended June 30, 2023 September 30, 2023 and 2022:

The Banking segment reported net income of $92.0 million $144.4 million for the six nine months ended June 30, 2023 September 30, 2023, an increase of $37.3 million $50.4 million, or 68% 54%, compared to $54.7 million $94.0 million for the six nine months ended June 30, 2022 September 30, 2022. The increase was primarily due to a $65.5 million $84.8 million increase in net interest income and a $10.7 million $13.9 million increase in gain on sale of loans, noninterest income, partially offset by an $18.9 million a $21.4 million increase in the provision for credit losses, and a $7.8 million $20.3 million increase in salaries and employee benefits, a $5.1 million decrease in loan servicing fees, and a $3.5 million increase in deposit insurance expense that, reflected growth in assets and deposits. noninterest expense.

Noninterest income for the six nine months ended June 30, 2023 September 30, 2023 included a positive fair market value adjustment of $0.6 million $1.8 million on single-family servicing rights, compared to a positive fair market value adjustment of $5.5 million $6.3 million for the six nine months ended June 30, 2022 September 30, 2022.

Liquidity and Capital Resources

Liquidity.

Our primary sources of funds are business and consumer deposits, escrow and custodial deposits, brokered deposits, borrowings, principal and interest payments on loans, and proceeds from sale of loans. While maturities and scheduled

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amortization of loans are predictable sources of funds, deposit flows and mortgage prepayments are greatly influenced by market interest rates, economic conditions, and competition.

At June 30, 2023 September 30, 2023, based on available collateral, we had $5.3 billion $5.4 billion in available unused borrowing capacity with the FHLB and the Federal Reserve discount window. While the amounts available fluctuate daily, we also had

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available capacity in credit lines through our membership in the AFX. This liquidity enhances the ability to effectively manage interest expense and asset levels in the future.

The Company's most liquid assets are in cash, short-term investments, including interest-bearing demand deposits, mortgage loans in process of securitization, loans held for sale, and warehouse lines of credit included in loans receivable. Taken together with its unused borrowing capacity of $5.3 billion $5.4 billion described below, these totaled $10.2 billion $10.7 billion, or 64% 65%, of its $15.9 billion $16.5

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billion total assets at June 30, 2023 September 30, 2023. The levels of these assets are dependent on our operating, financing, lending, and investing activities during any given period.

Our liquid assets and borrowing capacity significantly exceed our uninsured deposits. Uninsured deposits totaled approximately $2 billion as of June 30, 2023 September 30, 2023, representing less than 20% of total deposits. Since 2018, the Company has offered its customers an opportunity to insure balances in excess of $250,000 through our insured cash sweep program that extends FDIC protection up to $100 million. The balance of deposits in this program was $1.7 billion $1.8 billion as of June 30, 2023 September 30, 2023.

The Company's investment portfolio has minimal levels of unrealized losses and management does not anticipate a need to sell securities for liquidity purposes at a loss. We are able to maintain minimal levels of investment securities because of our originate to sell model, which provides ongoing liquidity. As of June 30, 2023 September 30, 2023, Accumulated Other Comprehensive Losses ("AOCL") of $7.0 million $4.8 million losses, related to securities available for sale, decreased $3.5 million $5.8 million, or 33% 55%, compared to losses of $10.5 million as of December 31, 2022. The $7.0 million $4.8 million loss in AOCL as of June 30, 2023 September 30, 2023 represented less than 1% of total equity and 1% of total securities available for sale.

Our cash flows are comprised of three primary classifications: cash flows from operating activities, investing activities, and financing activities. Net cash (used in) provided by operating activities was $(543.0) million $(1.1) billion and $874.8 million $1.8 billion for the six nine months ended June 30, 2023 September 30, 2023 and 2022, respectively. Net cash (used in) investing activities, which consists primarily of net change in loans receivable and purchases, sales and maturities of investment securities and loans, was $(2.4) billion and $(1.4) $(3.0) billion for the six nine months ended June 30, 2023 September 30, 2023 and 2022, respectively. Net cash provided by (used in) financing activities, which is comprised primarily of net change in borrowings and deposits was $3.1 billion $3.6 billion and $(297.4) million $507.4 million for the six nine months ended June 30, 2023 September 30, 2023 and 2022, respectively.

At June 30, 2023 September 30, 2023 we had $3.5 billion $3.4 billion in outstanding commitments to extend credit that are subject to credit risk and $3.7 billion $5.7 billion outstanding commitments subject to certain performance criteria and cancellation by the Company, including loans pending closing, unfunded construction draws, and unfunded lines of warehouse credit. We anticipate that we will have sufficient funds available to meet our current loan origination commitments. Additionally, our business model is designed to sell a significant portion of our loans, which provides flexibility in managing liquidity.

Certificates of deposit that are scheduled to mature in less than one year from June 30, 2023 September 30, 2023 totaled $5.0 billion $4.9 billion, or 97%, of total certificates of deposit. Management expects that a substantial portion of the maturing certificates of deposit will be renewed. However, if a substantial portion of these deposits is not retained, we may decide to utilize FHLB advances, the Federal Reserve discount window, brokered deposits, or raise interest rates on deposits to attract new accounts, which may result in higher levels of interest expense.

In the normal course of operations, we engage in a variety of financial transactions that, in accordance with U.S. generally accepted accounting principles, are not recorded in our financial statements. These transactions involve, to varying degrees, elements of credit, interest rate and liquidity risk. Such transactions are used primarily to manage customers' requests for funding and take the form of loan commitments, lines of credit and standby letters of credit.

Capital Resources.

The access to and cost of funding for new business initiatives, the ability to engage in expanded business activities, the ability to pay dividends, the level of deposit insurance costs and the level and nature of regulatory oversight depend, in part, on our capital position. The Company filed a shelf registration statement on Form S-3 with the SEC on August 8, 2022, August 8,

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2022, which was declared effective on August 17, 2022, under which we can issue up to $500 million aggregate offering amount of registered securities to finance our growth objectives. As previously demonstrated, the Company also has the ability to utilize securitization transactions to free up capital as needed.

The assessment of capital adequacy depends on a number of factors, including asset quality, liquidity, earnings performance, changing competitive conditions and economic forces. We seek to maintain a strong capital base to support our growth and expansion activities, to provide stability to our current operations and to promote public confidence in our Company.

Shareholders' Equity. Shareholders' equity was $1.6 billion as of June 30, 2023 September 30, 2023, compared to $1.5 billion as of December 31, 2022. The $100.6 million $173.0 million increase resulted primarily from net income of $120.3 million $201.8 million, which was partially offset by dividends paid on common and preferred shares of $24.3 million $36.4 million during the period.

7% Series A Preferred Stock. In March 2019 the Company issued 2,000,000 shares of 7.00% Fixed-to-Floating Rate Series A Non-Cumulative Perpetual Preferred Stock, without par value, and with a liquidation preference of $25.00 per share ("Series A Preferred Stock"). The Company received net proceeds of $48.3 million after underwriting discounts, commissions and direct offering expenses. In April 2019, the Company issued an additional 81,800 shares of Series A Preferred Stock to the underwriters related to their exercise of an option to purchase additional shares under the associated underwriting agreement, resulting in an addition $2.0 million in net proceeds, after underwriting discounts.

In June 2019 the Company issued an additional 874,000 shares of Series A Preferred Stock for net proceeds of $21.85 million.

In September 2019 the Company repurchased and subsequently retired 874,000 shares of Series A Preferred Stock at an aggregate cost of $21.85 million. There were no brokerage fees in connection with the transaction.

Dividends on the Series A Preferred Stock, to the extent declared by the Company's board, are payable quarterly at an annual rate of $1.75 per share through March 31, 2024. After such date, quarterly dividends were to accrue and be payable at a floating rate equal to three-month LIBOR plus a spread of 460.5 basis points per year. However, the terms of the Series A Preferred Stock permit us to replace three-month LIBOR if we determine that LIBOR has been discontinued or is no longer viewed as an acceptable benchmark for similar securities. With the cessation of published three-month LIBOR rates as of June 30, 2023, the Company has determined that three-month LIBOR has been discontinued and is no longer an acceptable benchmark. The Company anticipates replacing three-month LIBOR with Federal Reserve's three month Secured Overnight Financing Rate ("SOFR"). The Company believes that three-month SOFR represents the most comparable replacement benchmark, is an industry-accepted substitute, and is consistent with expectations of investors in securities similar to the Series A Preferred Stock. In addition to replacing three-month LIBOR with three-month SOFR, the terms of the Series A Preferred Stock permit us to adjust the spread to ensure that the payable floating rate remains comparable. Therefore, the Company anticipates increasing the spread by 26.2 basis points, which is consistent with industry practice and the recommendation of the Federal Reserve's Alternative Reference Rates Committee, resulting in the Company paying a floating rate of three-month SOFR plus a spread of 486.7 basis points during the floating rate period. The Company may also redeem the Series A Preferred Stock at its option, subject to regulatory approval, on or after April 1, 2024.

6% Series B Preferred Stock. In August 2019 the Company issued 5,000,000 depositary shares, each representing a 1/40th interest in a share of its 6.00% Fixed-to-Floating Rate Series B Non-Cumulative Perpetual Preferred Stock, without par value, and with a liquidation preference of $1,000.00 per share (equivalent to $25.00 per depositary

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share)("Series B Preferred Stock"). After deducting underwriting discounts, commissions, and direct offering expenses, the Company received total net proceeds of $120.8 million.

Dividends on the Series B Preferred Stock, to the extent declared by the Company's board, are payable quarterly at an annual rate of $60.00 per share (equivalent to $1.50 per depositary share) through September 30, 2024. After such date, quarterly dividends were to accrue and be payable at a floating rate equal to three-month LIBOR plus a spread of

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456.9 basis points per year. However, the terms of the Series B Preferred Stock permit us to replace three-month LIBOR if we determine that LIBOR has been discontinued or is no longer viewed as an acceptable benchmark for similar securities. With the cessation of published three-month LIBOR rates as of June 30, 2023, the Company has determined that three-month LIBOR has been discontinued and is no longer an acceptable benchmark. The Company anticipates replacing three-month LIBOR with Federal Reserve's three month Secured Overnight Financing Rate ("SOFR"). The Company believes that three-month SOFR represents the most comparable replacement benchmark, is an industry-accepted substitute, and is consistent with expectations of investors in securities similar to the Series B Preferred Stock. In addition to replacing three-month LIBOR with three-month SOFR, the terms of the Series B Preferred Stock permit us to adjust the spread to ensure that the payable floating rate remains comparable. Therefore, the Company anticipates increasing the spread by 26.2 basis points, which is consistent with industry practice and the recommendation of the Federal Reserve's Alternative Reference Rates Committee, resulting in the Company paying a floating rate of three-month SOFR plus a spread of 483.1 basis points during the floating rate period. The Company may also redeem the Series B Preferred Stock at its option, subject to regulatory approval, on or after April 1, 2024.

6% Series C Preferred Stock. On March 23, 2021, the Company issued 6,000,000 depositary shares, each representing a 1/40th interest in a share of its 6.00% Fixed Rate Series C Non-Cumulative Perpetual Preferred Stock, without par value (the "Series C Preferred Stock"), and with a liquidation preference of $1,000.00 per share (equivalent to $25.00 per depositary share). The aggregate gross offering proceeds for the shares issued by the Company was $150.0 million, and after deducting underwriting discounts and commissions and offering expenses of approximately $5.1 million paid to third parties, the Company received total net proceeds of $144.9 million.

On May 6, 2021, our previously issued, 8% preferred shareholders participated in a private offering to replace their redeemed 8% preferred shares with the Company's 6% Series C preferred stock. Accordingly, 46,181 shares (1,847,233 depositary shares) of the Company's 6% Series C preferred stock were issued at a price of $25 per depositary share. The total capital raised from the private offering was $46.2 million, net of $23,000 in expenses.

Dividends on the Series C Preferred Stock, to the extent declared by the Company's board, are payable quarterly. The Company may redeem the Series C Preferred Stock, in whole or in part, at our option, on any dividend payment date on or after April 1, 2026, subject to the approval of the appropriate federal banking agency, at the liquidation preference, plus any declared and unpaid dividends (without regard to any undeclared dividends) to, but excluding, the date of redemption.

8.25% Series D Preferred Stock. On September 27, 2022, the Company issued 5,200,000 depositary shares, each representing a 1/40th interest in a share of its 8.25% Fixed Rate Series D Non-Cumulative Perpetual Preferred Stock, without par value (the "Series D Preferred Stock"), and with a liquidation preference of $1,000.00 per share (equivalent to $25.00 per depositary share). The aggregate gross offering proceeds for the shares issued by the Company was $130.0 million, and after deducting underwriting discounts and commissions and offering expenses of approximately $4.6 million paid to third parties, the Company received total net proceeds of $125.4 million. On September 30, 2022, the Company issued an additional 500,000 shares of Series D Preferred Stock to the underwriters related to their exercise of an option to purchase additional shares under the associated underwriting agreement, resulting in an additional $12.1 million in net proceeds, after deducting $0.4 million in underwriting discounts.

Dividends on the Series D Preferred Stock, to the extent declared by the Company's board, are payable quarterly. The Company may redeem the Series D Preferred Stock, in whole or in part, at our option, on any dividend payment date on or after October 1, 2027, subject to the approval of the appropriate federal banking agency, at the liquidation

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Merchants Bancorp

preference, plus any declared and unpaid dividends (without regard to any undeclared dividends) to, but excluding, the date of redemption.

Common Shares/Dividends. As of June 30, 2023 September 30, 2023, the Company had 43,237,300 43,240,212 common shares issued and outstanding. The Board expects to declare a quarterly dividend of $0.08 per share in each quarter of 2023.

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Capital Adequacy.

The following tables present the Company's capital ratios at June 30, 2023 September 30, 2023 and December 31, 2022:

	Actual		Minimum Amount Required for Adequately Capitalized(1)		Minimum Amount To Be Well Capitalized(1)		Actual		Minimum Amount to be Well Capitalized with Basel III Buffer(1)		Minimum Amount To Be Well Capitalized(1)	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)						(Dollars in thousands)					
June 30, 2023												
September 30, 2023												
Total capital(1) (to risk-weighted assets)												
Company	$1,625,223	11.3 %	$1,148,948	8.0 %	$ —	N/A %	$1,699,507	11.5 %	$1,556,494	10.5 %	$ —	N/A %
Merchants Bank	1,563,433	11.1 %	1,127,989	8.0 %	1,409,986	10.0	1,669,849	11.5 %	1,526,849	10.5 %	1,454,142	10.0
FMBI	37,536	11.3 %	26,636	8.0 %	33,295	10.0 %	38,995	11.2 %	36,546	10.5 %	34,806	10.0 %
Tier I capital(1) (to risk-weighted assets)												
Company	1,549,763	10.8 %	861,711	6.0 %	—	N/A %	1,620,024	10.9 %	1,260,019	8.5 %	—	N/A %

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Merchants Bank	1,488,730	10.6 %	845,992	6.0 %	1,127,989	8.0	1,591,057	10.9 %	1,236,021	8.5 %	1,163,314	8.0
FMBI	36,779	11.0 %	19,977	6.0 %	26,636	8.0 %	38,303	11.0 %	29,585	8.5 %	27,845	8.0 %
Common Equity Tier I capital(1) (to risk-weighted assets)												
Company	1,050,155	7.3 %	646,284	4.5 %	—	N/A %	1,120,416	7.6 %	1,037,663	7.0 %	—	N/A %
Merchants Bank	1,488,730	10.6 %	634,494	4.5 %	916,491	6.5	1,591,057	10.9 %	1,017,899	7.0 %	945,192	6.5
FMBI	36,779	11.0 %	14,983	4.5 %	21,642	6.5 %	38,303	11.0 %	24,364	7.0 %	22,624	6.5 %
Tier I capital(1) (to average assets)												
Company	1,549,763	10.6 %	586,227	4.0 %	—	N/A %	1,620,024	10.1 %	640,543	4.0 %	—	N/A %
Merchants Bank	1,488,730	10.4 %	574,725	4.0 %	718,406	5.0	1,591,057	10.1 %	628,478	4.0 %	785,597	5.0
FMBI	36,779	10.6 %	13,823	4.0 %	17,279	5.0 %	38,303	10.6 %	14,440	4.0 %	18,050	5.0 %

(1) As defined by regulatory agencies.

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	Actual		Minimum Amount Required for Adequately Capitalized(1)		Minimum Amount To Be Well Capitalized(1)		Actual		Minimum Amount Require for Adequately Capitalized(1)	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ra
	(Dollars in thousands)						(Dollars in thousands)			
December 31, 2022										
Total capital(1) (to risk-weighted assets)										
Company	$1,507,968	12.2 %	$992,883	8.0 %	$ —	N/A %	$1,507,968	12.2 %	$992,883	8
Merchants Bank	1,427,738	11.7 %	975,853	8.0 %	1,219,817	10.0 %	1,427,738	11.7 %	975,853	8
FMBI	34,769	11.3 %	24,703	8.0 %	30,878	10.0 %	34,769	11.3 %	24,703	8
Tier I capital(1) (to risk-weighted assets)										
Company	1,452,456	11.7 %	744,662	6.0 %	—	N/A %	1,452,456	11.7 %	744,662	6
Merchants Bank	1,372,941	11.3 %	731,890	6.0 %	975,853	8.0 %	1,372,941	11.3 %	731,890	6
FMBI	34,054	11.0 %	18,527	6.0 %	24,703	8.0 %	34,054	11.0 %	18,527	6
Common Equity Tier I capital(1) (to risk-weighted assets)										
Company	952,848	7.7 %	558,497	4.5 %	—	N/A %	952,848	7.7 %	558,497	4
Merchants Bank	1,372,941	11.3 %	548,917	4.5 %	792,881	6.5 %	1,372,941	11.3 %	548,917	4
FMBI	34,054	11.0 %	13,895	4.5 %	20,071	6.5 %	34,054	11.0 %	13,895	4
Tier I capital(1) (to average assets)										
Company	1,452,456	11.7 %	497,604	4.0 %	—	N/A %	1,452,456	11.7 %	497,604	4
Merchants Bank	1,372,941	11.3 %	487,511	4.0 %	609,389	5.0 %	1,372,941	11.3 %	487,511	4
FMBI	34,054	10.7 %	12,702	4.0 %	15,878	5.0 %	34,054	10.7 %	12,702	4

(1) As defined by regulatory agencies.

Quantitative measures established by regulation to ensure capital adequacy require the Company, Merchants Bank, and FMBI to maintain minimum amounts and ratios. Management believes, as of June 30, 2023 September 30, 2023 and December 31, 2022, that the Company, Merchants Bank, and FMBI met all capital adequacy requirements to which they were subject.

As of June 30, 2023 September 30, 2023 and December 31, 2022, the most recent notifications from the Federal Reserve categorized the Company as well capitalized and most recent notifications from the FDIC categorized Merchants Bank and FMBI as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Company's, Merchants Bank's, or FMBI's category.

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Quantitative and Qualitative Disclosures About Market Risk

Market Risk. Market risk represents the risk of loss due to changes in market values of assets and liabilities. We incur market risk in the normal course of business through exposures to market interest rates, equity prices, and credit spreads. We have identified two primary sources of market risk: interest rate risk and price risk related to market demand.

Interest Rate Risk

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Overview. Interest rate risk is the risk to earnings and value arising from changes in market interest rates. Interest rate risk arises from timing differences in the repricings and maturities of interest-earning assets and interest-bearing liabilities (reprice risk), changes in the expected maturities of assets and liabilities arising from embedded options, such as borrowers' ability to prepay residential mortgage loans at any time and depositors' ability to redeem certificates of deposit before maturity (option risk), changes in the shape of the yield curve where interest rates increase or decrease in

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a nonparallel fashion (yield curve risk), and changes in spread relationships between different yield curves, such as U.S. Treasuries or SOFR.

Our business consists primarily of funding fixed rate, low risk, multi-family, residential and SBA loans meeting underwriting standards of government programs under an originate to sell model, and retaining adjustable rate loans as held for investment to reduce interest rate risk.

Our Asset-Liability Committee, or ALCO, is a management committee that manages our interest rate risk within broad policy limits established by our board of directors. In general, we seek to minimize the impact of changing interest rates on net interest income and the economic values of assets and liabilities. Our ALCO meets quarterly to monitor the level of interest rate risk sensitivity to ensure compliance with the board of directors' approved risk limits.

Interest rate risk management is an active process that encompasses monitoring loan and deposit flows complemented by investment and funding activities. Effective management of interest rate risk begins with understanding the dynamic characteristics of assets and liabilities and determining the appropriate interest rate risk posture given business forecasts, management objectives, market expectations, and policy constraints.

An asset sensitive position refers to a balance sheet position in which an increase in short-term interest rates is expected to generate higher net interest income, as rates earned on our interest-earning assets would reprice upward more quickly than rates paid on our interest-bearing liabilities, thus expanding our net interest margin. Conversely, a liability sensitive position refers to a balance sheet position in which an increase in short-term interest rates is expected to generate lower net interest income, as rates paid on our interest-bearing liabilities would reprice upward more quickly than rates earned on our interest-earning assets, thus compressing our net interest margin.

Income Simulation and Economic Value Analysis. Interest rate risk measurement is calculated and reported to the ALCO at least quarterly. The information reported includes period-end results and identifies any policy limits exceeded, along with an assessment of the policy limit breach and the action plan and timeline for resolution, mitigation, or assumption of the risk.

We use two approaches to model interest rate risk: Net Interest Income at Risk (NII at Risk) and Economic Value of Equity ("EVE"). Under NII at Risk, net interest income is modeled utilizing various assumptions for assets, liabilities, and derivatives and excludes non-interest income. EVE measures the period end market value of assets minus the market value of liabilities and the change in this value as rates change. EVE is a period end measurement.

We report NII at Risk to isolate the change in income related solely to interest-earning assets and interest-bearing liabilities. The NII at Risk results reflect the analysis used quarterly by management. It models gradual -200, -100, +100

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and +200 basis point parallel shifts in market interest rates, implied by the forward yield curve over the next one-year period.

The following table presents NII at Risk for Merchants Bank as of June 30, 2023 September 30, 2023 and December 31, 2022.

	Net Interest Income Sensitivity Twelve Months Forward				Net Interest Income Sensitivity Twelve Months Forward			
	- 200	- 100	+ 100	+ 200	- 200	- 100	+ 100	+ 200
	(Dollars in thousands)				(Dollars in thousands)			
June 30, 2023:								
September 30, 2023:								
Dollar change	$ (93,023)	$ (46,622)	$ 32,156	$ 60,629	$(82,126)	$(40,859)	$26,931	$51,728
Percent change	(21.0)%	(10.5)%	7.3 %	13.7 %	(16.7)%	(8.3)%	5.5 %	10.5 %
December 31, 2022:								
Dollar change	$ (96,861)	$ (48,581)	$ 37,232	$ 74,094	$(96,861)	$(48,581)	$37,232	$74,094
Percent change	(23.8)%	(11.9)%	9.2 %	18.2 %	(23.8)%	(11.9)%	9.2 %	18.2 %

Our interest rate risk management policy limits the change in our net interest income to 20% for a +/- 100 basis point move in interest rates, and 30% for a +/- 200 basis point move in rates. At June 30, 2023 September 30, 2023 we estimated that we are within policy limits set by our board of directors for the -200, -100, +100, and +200 basis point scenarios.

The EVE results for Merchants Bank included in the following table reflect the analysis used quarterly by management. It models immediate -200, -100, +100 and +200 basis point parallel shifts in market interest rates.

	Economic Value of Equity Sensitivity (Shock)				Economic Value of Equity Sensitivity (Shock)			
	Immediate Change in Rates				Immediate Change in Rates			
	- 200	- 100	+ 100	+ 200	- 200	- 100	+ 100	+ 200
	(Dollars in thousands)				(Dollars in thousands)			
June 30, 2023:								
September 30, 2023:								
Dollar change	$ 1,101	$ 1,024	$ (3,703)	$ (23,514)	$34,279	$19,426	$(25,408)	$(65,764)
Percent change	0.1 %	0.1 %	(0.3)%	(1.6)%	2.2 %	1.2 %	(1.6)%	(4.2)%
December 31, 2022:								
Dollar change	$ 22,855	$ 11,640	$ (10,925)	$ (26,385)	$22,855	$11,640	$(10,925)	$(26,385)
Percent change	1.6 %	0.8 %	(0.8)%	(1.9)%	1.6 %	0.8 %	(0.8)%	(1.9)%

Our interest rate risk management policy limits the change in our EVE to 15% for a +/- 100 basis point move in interest rates, and 20% for a +/- 200 basis point move in rates. We are within policy limits set by our board of directors for the -200, -100, +100 and +200 basis point scenarios. The EVE reported at June 30, 2023 September 30, 2023 projects that as interest rates increase (decrease) immediately, the economic value of equity position will be expected to decrease (increase). When interest rates rise, fixed rate assets generally lose economic value; the longer the duration, the greater the value lost. The opposite is true when interest rates fall.

ITEM 3 Quantitative and Qualitative Disclosures About Market Risk

The information required under this item is included as part of “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of this Form 10-Q under the headings “Liquidity and Capital Resources” and “Interest Rate Risk.”

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ITEM 4 Controls and Procedures

(a) **Evaluation of disclosure controls and procedures.**

Our management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this Form 10-Q. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of June 30, 2023 September 30, 2023, the Company's disclosure controls and procedures were effective.

(b) **Changes in internal control.**

There have been no changes in the Company's internal control over financial reporting during the period covered by this report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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Part II

Other Information

ITEM 1. Legal Proceedings

None.

ITEM 1A. Risk Factors

There have been no material changes from the risk factors previously disclosed in the "Risk Factors" section included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022.

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

None.

ITEM 3. Defaults Upon Senior Securities

None.

ITEM 4. Mine Safety Disclosures

Not applicable.

ITEM 5. Other Information

None.

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ITEM 6. Exhibits

Exhibit Number	Description
3.1	Second Amended and Restated Articles of Incorporation of Merchants Bancorp. (incorporated by reference to Exhibit 3.1 of Form 8-K, filed on May 24, 2022).
3.2	Articles of Amendment to the Second Amended and Restated Articles of Incorporation dated September 27, 2022 designating the 8.25% Fixed Rate Reset Series D Non-Cumulative Perpetual Preferred Stock (incorporated by reference to Exhibit 3.2 of Form 8-A filed on September 27, 2022).
3.3	Second Amended and Restated By-Laws of Merchants Bancorp (incorporated by reference to Exhibit 3.1 of Form 8-K, filed on November 20, 2017).
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 furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File – The cover page interactive data file does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document

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Merchants Bancorp

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.

Merchants Bancorp

Date: August November 9, 2023

By: /s/ Michael F. Petrie
Michael F. Petrie
Chairman & Chief Executive Officer

Date: August November 9, 2023

By: /s/ John F. Macke
John F. Macke
Chief Financial Officer
(Principal Financial & Accounting Officer)

EXHIBIT 31.1

CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Michael F. Petrie, the Chief Executive Officer of Merchants Bancorp, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Merchants Bancorp;

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, including its consolidated subsidiaries, is made known to us by others within those entities, 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;

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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 (the registrant's fourth quarter in the case of an annual report) 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 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.

August November 9, 2023	/s/Michael F. Petrie
Date	Michael F. Petrie
	Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION OF THE CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, John F. Macke, the Principal Financial Officer of Merchants Bancorp, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Merchants Bancorp;

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, including its consolidated subsidiaries, is made known to us by others within those entities, 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

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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 (the registrant's fourth quarter in the case of an annual report) 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 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.

August November 9, 2023	/s/John F. Macke
Date	John F. Macke
	Principal Financial Officer

EXHIBIT 32

CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Michael F. Petrie, Chief Executive Officer, and John F. Macke, Principal Financial Officer, of Merchants Bancorp (the "Registrant"), each hereby certify, in their capacity as an officer of the Registrant that he has reviewed the quarterly report of the Registrant on Form 10-Q for the quarter ended June 30, 2023 September 30, 2023 (the "Report"), and that to the best of his 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 Registrant.

August November 9, 2023	/s/ Michael F. Petrie
Date	Michael F. Petrie
	Chief Executive Officer
August November 9, 2023	/s/John F. Macke
Date	John F. Macke
	Principal Financial Officer

A signed original of this written statement required by Section 906 has been provided to the Registrant and will be retained by the Registrant and furnished to the SEC or its staff upon request.

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