

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

FORM 10-K

[Mark One]

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

For the fiscal year ended December 31, 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 number 001-38258

MERCHANTS BANCORP

(Exact name of Registrant as specified in its charter)

INDIANA

(State or other jurisdiction of
incorporation or organization)

20-5747400

(I.R.S. Employer
Identification No.)

410 Monon Blvd. Carmel, Indiana

(Address of principal executive offices)

46032

(Zip Code)

Registrant's telephone number, including area code: **(317) 569-7420**

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

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

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

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

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file 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 and posted 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," or "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements.

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b).

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

At June 30, 2023, the aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant (assuming solely for the purposes of this calculation that all Directors and executive officers of the registrant are "affiliates") was \$655.5 million.

As of March 1, 2024, the Registrant had 43,331,304 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's proxy statement, for its 2024 annual meeting of shareholders to be held May 16, 2024, to be filed within 120 days after December 31, 2023, are incorporated by reference into Part III of this Form 10-K.

MERCHANTS BANCORP
Annual Report on Form 10-K
For Year Ended December 31, 2023
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Information included in or incorporated by reference in this Annual Report on Form 10-K, our other filings with the Securities and Exchange Commission and our press releases or other public statements, contain or may contain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Please refer to a discussion of our forward-looking statements and associated risks in Item 1, “Business – Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995” and our discussion of risk factors in Item 1A, “Risk Factors” in this Annual Report on Form 10-K.

PART I

Item 1. Business.

Company Overview

Merchants Bancorp (the “Company,” “Merchants,” “we,” “our,” or “us”), an Indiana corporation formed in 2006, is 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 (through this segment we also serve as a syndicator of 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. As of December 31, 2023, we had \$17.0 billion in assets, \$14.1 billion of deposits and \$1.7 billion of shareholders’ equity.

We were founded in 1990 as a mortgage banking company, providing financing for multi-family housing and senior living properties. The shared vision of our founders, Michael Petrie and Randall Rogers, was to create a diversified financial services company, which efficiently operates both nationally through mortgage banking and related services, and locally through a community bank. We have primarily grown organically and strategically built our business model in a way that we believe offers insulation from cyclical economic and credit swings and provides synergies across our lines of business.

Merchants Bank of Indiana (“Merchants Bank”), one of our wholly owned banking subsidiaries, operates under an Indiana charter and provides traditional community banking services, as well as portfolio lending for multi-family and healthcare facility loans, retail and correspondent residential mortgage banking, SBA lending, and agricultural lending. Merchants Bank has six depository branches located in Carmel, Indianapolis, Lynn, Spartanburg, and Richmond, Indiana. Until all of its branches were sold to unaffiliated third parties and its remaining charter was merged into Merchants Bank in January 2024, Farmers-Merchants Bank of Illinois (“FMBI”), our other wholly owned banking subsidiary, operated under an Illinois charter and provided traditional community banking services and agricultural lending. FMBI had four depository branches located in Joy, Paxton, Melvin, and Piper City, Illinois.

Our business consists primarily of funding fixed rate, low risk loans meeting underwriting standards of government programs, under an originate to sell model, while retaining adjustable rate loans as held for investment to reduce interest rate risk. The gain on sale of loans and servicing fees generated from the multi-family rental real estate, residential, and SBA loans, as well as fees and fair market value adjustments to servicing related assets, contribute to noninterest income. The funding source is primarily from mortgage custodial, municipal, retail, commercial, and brokered deposits, as well as short-term borrowings. We believe that the combination of net interest income based on short duration assets and liabilities 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.

Our Business Segments

We have several lines of business and provide various banking and financial services through our subsidiaries. Our business segments are defined as multi-family mortgage banking, mortgage warehousing, and banking.

Multi-Family Mortgage Banking

Merchants Capital Corp. (“MCC”) and Merchants Capital Servicing, LLC (“MCS”), subsidiaries of Merchants Bank, are primarily engaged in mortgage banking, specializing in originating and servicing loans for affordable multi-family rental housing and healthcare facility financing. Our mortgage servicing portfolio consists primarily of Merchants Bank balance sheet loans, Federal Housing Authority (“FHA”) loans, and affordable Federal National Mortgage Association (“Fannie Mae”) and Federal Home Loan Mortgage Corporation (“Freddie Mac”) loans. Our origination platform and servicing portfolio are significant sources of our noninterest income and deposits. Other originations that are referred to the Banking segment including bridge financing products to refinance, acquire, or reposition multi-family housing projects, construction lending for market rate and affordable housing developments, and financing of need-based healthcare facilities. In some environments, these originations referred to in the Banking segment can represent a significant portion of the Multi-Family Mortgage Banking total origination volume.

Consistently one of the top ranked agency lenders in the nation, our licenses with FHA and affordable Fannie Mae and Freddie Mac, coupled with our bank financing products, provide sponsors custom beginning-to-end financing solutions that adapt to an ever-changing market. We are also an approved United States Department of Agriculture (“USDA”) Rural Housing 538 lender. This cost-effective, reliable funding source is a powerful tool in expanding the availability of affordable housing in rural markets that often have the greatest need. We also offer customized loan products for need-based skilled nursing facilities, including independent living, assisted living, and memory care. A variety of loan products are available to accommodate acquisition, rehabilitation, and refinancing of healthcare properties throughout the country. These loans are underwritten with the intent to convert FHA permanent loans within three years.

In addition to the loans originated directly through our Multi-Family Mortgage Banking segment, we also fund loans brought to us by non-affiliated entities and service or sub-service loans for a fee.

MCC is also a fully integrated tax credit equity syndicator. Our syndication platform, paired with our comprehensive suite of debt offerings, allows us to deliver financing on all aspects of affordable housing transactions. The tax credit equity team specializes in tax-advantaged affordable housing projects with Section 42 Low-Income Housing Tax Credits (“LIHTC”), Historic Rehabilitation Tax Credits, and State tax credits. The investors in MCC’s syndicated funds are institutional investors comprised of banks, insurance companies, and large publicly traded corporations. All funds are underwritten and serviced in-house.

Additionally, through Merchants Asset Management, LLC (“MAM”), we serve as a registered investment advisor that deploys third party investor capital into high quality assets originated by MCC. These debt investment vehicles ultimately support the mission of MCC by creating additional lending capacity and competitive loan terms for clients. We also optimize our capital position and manage our balance sheet through credit risk transfer vehicles and securitizations.

Through the Multi-Family Mortgage Banking segment, many of our fixed rate originated loans are sold to government agencies as mortgage-backed securities within approximately 30 days. As these loans are sold, servicing rights are traditionally retained. We believe that MCC is one of the largest government agency servicers in the country based on aggregate loan principal balance. Our capital markets team also has expertise in facilitating larger scale securitization initiatives, both privately and with government agencies, to successfully manage our capital efficiency, maximize liquidity, and minimize credit risk on our balance sheet.

One of the segment’s primary sources of funding is the national secondary mortgage market of federally chartered agencies and the federal government. Another primary source of funding is our Banking segment. Investors in the secondary market are primarily large financial institutions, brokerage companies, insurance companies and real estate investment trusts. These programs facilitate secondary market activities in order to provide funding for the multi-family mortgage market.

Mortgage Warehousing

We started the warehouse lending business in 2009 because of dislocation in the market. Merchants Bank currently has warehouse repurchase agreements, loan participations, operating lines of credit collateralized by mortgage

servicing rights, and custodial deposits with some of the largest non-depository financial institutions and mortgage bankers in the industry.

Our Mortgage Warehousing segment provides asset-based financing in the form of warehouse facilities to eligible non-depository financial institutions and mortgage bankers, which enables them to fund and inventory residential and multi-family mortgage loans until they are sold and purchased in the secondary market by an approved investor. The warehouse financing facilities are secured by residential and multi-family mortgage loans underwritten to standards approved by Merchants Bank that are generally comparable to those established by Fannie Mae, Freddie Mac, FHA and Veterans Affairs (“VA”).

Mortgage Warehousing funded \$78.3 billion of loan principal in 2021, \$33.2 billion in 2022 and \$33.0 billion in 2023. The primary source of liquidity is provided by custodial and corporate deposits of its customers.

Banking

The Banking segment includes retail banking, commercial lending, agricultural lending, retail and correspondent residential mortgage banking, and SBA lending. Retail banking operates primarily in central Indiana and Richmond. Our correspondent mortgage banking business, like Multi-family Mortgage Banking and Mortgage Warehousing, is a national business. Our SBA lending is currently a regional business with offices in four states. The Banking segment has a well-diversified customer and borrower base and has experienced significant growth over the past three years.

Commercial Lending and Retail Banking

Merchants Bank holds loans in its portfolio comprised of multi-family and healthcare bridge loans and multi-family construction loans referred by MCC, owner occupied commercial real estate loans, commercial and industrial loans, agricultural loans, residential mortgage loans and consumer loans. Merchants Bank receives deposits from customers located primarily in Hamilton, Marion, Randolph and surrounding counties in Indiana and from the escrows generated by the servicing activities of MCC and MCS. Until its branches were sold in January 2024, FMBI received deposits from and made loans to customers located through multiple branches in Illinois.

Agricultural Lending

Merchants Bank’s Lynn and Richmond, Indiana offices primarily offer agricultural loans within its designated Community Reinvestment Act (“CRA”) assessment area of Randolph and Wayne counties in Eastern Indiana and nearby Darke County, Ohio. FMBI primarily provided agricultural loans within its designated CRA assessment area of Mercer County in Western Illinois and Ford County in East Central Illinois. Merchants Bank offers operating lines of credit for crop and livestock production, intermediate term financing to purchase agricultural equipment and breeding livestock and long-term financing to purchase agricultural real estate. Merchants Bank is approved to sell agricultural loans in the secondary market through the Federal Agricultural Mortgage Corporation (“Farmer Mac”) and uses this relationship to manage interest rate risk within the agricultural loan portfolio. Merchants Bank is also a Certified Lender with the Farm Service Agency to offset credit risk inherent in the Agriculture loan portfolio.

Single-Family Mortgage Lending, Correspondent Lending and Servicing

Merchants Mortgage is the branded division of Merchants Bank that is a single-family mortgage origination and servicing platform. Merchants Mortgage is both a retail and correspondent mortgage lender. Merchants Mortgage is an approved originator of FHA, VA, and USDA loans and approved seller servicer by Government National Mortgage Association (“Ginnie Mae”), Fannie Mae and Freddie Mac. Merchants Mortgage offers agency eligible, jumbo fixed and hybrid adjustable-rate mortgages for purchase or refinancing of single-family residences. Other products include construction, bridge and lot financing, and first-lien home equity lines of credit (“HELOC”). Loans held for sale generate revenues from fees charged to borrowers, interest income during the warehouse period, gain on sale of loans to investors, and servicing fee income. There are multiple investor outlets, including direct sale capability to Fannie Mae, Freddie Mac, Federal Home Loan Bank (“FHLB”) of Indianapolis, and other third-party investors to allow Merchants Mortgage a best execution at sale. Merchants Mortgage also originates loans held for investment and earns interest income over the life of the loan.

SBA Lending

Merchants Bank participates in the SBA's 7(a), 504 and Express programs to meet the needs of our small business communities and help diversify our retail revenue stream. In January 2018, Merchants Bank was awarded Preferred Lender Program status, the SBA's highest level of approval that a lender can hold. This designation provides us delegated loan approval, closing and servicing authority that enables loan decisions to be made more rapidly. In December 2019, the Company added a new team of SBA originators, located in Illinois and Indiana, and expanding into Ohio and Texas, to help broaden our reach to small business owners in and around these states.

Strategy for Complementary Segments

Our segments diversify the net income of Merchants Bank and provide synergies across the segments. Strategic opportunities come from MCC and MCS, where loans are funded by the Banking segment and the Banking segment provides Ginnie Mae custodial services to MCC and MCS. LIHTC syndication and debt fund offerings complement the lending activities of new and existing multi-family mortgage customers. The securities available for sale and held to maturity funded by MCC custodial deposits or purchases of securitized loans originated by MCC are pledged to 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. Retail and commercial customers provide cross selling opportunities within the banking segment. Merchants Mortgage is a risk mitigant to Mortgage Warehousing because it provides us with a ready platform to sell the underlying collateral to secure repayment. These and other synergies form a part of our strategic plan.

See *Item 7: "Management's Discussion and Analysis of Financial Condition and Results of Operations - Operating Segment Analysis for the Years Ended December 31, 2023 and 2022"* and *Note 26: Segment Information* for further information about our segments.

Competition

We compete in several areas, including commercial and retail banking, SBA, residential mortgages, warehouse lending, and multi-family FHA, Fannie Mae, and Freddie Mac affordable loan originations in the multi-family and healthcare sectors. These industries are highly competitive, and the Company faces strong direct competition for deposits, loans, and loan originations and other financial-related services. We compete with other non-depository financial institutions and community banks, thrifts and credit unions. Although some of these competitors are situated locally, others have statewide or regional presence. In addition, we compete with large banks and other financial intermediaries, such as consumer finance companies, brokerage firms, mortgage banking companies, business leasing and finance companies, insurance companies, multi-family loan origination businesses, securities firms, mutual funds and certain government agencies as well as major retailers, all actively engaged in providing various types of loans and other financial services. Additionally, we face growing competition from online businesses with few or no physical locations, including online banks, lenders and consumer and commercial lending platforms, as well as automated retirement and investment service providers. We believe that the range and quality of products that we offer, the knowledge of our personnel and our emphasis on building long-lasting relationships, along with our diversified business model, sets us apart from our competitors.

Human Capital

As of December 31, 2023, we had approximately 618 employees located in multiple states, including 364 employees in Central Indiana. None of our employees are represented by any collective bargaining unit or are parties to a collective bargaining agreement.

We regularly solicit feedback from our employees to gain a better understanding of why they may enjoy working at Merchants and what areas of improvement there may be. Feedback from such surveys is reviewed by senior management, including our Chief Executive Officer and the leader of each of our business units, and is generally used to develop ways in which our employees' experiences can be improved and/or work can become more efficient. We believe that our relations with employees are positive. For example, we were named to the list of "Best Places to Work in Indiana" by the Indiana Chamber of Commerce every year from 2016 to 2022 and were named as a "Top Workplace" by *The Indianapolis Star* in 2023 and in 2023 our turnover rate was only 10%. Additionally, in order to reward employees for their contributions towards our success and to help ensure that our employees are more aligned with our

shareholders, in 2020 we established an Employee Stock Ownership Plan (“ESOP”). Under the ESOP, from time to time we may make a contribution of newly issued shares of our common stock or cash to purchase shares of our common stock, which is then allocated to eligible employees. The ESOP contribution is completely funded by the Company and is in addition to all other wages, incentives, and benefits, and requires nothing from our employees other than their ongoing hard work and dedication. We make a discretionary contribution equal to 3% of an employee’s eligible compensation under our 401(k) plan each pay period regardless of whether such employee also contributed. Our contribution is in the form of cash and is invested according to the employee’s current investment allocation.

Additionally, while the health and safety of our employees is always the highest priority, we continuously evaluate our efforts and we make changes or accommodations to help ensure employees remain healthy, safe, and productive.

Environment, Social, and Governance (“ESG”) Activities

As a mission-driven company committed to incorporating ESG into its business framework, we manage with a strong focus on sustainable, long-term growth and value creation. We believe our ESG approach underscores this commitment and provides tangible benefits for our customers, employees, and shareholders.

As one of the largest government-sponsored entity multi-family lenders in the country, a significant portion of our business has been centered on supporting the financing needs of affordable housing projects as well as need-based skilled nursing for seniors and related healthcare facilities.

To further demonstrate our ESG commitment to sustainable cities and communities, Merchants Bank has acquired private equity interests in affordable housing projects that generate low-income housing tax credits through its tax credit equity funds. The affordable housing projects target low-income individuals. MCC has a commitment to environmental and social risk mitigation, disclosures around project selection and evaluation, management of proceeds, and reporting on allocation and impact metrics. The Company received a second-party opinion from Sustainalytics stating that our ESG focused Tax Credit Equity Fund framework is credible, impactful and will deliver overall positive social impacts.

A foundation of our culture is our approach to employee engagement, diversity, equity and inclusion (“DEI”). We embrace diversity and inclusion, which we believe fosters creativity, innovation and thought leadership through the infusion of new ideas and perspectives. Our commitment to DEI also led to the creation of an employee level committee focused on DEI and our hiring of an individual who leads our DEI efforts, including such committee. Some activities that have been launched include regular educational events for all employees and an open forum for DEI topics of discussion. We also have highly engaged leadership in our Board that is made up of diverse members and demonstrates our dedication to this area of focus in our company. Additionally, our Board meets all Nasdaq diversity requirements.

Corporate Information

Our principal executive offices are located at 410 Monon Blvd., Carmel, Indiana 46032, and our telephone number at that address is (317) 569-7420. Through our website at www.merchantsbancorp.com under “Investors,” we make available, free of charge, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), as well as proxy statements, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the U.S. Securities and Exchange Commission (the “SEC”). Those filings can also be obtained on the SEC’s website at www.sec.gov. Additionally, from time to time we may post other press releases, news, investor presentations and stories regarding our business on the News and Presentation sections of our website’s Investor page. The information contained on our website is not a part of, or incorporated by reference into, this report.

SUPERVISION AND REGULATION

General

Insured banks, their holding companies and their affiliates are extensively regulated under federal and state law. As a result, our growth and earnings performance may be affected not only by management decisions and general economic conditions, but also by the requirements of federal and state statutes and by the regulations and policies of various bank regulatory agencies, including the Indiana Department of Financial Institutions (“IDFI”), Board of Governors of the Federal Reserve System (“Federal Reserve”), Federal Deposit Insurance Corporation (“FDIC”), and Consumer Financial Protection Bureau (“CFPB”). Furthermore, tax laws administered by the Internal Revenue Service and state taxing authorities, accounting rules developed by the Financial Accounting Standards Board (“FASB”), anti-money laundering laws enforced by the U.S. Department of the Treasury (the “Treasury”) and mortgage related rules, including with respect to loan securitization and servicing by HUD and agencies such as Ginnie Mae, Fannie Mae, and Freddie Mac, have an impact on our business. The effect of these statutes, regulations, regulatory policies and rules are significant to our operations and results, and the nature and extent of future legislative, regulatory or other changes affecting financial institutions are impossible to predict with any certainty.

Federal and state banking laws impose a comprehensive system of supervision, regulation and enforcement on the operations of financial institutions, their holding companies and affiliates that is intended primarily for the protection of the FDIC-insured deposits and depositors of banks, rather than their shareholders. These federal and state laws, and the regulations of the bank regulatory agencies issued under them, affect, among other things, the scope of business, the kinds and amounts of investments banks may make, reserve requirements, capital levels relative to operations, the nature and amount of collateral for loans, the establishment of branches, the ability to merge, consolidate and acquire, dealings with insiders and affiliates and the payment of dividends. The Company has been subject to continuous monitoring since it exceeded \$10 billion in total assets.

This supervisory and regulatory framework subjects banks and bank holding companies to regular examination by their respective regulatory agencies, which results in examination reports and ratings that, while not publicly available, can impact the conduct and growth of their businesses. These examinations consider not only compliance with applicable laws and regulations, but also capital levels, asset quality and risk, management ability and performance, earnings, liquidity, interest rate sensitivity, and various other factors. The regulatory agencies generally have broad discretion to impose restrictions and limitations on the operations of a regulated entity where the agencies determine, among other things, that such operations are unsafe or unsound, fail to comply with applicable law or are otherwise inconsistent with laws and regulations or with the supervisory policies of these agencies.

The following is a summary of the material elements of the supervisory and regulatory framework applicable to us. It does not describe all of the statutes, regulations and regulatory policies that apply, nor does it restate all of the requirements of those that are described. The descriptions are qualified in their entirety by reference to the particular statutory and regulatory provision.

Merchants Bancorp

Bank Holding Company Act of 1956, as amended

We, as the sole shareholder of Merchants Bank are a bank holding company (“BHC”) within the meaning of the Bank Holding Company Act of 1956, as amended (“BHC Act”). As a BHC, we are subject to the supervision, examination and reporting requirements of the BHC Act and the regulations of Federal Reserve. The BHC Act requires a BHC to file an annual report of its operations and such additional information as the Federal Reserve may require.

Acquisition of Banks

Generally, the BHC Act governs the acquisition and control of banks and nonbanking companies by BHCs.

A BHC’s acquisition of 5% or more of the voting shares of any other bank or BHC generally requires the prior approval of the Federal Reserve and is subject to applicable federal and state law. The Federal Reserve evaluates acquisition applications based on, among other things, competitive factors, supervisory factors, adequacy of financial and managerial resources, and banking and community needs considerations.

The BHC Act also prohibits, with certain exceptions, a BHC from acquiring direct or indirect ownership or control of more than 5% of the voting shares of any “nonbanking” company unless the Federal Reserve finds the nonbanking activities be “so closely related to banking . . . as to be a proper incident thereto” or another exception applies. The BHC Act does not place territorial restrictions on the activities of a BHC or its nonbank subsidiaries.

The BHC Act and Change in Bank Control Act, together with related regulations, prohibit acquisition of “control” of a bank or BHC without prior notice to certain federal bank regulators. The BHC Act defines “control,” in certain cases, as the acquisition of as little as 10% of the outstanding shares of any class of voting stock. Furthermore, under certain circumstances, a BHC may not be able to purchase its own shares where the gross consideration will equal 10% or more of the Company’s net worth, without obtaining approval of the Federal Reserve.

The Federal Reserve Act subjects banks and their affiliates to certain requirements and restrictions when dealing with each other (affiliate transactions include transactions between a bank and its BHC).

Permitted Activities

Under the BHC Act, a BHC and its nonbank subsidiaries are generally permitted to engage in, or acquire direct or indirect control of the voting shares of companies engaged in, a wider range of nonbanking activities that the Federal Reserve determines to be so closely related to banking as to be a proper incident to the business of banking, including:

- factoring accounts receivable;
- making, acquiring, brokering or servicing loans and usual related activities in connection with the foregoing;
- leasing personal or real property under certain conditions;
- operating a non-bank depository institution, such as a savings association;
- engaging in trust company functions in a manner authorized by state law;
- financial and investment advisory activities;
- discount securities brokerage activities;
- underwriting and dealing in government obligations and money market instruments;
- providing specified management consulting and counseling activities;
- performing selected data processing services and support services;
- acting as an agent or broker in selling credit life insurance and other types of insurance in connection with credit transactions; and
- performing selected insurance underwriting activities.

The Federal Reserve may order a BHC or its subsidiaries to terminate any of these activities or to terminate its ownership or control of any subsidiary when it has reasonable cause to believe that the BHC’s continued ownership, activity or control constitutes a serious risk to the financial safety, soundness, or stability of it or any of its bank subsidiaries. A qualifying BHC that elects to be treated as a financial holding company may also engage in, or acquire direct or indirect control of the voting shares of companies engaged in activities that are financial in nature or incidental to such financial activity or are complementary to a financial activity and do not pose a substantial risk to the safety and soundness of the institution or the financial system generally. We have not elected, and presently do not intend to elect, to be treated as a financial holding company.

Support of Subsidiary Institutions

The Federal Reserve has issued regulations under the BHC Act requiring a BHC to serve as a source of financial and managerial strength to its subsidiary banks. Pursuant to such regulations a BHC should stand ready to use its resources to provide adequate capital funds to its subsidiary banks during periods of financial stress or adversity.

Repurchase or Redemption of Shares

A BHC is generally required to give the Federal Reserve prior written notice of any purchase or redemption of its own then outstanding equity securities if the gross consideration for the purchase or redemption, when combined with the net consideration paid for all such purchases or redemptions during the preceding 12 months, is equal to 10% or more of the Company's consolidated net worth. Additionally, under the Federal Reserve's Regulation Q, a BHC is required to obtain the Federal Reserve's approval prior to the repurchase or redemption of any shares of our preferred stock. The Federal Reserve may disapprove such a purchase or redemption if it determines that the proposal would constitute an unsafe and unsound practice, or would violate any law, regulation, Federal Reserve order or directive, or any condition imposed by, or written agreement with, the Federal Reserve. The Federal Reserve has adopted an exception to this approval requirement for repurchase or redemptions of common stock for well-capitalized BHCs that meet certain conditions.

If the Company elects to repurchase or redeem its equity securities, it will generally incur a 1% excise tax on the fair market value of any stock of the corporation that is repurchased, as required in the Inflation Reduction Act of 2022. However, the Company may not be subject to such excise tax to the extent it issues an equal to or greater than amount of stock (based on fair market value) in the same calendar year.

Merchants Bank

Merchants Bank is an Indiana chartered, non-Federal Reserve member bank subject to supervision and regulation by the FDIC and IDFI.

Bank Secrecy Act and USA Patriot Act

The Bank Secrecy Act ("BSA"), enacted as the Currency and Foreign Transactions Reporting Act, requires financial institutions to maintain records of certain customers and currency transactions and to report certain domestic and foreign currency transactions, which may have a high degree of usefulness in criminal, tax, or regulatory investigations or proceedings. This law requires financial institutions to develop a BSA compliance program.

The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 ("Patriot Act"), is comprehensive anti-terrorism legislation. Title III of the Patriot Act requires financial institutions to help prevent and detect international money laundering and the financing of terrorism and prosecute those involved in such activities. The Treasury has adopted additional requirements to further implement Title III.

These regulations have established a mechanism for law enforcement officials to communicate names of suspected terrorists and money launderers to financial institutions, enabling financial institutions to promptly locate accounts and transactions involving those suspects. Financial institutions receiving names of suspects must search their account and transaction records for potential matches and report positive results to the Treasury's Financial Crimes Enforcement Network ("FinCEN"). Each financial institution must designate a point of contact to receive information requests. These regulations outline how financial institutions can share information concerning suspected terrorist and money laundering activity with other financial institutions under the protection of a statutory safe harbor if each financial institution notifies FinCEN of its intent to share information. The Treasury has also adopted regulations to prevent money laundering and terrorist financing through correspondent accounts that U.S. financial institutions maintain on behalf of foreign banks. These regulations also require financial institutions to take reasonable steps to ensure that they are not providing banking services directly or indirectly to foreign shell banks. In addition, banks must have procedures to verify the identity of their customers.

Merchants Bank established an anti-money laundering program pursuant to the BSA and a customer identification program pursuant to the Patriot Act. Merchants Bank also maintains records of cash purchases of

negotiable instruments, file reports of certain cash transactions exceeding \$10,000 (daily aggregate amount), and report suspicious activity that might signify money laundering, tax evasion, or other criminal activities pursuant to the BSA. Merchants Bank otherwise has implemented policies and procedures to comply with the foregoing requirements.

FDIC Improvement Act of 1991

The Federal Deposit Insurance Corporation Improvement Act of 1991 (“FDICIA”) amended the Federal Deposit Insurance Act to require, among other things, federal bank regulatory authorities to take “prompt corrective action” with respect to banks which do not meet minimum capital requirements. FDICIA established five capital tiers: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. The FDIC has adopted regulations to implement the prompt corrective action provisions of FDICIA.

“Undercapitalized” banks are subject to growth limitations and are required to submit a capital restoration plan. The bank’s BHC is required to guarantee that the bank will comply with the plan and provide appropriate assurances of performance. If an “undercapitalized” bank fails to submit an acceptable plan, it is treated as if it is significantly undercapitalized. “Significantly undercapitalized” banks are subject to one or more restrictions, including an order by the FDIC to sell sufficient voting stock to become adequately capitalized, requirements to reduce total assets and cease receipt of deposits from correspondent banks, and restrictions on compensation of executive officers. “Critically undercapitalized” institutions may not, beginning 60 days after becoming “critically undercapitalized,” make any payment of principal or interest on certain subordinated debt or extend credit for a highly leveraged transaction or enter into any transaction outside the ordinary course of business. In addition, “critically undercapitalized” institutions are subject to appointment of a receiver or conservator. Any bank that is not “well capitalized” is subject to limitations, and a prohibition in the case of any bank that is “undercapitalized,” on the acceptance, renewal, or roll over of any brokered deposit.

Currently, a “well capitalized” institution is one that has a total risk-based capital ratio of at least 10%, a Tier 1 risk-based capital ratio of at least 8%, a Tier 1 leverage ratio of at least 5%, a common equity Tier 1 risk-based capital ratio of at least 6.5%, and is not subject to regulatory direction to maintain a specific level for any capital measure.

Currently, a “well capitalized with Basel III capital conservation buffer” institution is one that has a total risk-based capital ratio of at least 10.5%, a Tier 1 risk-based capital ratio of at least 8.5%, a Tier 1 leverage ratio of at least 5%, a common equity Tier 1 risk-based capital ratio of at least 7%, and is not subject to regulatory direction to maintain a specific level for any capital measure.

At December 31, 2023, Merchants Bank was well capitalized, and also well capitalized with the Basel III capital conservation buffer, as defined by applicable regulations.

Capital Requirements and Basel III

Apart from the capital levels for insured depository institutions that were established by FDICIA for the prompt corrective action regime discussed above, the federal regulators have issued rules that impose minimum capital requirements on both insured depository institutions and their holding companies. Although the rules contain certain standards applicable only to large, internationally active banks, many of them apply to all banking organizations, including Merchants Bank. The institutions and companies subject to the rules are referred to collectively herein as “covered” banking organizations. By virtue of a provision in The Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) known as the Collins Amendment, the requirements must be the same at both the institution level and the holding company level. The minimum capital rules have undergone several revisions over the years. The current requirements, which began to take effect in 2015, are based on the international Basel III capital framework. These requirements apply to all covered banking organizations (including us) with some requirements phasing in over time.

However, on November 21, 2017, the Federal Reserve, Office of the Comptroller of the Currency (“OCC”), and FDIC finalized a joint proposal and adopted a final rule (the “Transitions Rule”) pursuant to which the current regulatory capital treatment then in place for servicing rights, certain temporary difference deferred tax assets, and significant investments in the capital of unconsolidated financial institutions was indefinitely extended in anticipation of a subsequent notice of proposed rulemaking by such regulators to simplify the regulatory capital treatment of such items

(the “Simplification Rule”). The extension of the capital rules with respect to servicing rights was the only portion of the Transitions Rule that was material to the Company.

On July 9, 2019, the federal regulators finalized and adopted the final Simplification Rule. Under the prior rules, including the Transitions Rule, servicing rights, net of related deferred tax liabilities, that are in excess of 10% of common equity or when combined with certain other deduction items are in excess of 15% of common equity are deducted from Common Equity Tier 1 capital. Under the Simplification Rule, on January 1, 2020, this threshold was raised to 25% of common equity. However, the non-deducted portion of servicing rights must be risk weighted at 250%.

On November 13, 2019, the federal regulators finalized and adopted a regulatory capital rule establishing a new community bank leverage ratio (“CBLR”), which became effective on January 1, 2020. Eligibility criteria to utilize CBLR included having total assets less than \$10 billion and off-balance sheet exposures that were less than 25% of total assets, among others. The Company, Merchants Bank, and FMFI elected to begin using CBLR in the first quarter of 2020 and utilized this measure of reporting through June 30, 2022.

At September 30, 2022 the Company’s total assets exceeded \$10 billion, off-balance sheets exposures exceeded 25% of total assets, and the allowable grace periods under the CBLR rules expired. Accordingly, the Company began reporting fully phased-in Basel III risk-based capital ratios as of September 30, 2022.

As of December 31, 2023, the most recent notifications from the Federal Reserve categorized the Company as well capitalized and most recent notifications from the FDIC categorized Merchants Bank 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 or Merchants Bank’s category.

Deposit Insurance Fund and Financing Corporation Assessments

The Deposit Insurance Fund (“DIF”) of the FDIC insures the deposits of Merchants Bank up to \$250,000 per depositor, qualifying joint accounts, and certain other accounts. The FDIC maintains the DIF by assessing depository institutions an insurance premium. The FDIC’s risk-based assessment system requires insured institutions to pay deposit insurance premiums based on the risk that each institution poses to the DIF. The rate is applied to the institution’s total average consolidated assets during the assessment period less average tangible equity (i.e., Tier 1 capital).

In 2022, the FDIC adopted a final rule, applicable to all insured depository institutions, to increase initial base deposit insurance assessment rate schedules uniformly by 2 basis points, beginning in the first quarterly assessment period of 2023. The FDIC also concurrently maintained the Designated Reserve Ratio (“DRR”) for the DIF at 2% for 2023. The increase in assessment rate schedules is intended to increase the likelihood that the reserve ratio of the DIF reaches the statutory minimum of 1.35% by the statutory deadline of September 30, 2028. The new assessment rate schedules will remain in effect unless and until the reserve ratio meets or exceeds 2% in order to support growth in the DIF in progressing toward the FDIC’s long-term goal of a 2% DRR. Progressively lower assessment rate schedules will take effect when the reserve ratio reaches 2%, and again when it reaches 2.5%.

Beginning in 2023, large banks (generally, those with \$10 billion or more in assets) are assigned an individual rate based on a scorecard. The scorecard combines the following measures to produce a score that is converted to an assessment rate:

- CAMELS component ratings that evaluate five critical elements of a credit union's operations: (C)apital adequacy, (A)ssset quality, (M)anagement, (E)arnings, and (L)iquidity and asset-liability management,
- financial measures used to measure a bank's ability to withstand asset-related and funding-related stress, and
- a measure of loss severity that estimates the relative magnitude of potential losses to the FDIC in the event of the bank's failure.

Because the Company is classified as a large bank under the new assessment structure, deposit insurance premiums are expected to be higher than in previous years.

In December 2023, the FDIC also imposed a special assessment on banks with assets over \$5 billion to replenish its deposit insurance fund, which was depleted with the collapses of several banks in March 2023. Banks will be assessed a quarterly rate of 3.36 basis points for a projected total of eight quarters on uninsured deposits over \$5 billion, subject to various adjustments. Merchants Bank has not been subject to this special assessment, as it has less than \$5 billion in uninsured deposits.

Dividends

We are a legal entity separate and distinct from Merchants Bank. There are various legal limitations on the extent to which Merchants Bank can supply funds to us. Our principal source of funds consists of dividends from Merchants Bank. State and federal law restrict the amount of dividends that banks may pay to its shareholders or BHC. The specific limits depend on a number of factors, including the bank's type of charter, recent earnings, recent dividends, level of capital and liquidity, and regulatory status. The regulators are authorized, and under certain circumstances are required, to prohibit the payment of dividends or other distributions if the regulators determine that making such payments would be an unsafe or unsound practice. For example, a bank is generally prohibited from making any capital distribution (including payment of a dividend) to its BHC if the distribution would cause the bank to become undercapitalized.

In addition, under Indiana law, Merchants Bank must obtain the approval of the IDFI prior to the payment of any dividend if the total of all dividends declared by Merchants Bank during the calendar year, including any proposed dividend, would exceed the sum of its net income for the year to date combined with its retained net income for the previous two years.

Capital regulations also limit a depository institution's ability to make capital distributions if it does not hold capital conservation buffer of 2.5% above the required minimum risk-based capital ratios. Regulators also review and limit proposed dividend payments as part of the supervisory process and review of an institution's capital planning. In addition to dividend limitations, Merchants Bank is subject to certain restrictions on extensions of credit to us, on investments in our shares or other securities and in taking such shares or securities as collateral for loans.

Community Reinvestment Act

The CRA requires that the federal banking regulators evaluate the record of a financial institution in meeting the credit needs of its local community, including low and moderate income neighborhoods. Regulators also consider these factors in evaluating mergers, acquisitions, and applications to open a branch or facility. Failure to adequately meet these criteria could result in the imposition of additional requirements and limitations on Merchants Bank. The Company is currently operating under an approved CRA strategic plan through 2025.

The Dodd-Frank Wall Street Reform and Consumer Protection Act

On July 21, 2010, the Dodd-Frank Act was signed into law. The Dodd-Frank Act represented a sweeping reform of the U.S. supervisory and regulatory framework applicable to financial institutions and capital markets in the wake of the global financial crisis, certain aspects of which are described below in more detail. In particular, and among other things, the Dodd-Frank Act: (i) created a Financial Stability Oversight Council as part of a regulatory structure for identifying emerging systemic risks and improving interagency cooperation; (ii) created the CFPB, which is authorized to regulate providers of consumer credit, savings, payment and other consumer financial products and services; (iii) narrowed the scope of federal preemption of state consumer laws enjoyed by national banks and federal savings associations and expanded the authority of state attorneys general to bring actions to enforce federal consumer protection legislation; (iv) imposed more stringent capital requirements on bank holding companies and subjected certain activities, including interstate mergers and acquisitions, to heightened capital conditions; (v) with respect to mortgage lending, (a) significantly expanded requirements applicable to loans secured by 1-4 family residential real property, (b) imposed strict rules on mortgage servicing, and (c) required the originator of a securitized loan, or the sponsor of a securitization, to retain at least 5% of the credit risk of securitized exposures unless the underlying exposures are qualified residential mortgages or meet certain underwriting standards; (vi) repealed the prohibition on the payment of interest on business checking accounts; (vii) restricted the interchange fees payable on debit card transactions for issuers with \$10 billion in assets or greater; (viii) in the so-called "Volcker Rule," subject to numerous exceptions, prohibited depository institutions and affiliates from certain investments in, and sponsorship of, hedge funds and private equity funds and from engaging in proprietary trading; (ix) provided for enhanced regulation of advisers to private funds and of the derivatives

markets; (x) enhanced oversight of credit rating agencies; and (xi) prohibited banking agency requirements tied to credit ratings. These statutory changes shifted the regulatory framework for financial institutions, impacted the way in which they do business and have the potential to constrain revenues. Although the reforms primarily targeted systemically important financial service providers, their influence is expected to filter down in varying degrees to smaller institutions over time.

Privacy and Cybersecurity

Merchants Bank is subject to many U.S. federal and state laws and regulations governing requirements for maintaining policies and procedures to protect non-public confidential information of their customers. These laws require banks to periodically disclose their privacy policies and practices relating to sharing such information and permitting customers to opt out of their ability to share information with unaffiliated third parties under certain circumstances. They also impact a bank's ability to share certain information with affiliates and non-affiliates for marketing and/or non-marketing purposes, or to contact customers with marketing offers. In addition, banks are required to implement a comprehensive information security program that includes administrative, technical, and physical safeguards to ensure the security and confidentiality of customer records and information.

To combat the ever-present cyber risks, the Company maintains a comprehensive Information Security Program, which includes annual risk assessments, an Incident Response Plan, and a layered control environment meant to protect, detect, respond, and limit unauthorized or harmful actions across our information technology ("IT") environment. Standards over information security are Board-approved and various types of control testing is conducted throughout the year, by internal and external parties. Recommendations are implemented and reported to various committees. These security and privacy policies and procedures, for the protection of personal and confidential information, are in effect across all businesses and geographic locations.

Consumer Financial Services

The structure of federal consumer protection regulation applicable to all providers of consumer financial products and services changed significantly on July 21, 2011, when the CFPB commenced operations to oversee and enforce consumer protection laws. The CFPB has broad rulemaking authority for a wide range of consumer protection laws that apply to all providers of consumer products and services, including Merchants Bank, as well as the authority to prohibit "unfair, deceptive or abusive" acts and practices. The CFPB has examination and enforcement authority over insured depository institutions and their holding companies that have more than \$10 billion in assets for at least four consecutive quarters. Merchants Bank had four consecutive quarters during 2023.

Because abuses in connection with residential mortgages were a significant factor contributing to the financial crisis, many new rules issued by the CFPB and required by the Dodd-Frank Act address mortgage and mortgage-related products, their underwriting, origination, servicing and sales. The Dodd-Frank Act significantly expanded underwriting requirements applicable to loans secured by 1-4 family residential real property and augmented federal law combating predatory lending practices. In addition to numerous disclosure requirements, the Dodd-Frank Act imposed new standards for mortgage loan originations on all lenders, including banks and savings associations, in an effort to strongly encourage lenders to verify a borrower's ability to repay, while also establishing a presumption of compliance for certain "qualified mortgages." In addition, the Dodd-Frank Act generally required lenders or securitizers to retain an economic interest in the credit risk relating to loans that the lender sells, and other asset-backed securities that the securitizer issues, if the loans do not comply with the ability-to-repay standards described below. The risk retention requirement generally is 5%, but could be increased or decreased by regulation. Merchants Bank does not currently expect the CFPB's rules to have a significant impact on its operations, except for higher compliance costs.

S.A.F.E. Act

Regulations issued under the Secure and Fair Enforcement for Mortgage Licensing Act of 2008 (the "S.A.F.E. Act") require residential mortgage loan originators who are employees of institutions regulated by the foregoing agencies, including national banks, to meet the registration requirements of the S.A.F.E. Act. The S.A.F.E. Act requires residential mortgage loan originators who are employees of regulated financial institutions to register with the Nationwide Mortgage Licensing System and Registry, a database created by the Conference of State Bank Supervisors and the American Association of Residential Mortgage Regulators to support the licensing of mortgage loan originators

by the states. The S.A.F.E. Act generally prohibits employees of regulated financial institutions from originating residential mortgage loans unless they obtain and annually maintain registration as a registered mortgage loan originator.

Mortgage Origination

The CFPB's "ability to repay" rule, among other things, requires lenders to consider a consumer's ability to repay a mortgage loan before extending credit to the consumer, and limits prepayment penalties. The rule also establishes certain protections from liability for mortgage lenders with regard to the "qualified mortgages" they originate. This rule includes within the definition of a "qualified mortgage" a loan with a borrower debt-to-income ratio of less than or equal to 43% or, alternatively, a loan eligible for purchase by Fannie Mae or Freddie Mac while they operate under federal conservatorship or receivership ("GSE Patch"), and loans eligible for insurance or guarantee by the FHA, VA or USDA. However, on December 10, 2020 the CFPB adopted a new final rule removing the 43% debt-to-income ratio and GSE Patch from the definition of a "qualified mortgage" and replacing it with an annual percentage rate limit, while still requiring the consideration of the debt-to-income ratio, which became effective for all loans applications after June 30, 2021. Additionally, a qualified mortgage may not: (i) contain excess upfront points and fees; (ii) have a term greater than 30 years; or (iii) include interest-only or negative amortization payments. The rule has not had a significant impact on our mortgage production operations since most of the loans Merchants Bank currently originates would constitute "qualified mortgages" under the rule, including under the revised definition that became effective on June 30, 2021.

Mortgage Servicing

Additionally, the CFPB has issued a series of final rules as part of an ongoing effort to address mortgage servicing reforms and create uniform standards for the mortgage servicing industry. The rules increase requirements for communications with borrowers, address requirements around the maintenance of customer account records, govern procedural requirements for responding to written borrower requests and complaints of errors, and provide guidance around servicing of delinquent loans, foreclosure proceedings and loss mitigation efforts, among other measures. Since becoming effective in 2014, these rules have increased the costs to service loans across the mortgage industry, including our mortgage servicing operations.

Several state agencies overseeing the mortgage industry have entered into settlements and enforcement consent orders with mortgage servicers regarding certain foreclosure practices. These settlements and orders generally require servicers, among other things, to: (i) modify their servicing and foreclosure practices, for example, by improving communications with borrowers and prohibiting dual-tracking, which occurs when servicers continue to pursue foreclosure during the loan modification process; (ii) establish a single point of contact for borrowers throughout the loan modification and foreclosure processes; and (iii) establish robust oversight and controls of third party vendors, including outside legal counsel, that provide default management or foreclosure services. Although we are not a party to any of these settlements or consent orders, we, like many mortgage servicers, have voluntarily adopted many of these servicing and foreclosure standards due to competitive pressures.

Consumer Laws

Merchants Bank must comply with a number of federal consumer protection laws, including, among others:

- the Gramm-Leach-Bliley Act, which requires a bank to maintain privacy with respect to certain consumer data in its possession and to periodically communicate with consumers on privacy matters;
- the Right to Financial Privacy Act, which imposed a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records;
- the Fair Debt Collection Practices Act, which regulates the timing and content of debt collection communications;
- the Truth in Lending Act and Regulation Z thereunder, which requires certain disclosures to consumer borrowers regarding the terms of their loans;

- the Fair Credit Reporting Act, which regulates the use and reporting of information related to the credit history of consumers;
- the Equal Credit Opportunity Act and Regulation B thereunder, which prohibits discrimination on the basis of age, race and certain other characteristics, in the extension of credit;
- the Homeowners Equity Protection Act, which requires, among other things, the cancellation of mortgage insurance once certain equity levels are reached;
- the Home Mortgage Disclosure Act and Regulation C thereunder, which require mortgage lenders to report certain public loan data;
- the Fair Housing Act, which prohibits discrimination in housing on the basis of race, sex, national origin, and certain other characteristics;
- the Real Estate Settlement Procedures Act and Regulation X thereunder, which imposes conditions on the consummation and servicing of mortgage loans;
- the Truth in Savings Act and Regulation DD thereunder, which requires certain disclosures to depositors concerning the terms of their deposit accounts; and
- the Electronic Funds Transfer Act and Regulation E thereunder, which governs various forms of electronic banking. This statute and regulation often interact with Regulation CC of the Federal Reserve Board, which governs the settlement of checks and other payment system issues.

Future Legislation and Executive Orders

In addition to the specific legislation described above, the administration may sign executive orders or memoranda that could directly impact the regulation of the banking industry. Congress is also considering legislation to reform certain government sponsored entities (“GSEs”), including ending the federal government’s conservatorship of Fannie Mae and Freddie Mac. The orders and legislation may change banking statutes and our operating environment in substantial and unpredictable ways by increasing or decreasing the cost of doing business, limiting or expanding permissible activities, or affecting the competitive balance among banks, savings associations, credit unions, and other financial institutions.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains certain “forward-looking statements” within the meaning of and are intended to be covered by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. 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 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;
- 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;
- compliance with governmental and regulatory requirements, 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 cybersecurity 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;
- 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 report. 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 1A. Risk Factors

The risks described below, together with all other information included in this report should be carefully considered. Any of the following risks, as well as risks that we do not know or currently deem immaterial, could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

Risks Related to Our Business

Mortgage Banking and Community Banking Risks

Decreased residential and multi-family mortgage origination, volume and pricing decisions of competitors, and changes in interest rates, may adversely affect our profitability.

We currently operate a residential and multi-family mortgage origination, warehouse financing, and servicing business. Changes in interest rates and pricing decisions by our loan competitors may adversely affect demand for our mortgage loan products, the revenue realized on the sale or portfolio of loans, revenues received from servicing such loans and the valuation of our servicing rights.

Our mortgage banking profitability could significantly decline if we are not able to originate and resell a high volume of mortgage loans.

Mortgage production, especially refinancing activity, declines in rising interest rate environments. Interest rates had been historically low in recent years, but the market has seen interest rate increases throughout 2023. Moreover, if interest rates increase further, there can be no assurance that our mortgage production will continue at current levels. Because we sell a substantial portion of the mortgage loans we originate and purchase, the profitability of our mortgage banking business also depends in large part on our ability to aggregate a high volume of loans and sell them at a gain in the secondary market. Thus, in addition to our dependence on the interest rate environment, we are dependent upon (i) the existence of an active secondary market and (ii) our ability to profitably sell loans or securities into that market. If our level of mortgage production declines, the profitability will depend upon our ability to reduce our costs commensurate with the reduction of revenue from our mortgage operations.

In addition, our ability to sell mortgage loans readily is dependent upon our ability to remain eligible for the programs offered by government agencies (“agency”), such as Fannie Mae, Freddie Mac, and Ginnie Mae, and other institutional and non-institutional investors. Any significant impairment of our eligibility with any of the agencies could materially and adversely affect our operations. Further, the criteria for loans to be accepted under such programs may be changed from time to time by the sponsoring entity, which could result in a lower volume of corresponding loan originations. The profitability of participating in specific programs may vary depending on a number of factors, including our administrative costs of originating and purchasing qualifying loans and our costs of meeting such criteria.

The ability for us and our warehouse financing customers to originate and sell residential mortgage loans readily is dependent upon the availability of an active secondary market for single-family mortgage loans, which in turn depends in part upon the continuation of programs currently offered by agencies and other institutional and non-institutional investors. These entities account for a substantial portion of the secondary market in residential mortgage loans. Because the largest participants in the secondary market are agencies whose activities are governed by federal law, any future changes in laws that significantly affect the activity of these agencies could, in turn, adversely affect our operations. In September 2008, Fannie Mae and Freddie Mac were placed into conservatorship by the U.S. government. The federal government has for many years considered proposals to reform Fannie Mae and Freddie Mac, but the results of any such reform, and their impact on us, are difficult to predict. To date, no reform proposal has been enacted.

If we violate HUD requirements, our multi-family FHA origination and servicing business could be adversely affected.

We originate, sell and service loans under HUD programs, and make certifications regarding compliance with applicable requirements and guidelines. If we were to violate these requirements and guidelines, or other applicable laws, or if the FHA loans we originate show a high frequency of loan defaults, we could be subject to monetary penalties and indemnification claims and could be declared ineligible for FHA programs. Any inability to engage in our multi-family FHA origination and servicing business would lead to a decrease in our net income.

Real estate construction loans are based upon estimates of costs and values associated with the complete project. These estimates may be inaccurate, and we may be exposed to significant losses on loans for these projects.

Real estate construction loans involve additional risks because funds are advanced upon security of the project, which is of uncertain value prior to its completion, and costs may exceed realizable values in declining real estate markets. Because of the uncertainties inherent in estimating construction costs and the realizable market value of the completed project and the effects of governmental regulation of real property, it is relatively difficult to evaluate accurately the total funds required to complete a project and the related loan-to-value ratio. As a result, construction loans often involve the disbursement of substantial funds with repayment dependent, in part, on the success of the ultimate project and the ability of the borrower to sell or lease the property, rather than the ability of the borrower or guarantor to repay principal and interest. If our appraisal of the value of the completed project proves to be overstated or market values or rental rates decline, we may have inadequate security for the repayment of the loan upon completion of construction of the project. If we are forced to foreclose on a project prior to or at completion due to a default, we may not be able to recover all of the unpaid balance of, and accrued interest on, the loan as well as related foreclosure and holding costs. In addition, we may be required to fund additional amounts to complete the project and may have to hold the property for an unspecified period of time while we attempt to dispose of it.

We face strong competition from financial services companies and other companies that offer banking, mortgage, leasing, and providers of multi-family agency financing and servicing, which could harm our business.

The banking business is highly competitive, and we experience competition in our market from many other financial institutions. Our operations consist of offering banking and residential mortgage services, and we also offer multi-family agency financing to generate noninterest income. Many of our competitors offer the same, or a wider variety of, banking and related financial services within our market areas. These competitors include national banks, regional banks and community banks, as well as many other types of financial institutions, including savings and loan institutions, finance companies, brokerage firms, insurance companies, credit unions, mortgage banks and other financial intermediaries. In addition, a number of out-of-state financial intermediaries have opened production offices or otherwise solicit deposits in our market areas. Additionally, we face growing competition from online businesses with few or no physical locations, including online banks, lenders and consumer and commercial lending platforms. Increased competition in our markets may result in reduced loans, deposits and commissions and brokers' fees, as well as reduced net interest margin and profitability. There has also been a rise in financial technology companies that develop new technology to compete with traditional financial methods in the delivery of financial services. Ultimately, we may not be able to compete successfully against current and future competitors. If we are unable to attract and retain banking and mortgage customers, we may be unable to continue to grow our business, and our financial condition and results of operations may be adversely affected.

Many of our non-bank competitors are not subject to the same extensive regulations that govern our activities and may have greater flexibility in competing for business. The financial services industry could become even more competitive as a result of legislative, regulatory and technological changes and continued consolidation. In addition, some of our current commercial banking customers may seek alternative banking sources as they develop needs for credit facilities larger than we may be able to accommodate. Our inability to compete successfully in the markets in which we operate could have an adverse effect on our business, financial condition or results of operations.

If the federal government shuts down or otherwise fails to fully fund the federal budget, our multi-family FHA origination business could be adversely affected.

Disagreement over the federal budget has caused the U.S. federal government to shut down for periods of time in recent years. Federal governmental entities, such as HUD, that rely on funding from the federal budget, could be adversely affected in the event of a government shut-down, which could have a material adverse effect on our multi-family FHA origination business and our results of operations.

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

We are a community bank and known nationally for multi-family and warehouse financing, as well as correspondent mortgage banking, and our reputation is one of the most valuable components of our business. As such, we strive to conduct our business in a manner that enhances our reputation. This is done, in part, by recruiting, hiring and retaining employees who share our core values of being an integral part of the communities we serve, delivering superior service to our customers and caring about our customers and associates. If our reputation is negatively affected, by the actions of our employees or otherwise, our business and, therefore, our operating results and the value of our stock may be materially adversely affected.

Credit and Financial Risks

A decline in general business and economic conditions and any regulatory responses to such conditions could have a material adverse effect on our business, financial position, results of operations and growth prospects.

Our business and operations are sensitive to general business and economic conditions in the United States, generally, and particularly Indiana. If the national, regional or local economies experience worsening economic conditions, including high levels of unemployment, our growth and profitability could be constrained. Additionally, our ability to assess the credit worthiness of our customers is made more complex by uncertain business and economic conditions. Weak economic conditions are characterized by, among other indicators, deflation, elevated levels of unemployment, fluctuations in debt and equity capital markets, increased delinquencies on mortgage, commercial and consumer loans, residential and commercial real estate price declines, increases in nonperforming assets and

foreclosures, lower home sales and commercial activity, and fluctuations in the multi-family FHA financing sector. Additionally, 2022 and 2023 had elevated levels of inflation and interest rates; if these conditions persist, it could also cause increased volatility and uncertainty in the business environment, which could adversely affect loan demand and our clients' ability to repay indebtedness. All of these factors are generally detrimental to our business. Our business is significantly affected by monetary and other regulatory policies of the U.S. federal government, its agencies and government-sponsored entities. Changes in any of these policies are influenced by macroeconomic conditions and other factors that are beyond our control, are difficult to predict and could have a material adverse effect on our business, financial position, results of operations and growth prospects.

If we do not effectively manage our credit risk, we may experience increased levels of delinquencies, nonperforming loans and charge-offs, which could require increases in our provision for credit losses.

There are risks inherent in making any loan, including risks inherent in dealing with individual borrowers, risks of nonpayment, risks resulting from uncertainties as to the future value of collateral and cash flows available to service debt and risks resulting from changes in economic and market conditions. We cannot guarantee that our credit underwriting, credit monitoring, and risk management procedures will adequately reduce these credit risks, and they cannot be expected to completely eliminate our credit risks. If the overall economic climate in the United States, generally, or our market areas, specifically, declines, our borrowers may experience difficulties in repaying their loans, and the level of nonperforming loans, charge-offs and delinquencies could rise and require further increases in the provision for credit losses, which would cause our net income, return on equity and capital to decrease.

Nonperforming assets take significant time to resolve and adversely affect our results of operations and financial condition, and could result in further losses in the future.

Our nonperforming assets adversely affect our net income in various ways. We do not record interest income on nonaccrual loans or other real estate owned, thereby adversely affecting our net income and returns on assets and equity, increasing our loan administration costs and adversely affecting our efficiency ratio. When we take collateral in foreclosure and similar proceedings, we are required to mark the collateral to its then-fair market value, which may result in a loss. These nonperforming loans and other real estate owned also increase our risk profile and the level of capital our regulators believe is appropriate for us to maintain in light of such risks. The resolution of nonperforming assets requires significant time commitments from management and can be detrimental to the performance of their other responsibilities. If we experience increases in nonperforming loans and nonperforming assets, our net interest income may be negatively impacted and our loan administration costs could increase, each of which could have an adverse effect on our net income and related ratios, such as return on assets and equity.

Our allowance for credit losses on loans ("ACL-Loans") may prove to be insufficient to absorb potential losses in our loan portfolio.

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") on January 1, 2022. CECL replaces the previous "Allowance for Loan and Lease Losses" standard for measuring credit losses. We establish our ACL-Loans and maintain it at a level that management considers adequate to absorb probable loan losses based on an analysis of our portfolio, the underlying health of our borrowers, and general economic conditions. The ACL-Loans represents our estimate of probable losses in the portfolio at each balance sheet date and is based upon relevant information available to us. The ACL-Loans and maintain it at a level that management considers adequate to absorb probable loan losses based on an analysis contains provisions for probable losses that have been identified relating to specific borrowing relationships, as well as probable losses inherent in the loan portfolio and credit undertakings that are not specifically identified. Additions to the ACL-Loans, which are charged to earnings through the provision for credit losses, are determined based on a variety of factors, including an analysis of the loan portfolio, historical loss experience and an evaluation of current economic conditions in our market areas. The determination of the appropriate level of the ACL-Loans is inherently subjective and requires us to make significant estimates and assumptions regarding current credit risks and future trends, all of which may undergo material changes. The actual amount of loan losses is affected by changes in economic, operating and other conditions within our markets, which may be beyond our control, and such losses may exceed current estimates.

Although management believes that the ACL-Loans is adequate to absorb losses on any existing loans that may become uncollectible, we may be required to take additional provisions for credit losses in the future to further

supplement the ACL-Loans, either due to management's decision to do so or because our banking regulators require us to do so. Our bank regulatory agencies will periodically review our ACL-Loans and the value attributed to nonaccrual loans or to real estate acquired through foreclosure and may require us to adjust our determination of the value for these items. These adjustments may adversely affect our business, financial condition and results of operations.

The small to mid-sized businesses that we lend to may have fewer resources to weather adverse business developments, which may impair a borrower's ability to repay a loan, and such impairment could adversely affect our results of operations and financial condition.

We serve the banking and financial service needs of small to mid-sized businesses. These businesses generally have fewer financial resources in terms of capital or borrowing capacity than larger entities, frequently have smaller market shares than their competition, may be more vulnerable to economic downturns, often need substantial additional capital to expand or compete and may experience substantial volatility in operating results, any of which may impair a borrower's ability to repay a loan. In addition, the success of a small or medium-sized business often depends on the management talents and efforts of one or two people or a small group of people, and the death, disability or resignation of one or more of these people could have a material adverse impact on the business and its ability to repay its loan. If general economic conditions negatively impact the markets in which we operate and small to medium-sized businesses are adversely affected or our borrowers are otherwise affected by adverse business developments, our business, financial condition and results of operations may be adversely affected.

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

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

If the goodwill that we have recorded or may record in connection with a business acquisition becomes impaired, it could require charges to earnings.

Goodwill represents the amount by which the cost of an acquisition exceeded the fair value of net assets we acquired in connection with the purchase of another financial institution. We review goodwill for impairment at least annually, or more frequently if a triggering event occurs which indicates that the carrying value of the asset might be impaired.

If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. Any such adjustments are reflected in our results of operations in the periods in which they become known. As of December 31, 2023, our goodwill totaled \$15.8 million. While we have not recorded any impairment charges since we initially recorded the goodwill, there can be no assurance that our future evaluations of our existing goodwill or goodwill we may acquire in the future will not result in findings of impairment and related write-downs, which could adversely affect our business, financial condition and results of operations.

On January 26, 2024, the Company sold its Farmers-Merchants Bank of Illinois branches to Bank of Pontiac and CBI Bank & Trust and merged its banking charter into Merchants Bank. The transaction included the extinguishment of \$7.8 million in goodwill.

Changes in accounting standards could materially impact our financial statements.

From time to time, FASB or the SEC may change the financial accounting and reporting standards that govern the preparation of our financial statements. Such changes may result in us being subject to new or changing accounting and reporting standards. In addition, the bodies that interpret the accounting standards (such as banking regulators or

outside auditors) may change their interpretations or positions on how these standards should be applied. These changes may be beyond our control, can be hard to predict and can materially impact how we record and report our financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retrospectively, or apply an existing standard differently, also retrospectively, in each case resulting in our needing to revise or restate prior period financial statements.

Failure to maintain effective internal controls over financial reporting could have a material adverse effect on our business and stock price.

We are required to comply with the SEC's rules implementing Sections 302 and 404 of the Sarbanes-Oxley Act, which require management to certify financial and other information in our quarterly and annual reports and provide an annual management report on the effectiveness of controls over financial reporting.

If we identify any material weaknesses in our internal control over financial reporting or are unable to comply with the requirements of Section 404 in a timely manner or assert that our internal control over financial reporting is effective, or if our independent registered public accounting firm is unable to express an opinion as to the effectiveness of our internal control over financial reporting, investors, counterparties and customers may lose confidence in the accuracy and completeness of our financial statements and reports; our liquidity, access to capital markets and perceptions of our creditworthiness could be adversely affected; and the market price of our common stock could decline. In addition, we could become subject to investigations by the stock exchange on which our securities are listed, the SEC, Federal Reserve, FDIC, IDFI, IDFP, CFPB or other regulatory authorities, which could require additional financial and management resources. These events could have an adverse effect on our business, financial condition and results of operations.

The accuracy of our financial statements and related disclosures could be affected if the judgments, assumptions or estimates used in our critical accounting policies are inaccurate.

The preparation of financial statements and related disclosures in conformity with GAAP requires us to make judgments, assumptions and estimates that affect the amounts reported in our consolidated financial statements and accompanying notes. Our critical accounting policies, which are included in the section captioned "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this report, describe those significant accounting policies and methods used in the preparation of our consolidated financial statements that we consider "critical" because they require judgments, assumptions and estimates that materially affect our consolidated financial statements and related disclosures. As a result, if future events or regulatory views concerning such analysis differ significantly from the judgments, assumptions and estimates in our critical accounting policies, those events or assumptions could have a material impact on our consolidated financial statements and related disclosures, in each case resulting in our needing to revise or restate prior period financial statements, cause damage to our reputation and the price of our common stock, and adversely affect our business, financial condition and results of operations.

Downgrades to the credit rating of the U.S. government or of its securities or any of its agencies by one or more of the credit ratings agencies could have a material adverse effect on general economic conditions, as well as our business.

Downgrades of the U.S. federal government's sovereign credit rating, and the perceived creditworthiness of U.S. government-backed obligations, could affect our ability to obtain funding that is collateralized by affected instruments and our ability to access capital markets on favorable terms. Such downgrades could also affect the pricing of funding, when funding is available. A downgrade of the credit rating of the U.S. government, or of its agencies or related institutions or instrumentalities, may also adversely affect the market value of such instruments and, further, exacerbate the other risks to which we are subject and any related adverse effects on our business, financial condition or results of operations.

Downgrades to the credit rating of the Company or its subsidiaries by one or more of the credit rating agencies could have a material adverse effect on the cost of or our ability to raise additional capital for future growth.

Downgrades of the Company's credit rating, and its perceived creditworthiness, could affect our ability to borrow funds and/or access capital markets on favorable terms. Such downgrades could adversely affect the future borrowings or capital raised, including substantially raising the costs and could cause creditors and business counterparties to raise collateral requirements. A downgrade of the credit rating may also adversely affect the market

value of such instruments and, further, exacerbate the other risks to which we are subject and any related adverse effects on our business, financial condition, or results of operations. Downgrades could result from general industry-wide or regulatory factors not solely related to the Company, including conditions and factors caused by events that the Company has little or no control over.

Operational Risks

Our risk management framework may not be effective in mitigating risks and/or losses to us.

Our risk management framework is comprised of various processes, systems and strategies, and is designed to manage the types of risk to which we are subject, including, among others, credit, market, liquidity, interest rate and compliance. Our framework also includes financial or other modeling methodologies that involve management assumptions and judgment. Our risk management framework may not be effective under all circumstances and may not adequately mitigate any risk or loss to us. If our framework is not effective, we could suffer unexpected losses and our business, financial condition, results of operations or growth prospects could be materially and adversely affected. We may also be subject to potentially adverse regulatory consequences.

We are highly dependent on our management team, and the loss of our senior executive officers or other key employees could harm our ability to implement our strategic plan, impair our relationships with customers and adversely affect our business, results of operations and growth prospects.

Our success is dependent, to a large degree, upon the continued service and skills of our executive management team, particularly Michael Petrie, our Chairman and Chief Executive Officer, and Michael Dunlap, our President and Chief Operating Officer. Mr. Dunlap also serves as our Chief Executive Officer and President of Merchants Bank and Chairman of MCC.

Our business and growth strategies are built primarily upon our ability to retain employees with experience and business relationships within their respective market areas. We seek to manage the continuity of our executive management team through regular succession planning. As part of such succession planning, other executives and high performing individuals have been identified and are provided certain training in order to be prepared to assume particular management roles and responsibilities in the event of the departure of a member of our executive management team. However, the loss of Mr. Petrie or Mr. Dunlap, or any of our other key personnel could have an adverse impact on our business and growth because of their skills, years of industry experience, and knowledge of our market areas, our failure to develop and implement a viable succession plan, the difficulty of finding qualified replacement personnel, or any difficulties associated with transitioning of responsibilities to any new members of the executive management team. While our executive officers (except for Mr. Petrie) are subject to non-competition and non-solicitation provisions as part of change in control agreements entered into with them and our mortgage originators and loan officers are generally subject to non-solicitation provisions as part of their employment, our ability to enforce such agreements may not fully mitigate the injury to our business from the breach of such agreements, as such employees could leave us and immediately begin soliciting our customers. The departure of any of our personnel who are not subject to enforceable non-competition and/or non-solicitation agreements could have a material adverse impact on our business, results of operations and growth prospects.

Our management depends on the use of data and modeling in decision-making, and faulty data or modeling approaches could negatively impact decision-making or possibly subject us to regulatory scrutiny in the future.

The use of statistical and quantitative models and other quantitative analyses is endemic to bank decision-making, and the employment of such analyses is becoming increasingly widespread in our operations. Liquidity stress testing, interest rate sensitivity analysis, allowance for credit losses computations, mortgage servicing rights valuations, and the identification of possible violations of anti-money laundering regulations are all examples of areas in which we are dependent on models and the data that underlies them. The use of statistical and quantitative models is also becoming more prevalent in regulatory compliance. While we are not currently subject to annual Dodd-Frank Act stress testing (DFAST) and the Comprehensive Capital Analysis and Review (CCAR) submissions, we anticipate that model-derived testing may become more extensively implemented by regulators in the future. We anticipate data-based modeling will penetrate further into bank decision-making, particularly risk management efforts, as the capacities developed to meet rigorous stress testing requirements are able to be employed more widely and in differing applications. While we believe these quantitative techniques and approaches improve our decision-making, they also

create the possibility that faulty data or flawed quantitative approaches could negatively impact our decision-making ability or, if we become subject to regulatory stress-testing in the future, adverse regulatory scrutiny. Secondly, because of the complexity inherent in these approaches, misunderstanding or misuse of their outputs could similarly result in suboptimal decision-making.

System failure or breaches of our network security could subject us to increased operating costs as well as litigation and other liabilities.

The computer systems and network infrastructure we use could be vulnerable to hardware and cybersecurity issues. Our operations are dependent upon our ability to protect our computer equipment against damage from fire, power loss, telecommunications failure, or a similar catastrophic event. We could also experience a breach by intentional or negligent conduct on the part of employees or other internal or external sources, including our third-party vendors. Any damage or failure that causes an interruption in our operations could have an adverse effect on our financial condition and results of operations. In addition, our operations are dependent upon our ability to protect the computer systems and network infrastructure utilized by us, including our internet banking activities, against damage from physical break-ins, cybersecurity breaches and other disruptive problems caused by the internet or other users. Such computer break-ins and other disruptions would jeopardize the security of information stored in and transmitted through our computer systems and network infrastructure, which may result in significant liability, damage our reputation and inhibit the use of our mobile and internet banking services by current and potential customers. We regularly add additional security measures to our computer systems and network infrastructure to mitigate the possibility of cybersecurity breaches, including firewalls and penetration testing.

The Corporation maintains a comprehensive Information Security Program, which includes annual risk assessments, an Incident Response Plan, and a layered control environment meant to detect, prevent, and limit unauthorized or harmful actions across our information technology environment. However, it is difficult or impossible to defend against every risk being posed by changing technologies as well as criminal intent on committing cyber-crime. Increasing sophistication of criminal organizations and advanced persistent threats make keeping up with new threats difficult and could result in a breach. Controls employed by our information technology department and cloud vendors could prove inadequate. A breach of our security that results in unauthorized access to our data could expose us to a disruption or challenges relating to our daily operations, as well as to data loss, litigation, damages, fines and penalties, significant increases in compliance costs and reputational damage, any of which could have an adverse effect on our business, financial condition, and results of operations.

Adoption of Artificial Intelligence (“AI”) may present significant challenges relating to compliance risk, credit risk, reputation risk, and operational risk.

Advances in computing capacity, combined with greater availability of data and improvements in analytical techniques, continue to expand opportunities for banks to leverage AI for various risk management and operational purposes. AI use cases have varied widely and include customer chatbots, fraud detection, and credit scoring. Generative AI in particular has garnered significant attention recently, following the commercial availability of large language model tools that have made the use of generative AI more widely accessible.

The potential for further benefits and risks as AI gains more widespread adoption could be significant. Developments in the technology may reduce costs and increase efficiencies; improve products, services, and performance; strengthen risk management and controls; and expand access to credit and other banking services. Many risks can arise from all types of AI, such as lack of accountability and explainability, reliance on large volumes of data, potential bias, privacy concerns, third-party risk, cybersecurity risks, and consumer protection concerns.

Our operations could be interrupted if our third-party service providers experience difficulty, terminate their services or fail to comply with banking regulations.

We depend to a significant extent on a number of relationships with third-party service providers. Specifically, we receive core systems processing, mortgage servicing, online wire processing, mobile and online banking, essential web hosting and other internet systems, deposit processing and other processing services from third-party service providers. If these third-party service providers experience difficulties or terminate their services and we are unable to replace them with other service providers, our operations could be interrupted. If an interruption were to continue for a significant period of time, our business, financial condition and results of operations could be adversely affected, perhaps

materially. Even if we are able to replace them, it may be at a higher cost to us, which could adversely affect our business, financial condition and results of operations.

We have a continuing need for technological change, and we may not have the resources to effectively implement new technology or we may experience operational challenges when implementing new technology.

The financial services industry is undergoing rapid technological changes with frequent introductions of new technology-driven products and services. In addition to better serving customers, the effective use of technology increases efficiency and enables financial institutions to reduce costs. Our future success will depend in part upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands for convenience as well as to create additional efficiencies in our operations as we continue to grow and expand our market area. We may experience operational challenges as we implement these new technology enhancements, or seek to implement them across all of our offices and business units, which could result in us not fully realizing the anticipated benefits from such new technology or require us to incur significant costs to remedy any such challenges in a timely manner.

Many of our larger competitors have substantially greater resources to invest in technological improvements. As a result, they may be able to offer additional or superior products to those that we will be able to offer, which would put us at a competitive disadvantage. Accordingly, a risk exists that we will not be able to effectively implement new technology-driven products and services or be successful in marketing such products and services to our customers.

We are subject to certain operational risks, including customer or employee fraud and data processing system failures and errors.

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

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

We may not be able to overcome the integration and other risks associated with acquisitions, which could have an adverse effect on our ability to implement our business strategy.

Although we plan to continue to grow our business organically, we also intend to pursue acquisition opportunities that we believe complement our activities and have the ability to enhance our profitability and provide attractive risk-adjusted returns. Our future acquisition activities could be material to our business and involve a number of risks, including the following:

- intense competition from other banking organizations and other acquirers for potential merger candidates;
- market pricing for desirable acquisitions resulting in returns that are less attractive than we have traditionally sought to achieve;
- incurring time and expense associated with identifying and evaluating potential acquisitions and negotiating potential transactions, resulting in our attention being diverted from the operation of our existing business;
- using inaccurate estimates and judgments to evaluate credit, operations, management and market risks with respect to the target institution or assets;
- potential exposure to unknown or contingent liabilities of banks and businesses we acquire, including consumer compliance issues;

- the time and expense required to integrate the operations and personnel of the combined businesses;
- experiencing higher operating expenses relative to operating income from the new operations;
- losing key employees and customers;
- reputational issues if the target's management does not align with our culture and values;
- significant problems relating to the conversion of the financial and customer data of the target;
- integration of acquired customers into our financial and customer product systems; or
- regulatory timeframes for review of applications may limit the number and frequency of transactions we may be able to consummate.

Depending on the condition of any institution or assets or liabilities that we may acquire, that acquisition may, at least in the near term, adversely affect our capital and earnings and, if not successfully integrated with our organization, may continue to have such effects over a longer period. We may not be successful in overcoming these risks or any other problems encountered in connection with pending or potential acquisitions, and any acquisition we may consider will be subject to prior regulatory approval. Our inability to overcome these risks could have an adverse effect on our ability to implement our business strategy, which, in turn, could have an adverse effect on our business, financial condition and results of operations.

Market, Interest Rate, and Liquidity Risks

Fluctuations in interest rates may reduce net interest income and otherwise negatively impact our financial condition and results of operations.

Net interest income is the difference between the amounts received by us on our interest-earning assets and the interest paid by us on our interest-bearing liabilities. When interest rates rise, the rate of interest we pay on our liabilities, such as deposits, could rise more quickly than the rate of interest that we receive on our interest-bearing assets, such as loans, which may cause our profits to decrease. The impact on earnings is more adverse when short-term interest rates increase more than long-term interest rates or when long-term interest rates decrease more than short-term interest rates, leading to similar yields between short-term and long-term rates. Many factors impact interest rates, including governmental monetary policies, inflation, recession, changes in unemployment, the money supply and international economic weaknesses and disorder and instability in domestic and foreign financial markets.

Interest rate increases often result in larger payment requirements for our borrowers, which increases the potential for default. At the same time, the marketability of the underlying property may be adversely affected by any reduced demand resulting from higher interest rates. In a declining interest rate environment, there may be an increase in prepayments on loans as borrowers refinance their mortgages and other indebtedness at lower rates.

Our multi-family servicing rights assets typically have a ten year call protection, but as interest rates decrease, the potential for prepayment increases and the fair market value of our servicing rights assets may decrease. Our ability to mitigate this decrease in value is largely dependent on our ability to refinance the loan and retain servicing rights. While we have previously been successful in our servicing retention, we may not be able to achieve the same level of retention in the future.

Changes in interest rates also can affect the value of loans, securities and other assets. An increase in interest rates that adversely affects the ability of borrowers to pay the principal or interest on loans may lead to an increase in nonperforming assets and a reduction of income recognized, which could have a material adverse effect on our results of operations and cash flows. Further, when we place a loan on nonaccrual status, we reverse any accrued but unpaid interest receivable, which decreases interest income. Subsequently, we continue to have a cost to fund the loan, which is reflected as interest expense, without any interest income to offset the associated funding expense. Thus, an increase in the amount of nonperforming assets would have an adverse impact on net interest income.

Rising interest rates will result in a decline in value of the fixed-rate debt securities we hold in our investment securities portfolio. The unrealized losses resulting from holding securities available for sale would be recognized in other comprehensive income (loss) and reduce total shareholders' equity. Unrealized losses do not negatively impact our

regulatory capital ratios; however, tangible common equity and the associated ratios would be reduced. If debt securities in an unrealized loss position are sold, such losses become realized and will reduce our regulatory capital ratios. Alternatively, certain securities, for which a fair value option has been elected, will require the company to recognize gains or losses into income currently as there are changes in value.

The slope of the yield curve affects our net interest income and we could experience net interest margin compression if our interest earning assets reprice downward while our interest-bearing liability rates fail to decline in tandem. This would have a material adverse effect on our net interest income and our results of operations.

Negative changes in the economy affecting real estate values and liquidity could impair the value of collateral securing our real estate loans and result in loan and other losses.

A significant portion of our loan portfolio is comprised of loans with real estate as a primary or secondary component of collateral. As a result, adverse developments affecting real estate values in our market areas could increase the credit risk associated with our real estate loan portfolio. The market value of real estate can fluctuate significantly in a short period of time as a result of market conditions in the area in which the real estate is located. Adverse changes affecting real estate values and the liquidity of real estate in one or more of our markets could increase the credit risk associated with our loan portfolio, significantly impair the value of property pledged as collateral on loans and affect our ability to sell the collateral upon foreclosure without a loss or additional losses, which could result in losses that would adversely affect profitability. Such declines and losses would have a material adverse impact on our business, results of operations and growth prospects. In addition, if hazardous or toxic substances are found on properties pledged as collateral, the value of the real estate could be impaired. If we foreclose on and take title to such properties, we may be liable for remediation costs, as well as for personal injury and property damage. Environmental laws may require us to incur substantial expenses to address unknown liabilities and may materially reduce the affected property's value or limit our ability to use or sell the affected property.

Liquidity risks could affect operations and jeopardize our business, financial condition, and results of operations.

Liquidity is essential to our business. An inability to raise funds through deposits, borrowings, the sale of loans and/or investment securities and from other sources could have a substantial negative effect on our liquidity. A source of our funds consists of our customer deposits, including escrow deposits held in connection with our multi-family mortgage servicing business. These deposits are subject to potentially dramatic fluctuations in availability or price due to certain factors that may be outside of our control, such as a loss of confidence by customers in us or the banking sector generally, customer perceptions of our financial health and general reputation, increasing competitive pressures from other financial services firms for consumer or corporate customer deposits, changes in interest rates and returns on other investment classes. If customers move money out of bank deposits and into other investments, we could lose a relatively low cost source of funds, which would require us to seek wholesale funding alternatives in order to continue to grow, thereby increasing our funding costs and reducing our net interest income and net income.

A significant portion of our total deposits are concentrated in large mortgage non-depository financial institutions. These concentration levels expose us to the risk that one of these depositors will experience financial difficulties, withdraw its deposits after providing Merchants Bank with any contractually required prior notice (typically 180 days), or otherwise lose the ability to generate custodial funds due to business or regulatory realities. However, these institutions also have warehouse funding arrangements, providing us the opportunity to mitigate this risk by electing not to participate or fund an institution's loans in the event such institution removes its deposits. Nonetheless, failure to effectively manage this risk and subsequent reduction in the deposits of our customers could have a material impact on our ability to fund lending commitments or increase cost of funds, thereby decreasing our revenues.

Additional liquidity is provided by brokered deposits and our ability to pledge and borrow from the FHLB and Federal Reserve. Brokered deposits may be more rate sensitive than 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 FDIC. We also may borrow from third-party lenders from time to time. Our access to funding sources in amounts adequate to finance or capitalize our activities or on terms that are acceptable to us could be impaired by factors that

affect us directly or the financial services industry or economy in general, such as disruptions in the financial markets or negative views and expectations about the prospects for the financial services industry.

Additionally, as a BHC we are dependent on dividends from our subsidiaries as our primary source of income. Our subsidiaries are subject to certain legal and regulatory limitations on their ability to pay us dividends. Any reduction or limitation on our subsidiaries abilities to pay us dividends could have a material adverse effect on our liquidity and in particular, affect our ability to repay our borrowings.

Any decline in available funding, including a decrease in brokered deposits, could adversely impact our ability to continue to implement our strategic plan, including our ability to originate loans, fund warehouse financing commitments, meet our expenses, declare and pay dividends to our shareholders or to fulfill obligations such as repaying our borrowings or meeting deposit withdrawal demands, any of which could have a material adverse impact on our liquidity, business, financial condition and results of operations.

If we breach any of the representations or warranties we make to a purchaser of our mortgage loans, we may be liable to the purchaser for certain costs and damages.

When we sell or securitize mortgage loans in the ordinary course of business, we are required to make certain representations and warranties to the purchaser about the mortgage loans and the manner in which they were originated. Under these agreements, we may be required to repurchase mortgage loans if we have breached any of these representations or warranties, in which case we may record a loss. In addition, if repurchase and indemnity demands increase on loans that we sell from our portfolios, our liquidity, results of operations and financial condition could be adversely affected.

We may be adversely affected by the soundness of other financial institutions.

Our ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services companies are interrelated as a result of trading, clearing, counterparty, and other relationships. We have exposure to different industries and counterparties, and through transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, and other institutional clients. As a result, defaults by, or even rumors or questions about, one or more financial services companies, or the financial services industry generally, have led to market-wide liquidity problems and could lead to losses or defaults by us or by other institutions. These losses or defaults could have a material adverse effect on our business, financial condition, results of operations and growth prospects. Additionally, if our competitors were extending credit on terms we found to pose excessive risks, or at interest rates which we believed did not warrant the credit exposure, we may not be able to maintain our business volume and could experience deteriorating financial performance.

Legal, Regulatory, and Compliance Risks

We may need to raise additional capital in the future, and if we fail to maintain sufficient capital, whether due to losses, an inability to raise additional capital or otherwise, our financial condition, liquidity and results of operations, ability to grow, as well as our ability to maintain regulatory compliance, would be adversely affected.

We face significant capital and other regulatory requirements as a financial institution. Although we raised significant funds through our October 2017 initial public offering and \$362.1 million, net of expenses and repurchases, through several preferred stock offerings between 2019 and 2022, we may need to raise additional capital in the future to provide us with sufficient capital resources and liquidity to meet our commitments and business needs, which could include the possibility of financing acquisitions. In addition, we, on a consolidated basis, and Merchants Bank on a stand-alone basis, must meet certain regulatory capital requirements and maintain sufficient liquidity. Importantly, regulatory capital requirements could increase from current levels, which could require us to raise additional capital or contract our operations. Our ability to raise additional capital depends on conditions in the capital markets, economic conditions and a number of other factors, including investor perceptions regarding the banking industry, market conditions and governmental activities, and on our financial condition and performance. Accordingly, we cannot provide assurances that we will be able to raise additional capital if needed or on terms acceptable to us. If we fail to maintain capital to meet regulatory requirements, our financial condition, liquidity and results of operations would be materially and adversely affected.

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

The Dodd-Frank Act, among other things, imposed new capital requirements on bank holding companies; changed the base for the FDIC insurance assessments to a bank's average consolidated total assets minus average tangible equity, rather than upon its deposit base; permanently raised the current standard deposit insurance limit to \$250,000; and expanded the FDIC's authority to raise insurance premiums. The Dodd-Frank Act established the CFPB as an independent entity within the Federal Reserve, which has broad rulemaking, supervisory and enforcement authority over consumer financial products and services, including deposit products, residential mortgages, home-equity loans and credit cards and contains provisions on mortgage-related matters, such as steering incentives, determinations as to a borrower's ability to repay and prepayment penalties. Certain elements of the Dodd-Frank Act are required for institutions with more than \$10 billion in assets, such as Merchants Bank.

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

In addition, new proposals for legislation may be introduced in the U.S. Congress that could further substantially increase regulation of the bank and non-bank financial services industries and impose restrictions on the operations and general ability of firms within the industry to conduct business consistent with historical practices. Federal and state regulatory agencies also frequently adopt changes to their regulations or change the manner in which existing regulations are applied. Certain aspects of current or proposed regulatory or legislative changes to laws applicable to the financial industry, if enacted or adopted, may impact the profitability of our business activities, require more oversight or change certain of our business practices, including the ability to offer new products, obtain financing, attract deposits, make loans and achieve satisfactory interest spreads and could expose us to additional costs, including increased compliance costs. These changes also may require us to invest significant management attention and resources to make any necessary changes to operations to comply and could have an adverse effect on our business, financial condition and results of operations.

New regulations, increased regulatory reviews, and/or changes in the structure of the secondary mortgage markets which we would utilize to sell mortgage loans may be introduced and may increase costs and make it more difficult to operate a residential and multi-family mortgage origination and servicing business.

We are subject to heightened regulatory requirements because we exceed \$10 billion in assets.

At December 31, 2023 we had total assets of \$17.0 billion. We expect to continue to exceed \$10 billion in total assets in the future. Upon crossing that threshold, we became subject to increased regulatory scrutiny and expectations imposed by the Dodd-Frank Act. Compliance with the standards imposed by our regulators because of such scrutiny and expectations could increase our operational costs. Our regulators may also consider our compliance with their standards when examining our operations generally or considering any request for regulatory approval we may make.

Previously, while Merchants Bank was subject to regulations adopted by the CFPB, the FDIC was primarily responsible for examining Merchants Bank's compliance with consumer protection laws and the CFPB's regulations. However, in 2023, after exceeding \$10 billion in total assets for four consecutive quarters, Merchants Bank became subject to direct examination of the CFPB. We cannot be certain how such direct examination will continue to impact us. Additionally, institutions over \$10 billion are also subject to limits on interchange fees paid by merchants when debit cards are used as payment. However, any such limitation would have a minimal effect on us because interchange fees are not a material portion of our fee income.

We are subject to stringent capital requirements and failure to meet such requirements could limit our activities.

The Basel III regulatory capital reforms, or Basel III, not only increased most of the required minimum regulatory capital ratios, but also introduced a new common equity Tier 1 capital ratio and the concept of a capital conservation buffer. Basel III also expanded the definition of capital by establishing additional criteria that capital instruments must meet to be considered additional Tier 1 and Tier 2 capital. In order to be a "well-capitalized" depository institution under Basel III, an institution must maintain a common equity Tier 1 capital ratio of 6.5% or more;

a Tier 1 capital ratio of 8% or more; a total capital ratio of 10% or more; and a leverage ratio of 5% or more. Institutions must also maintain a capital conservation buffer consisting of common equity Tier 1 capital.

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

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

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

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

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

We are subject to numerous laws designed to protect consumers, including the CRA and fair lending laws, and failure to comply with these laws could lead to a wide variety of sanctions.

The CRA, the Equal Credit Opportunity Act, the Fair Housing Act and other fair lending laws and regulations prohibit discriminatory lending practices by financial institutions. The U.S. Department of Justice, federal banking agencies, and other federal agencies are responsible for enforcing these laws and regulations. A challenge to an institution's compliance with fair lending laws and regulations could result in a wide variety of sanctions and/or directives, including damages and civil money penalties, injunctive relief, restrictions on mergers and acquisitions activity, restrictions on expansion, restrictions on entering new business lines, and to make certain community investments or other costly expenditures, such as opening new branch offices. Private parties may also challenge an institution's performance under fair lending laws in private class action litigation. Such actions could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

Additionally, the CFPB was created to centralize responsibility for consumer financial protection and has broad rulemaking authority to administer and carry out the purposes and objectives of federal consumer financial laws with respect to all financial institutions that offer financial products and services to consumers. The CFPB is also authorized to prescribe rules applicable to any covered person or service provider, identifying and prohibiting acts or practices that are "unfair, deceptive, or abusive" in connection with any transaction with a consumer for a consumer financial product or service, or the offering of a consumer financial product or service. The ongoing broad rulemaking powers of the CFPB have potential to have a significant impact on the operations of financial institutions offering consumer financial products or services. The CFPB may propose new rules on consumer financial products or services, which could have an

adverse effect on our business, financial condition and results of operations if any such rules limit our ability to provide such financial products or services. The Company currently has an approved CRA strategic plan.

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

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

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

The Federal Reserve may require us to commit capital resources to support Merchants Bank.

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

Item 1B. Unresolved Staff Comments.

None.

Item 1C. Cybersecurity.

Privacy and Cybersecurity

Merchants Bank is subject to many U.S. federal and state laws and regulations governing requirements for maintaining policies and procedures to protect non-public confidential information of their customers. These laws require banks to periodically disclose their privacy policies and practices relating to sharing such information and permitting customers to opt out of their ability to share information with unaffiliated third parties under certain circumstances. They also impact a bank’s ability to share certain information with affiliates and non-affiliates for marketing and/or non-marketing purposes, or to contact customers with marketing offers. In addition, banks are required to implement a comprehensive information security program that includes administrative, technical, and physical safeguards to ensure the security and confidentiality of customer records and information.

Risk Management and Strategy

To combat the ever-present cyber risks, the Company maintains a comprehensive Information Security Program (“ISP”), which includes annual risk assessments, an Incident Response Plan, and a layered control environment meant to

protect, detect, respond, and limit unauthorized or harmful actions across our information technology environment. Standards over information security are Board-approved and various types of control testing is conducted throughout the year, by internal and external parties. Recommendations are implemented and reported to various committees. These security and privacy policies and procedures, for the protection of personal and confidential information, are in effect across all businesses and geographic locations. Board-approved policies are in place to effectively mitigate risks linked to third-party service providers, encompassing factors such as availability, confidentiality, and governance and compliance.

The Company employs a defense and depth posture, designed to safeguard information, prevent unauthorized access, detect, and respond to threats, and maintain the confidentiality, integrity, and availability of data. The ISP establishes controls across many domains including but not limited to: Information Security Governance, Inventory and Control of Enterprise Assets and Software, Data Protection, Secure Configuration of Enterprise Assets and Software, Account and Access Control Management, Continuous Vulnerability Management, Audit Log Management, Email and Web Browser Protections, Malware Defenses, Data Recovery, Network Infrastructure Management, Network Monitoring and Defense, Security Awareness and Skills Training, Service Provider Management, Application Software Security, Incident Response Management, and Penetration Testing.

Recognizing people as a key component of an effective information security program, the Merchants Information Security Program strives to enhance education and awareness at all levels of the Company. One critical component of education and awareness is an internal cybersecurity committee, comprised of employees from all levels and departments, who act as embedded security representatives for their business units.

However, it is difficult or impossible to defend against every risk being posed by changing technologies as well as criminal intent on committing cyber-crime. Increasing sophistication of criminal organizations and advanced persistent threats make keeping up with new threats difficult and could result in a breach. Controls employed by our information technology department and cloud vendors could prove inadequate. A breach of our security that results in unauthorized access to our data could expose us to a disruption or challenges relating to our daily operations, as well as to data loss, litigation, damages, fines and penalties, significant increases in compliance costs and reputational damage, any of which could have an adverse effect on our business, financial condition, and results of operations. The Company has set the conditions to quickly respond to a cyber incident, ensuring a resilient, digital environment.

Governance

The Board established an IT Committee to assist executive management and the Board of Directors of the Bank in fulfilling their oversight responsibilities related to information security. The IT committee membership includes senior management from business units, as well as information security risk experts such as the Information Security Officer, experts from Enterprise Risk Management, Internal Audit, and Information Technology Leaders. At the IT Committee meetings, security-related policies and standards are reviewed and approved, annual risk assessment results and action plans are noted, annual penetration test reports shared, current security incidents discussed, emerging threats reported on, and relevant cyber risks and trends are presented. The IT Committee is responsible for governing the assessment and treatment of cyber risks. The Committee reports its activities, key conclusions, and recommendations to the Board on a quarterly basis.

The Chief Administrative Officer is responsible for the appointment of the Information Security Officer. The Information Security Officer serves as the focal point for the information security program and is responsible and accountable for its implementation and monitoring, and management of the Information Security team. The current Information Security Officer has over a decade of experience in the cyber security field, including critical roles in security operations, security governance, risk, and compliance, and cyber threat intelligence. They have multiple industry leading certifications, including nine Global Information Assurance Certifications (“GIAC”), Certified Information Systems Security Professional (“CISSP”) from the International Information System Security Certification Consortium (“ISC2”) and a Master of Engineering in Cybersecurity Policy and Compliance.

The Information Security Officer presents an Annual Information Security Review to the board which summarizes the previous year’s threat landscape, risk assessment, service provider, and audit testing activities, results of security incidents, information security program changes, and future strategies and recommendations.

Item 2. Properties.

The Company owns its headquarters building, which includes a Merchants Bank branch at 410 Monon Blvd. in Carmel, Indiana. Its headquarters is currently in the process of being expanded. Employees of all three of our segments have operations in this location. There are also several other branches and small offices in Indiana and other states. We believe that our facilities are in good condition and are adequate to meet our operating needs for the foreseeable future.

Item 3. Legal Proceedings.

There are no material pending legal proceedings other than ordinary routine litigation incidental to the business which we operate.

Item 4. Mine Safety Disclosures.

None.

PART II

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

Our common stock began trading on the Nasdaq Capital Market ("Nasdaq") under the symbol "MBIN" on October 27, 2017. Prior to that date, there was no public market for our common stock. On March 1, 2024, the closing price of our common stock was \$42.57. As of March 1, 2024, there were 43,331,304 shares of our common stock outstanding and 32 shareholders of record. A substantially greater number of holders of our common stock are "street name" or beneficial holders, whose shares are held by banks, brokers and other financial institutions.

Dividend Policy

It has been our policy to pay quarterly dividends to holders of our common stock, and we intend to continue paying dividends. Our dividend policy and practice may change in the future, however, and our board of directors may change or eliminate the payment of future dividends at its discretion, without notice to our shareholders. Any future determination to pay dividends to holders of our common stock will depend on our results of operations, financial condition, capital requirements, banking regulations, payment of dividends on our preferred stock, contractual restrictions and any other factors that our board of directors may deem relevant.

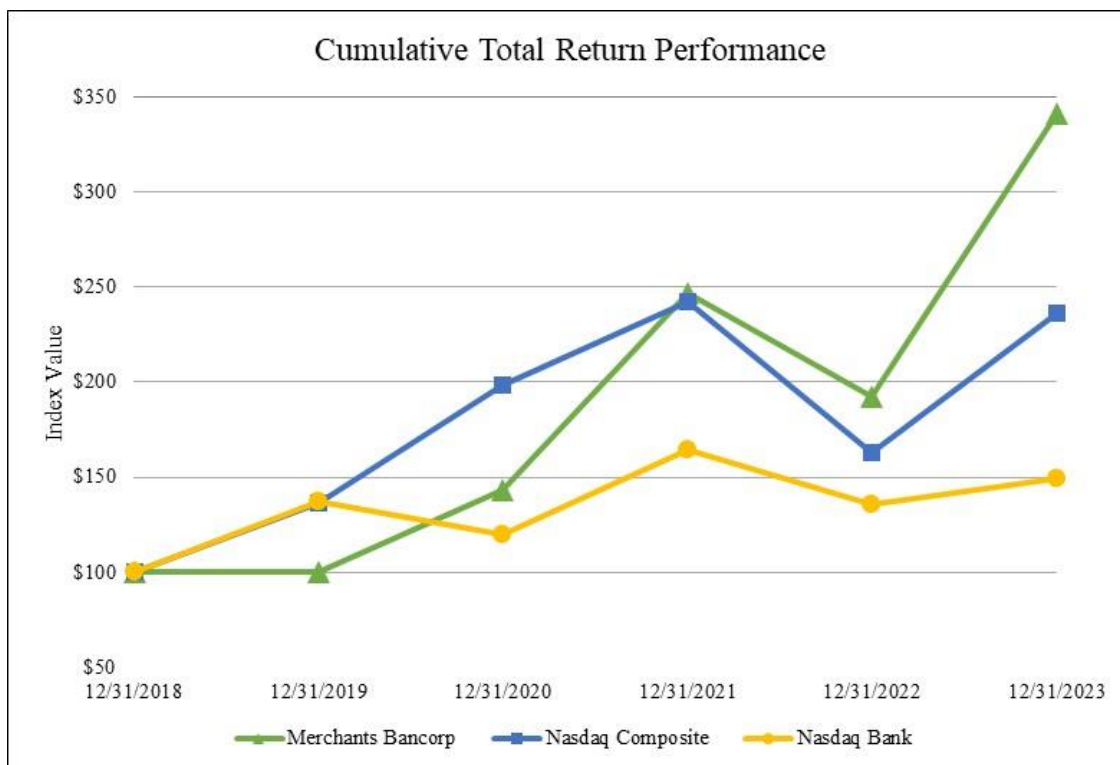
Dividend Restrictions

Under the terms of each class of our preferred stock, we are not permitted to declare or pay any dividends on our common stock unless the dividends have been declared and paid on the shares of all our classes of preferred stock for the period since the last payment of dividends.

As a BHC, our ability to pay dividends is affected by the policies and enforcement powers of the Federal Reserve. In addition, because we are a BHC, we are dependent upon the payment of dividends by subsidiaries, and primarily Merchants Bank, to us as our principal source of funds to pay dividends in the future, if any, and to make other payments. Merchants Bank is also subject to various legal, regulatory and other restrictions on its ability to pay dividends and make other distributions and payments to us. See *Part I, Item 1 - "Supervision and Regulation—Merchants Bank – Dividends."*

Stock Performance Graph

The following graph compares the cumulative total shareholder return on our common stock from December 31, 2018 through December 31, 2023. The graph compares our common stock with the Nasdaq Composite Index and the Nasdaq Bank Index. The graph assumes an investment of \$100.00 in our common stock and each index on December 31, 2018 and reinvestment of all quarterly dividends. Measurement points are December 31, 2018 and the last trading day of each subsequent quarter through December 31, 2023. There is no assurance that our common stock performance will continue in the future with the same or similar results as shown in the graph.



Securities Authorized for Issuance Under Equity Compensation Plans

See *Item 12* of this report for disclosure regarding securities authorized for issuance and equity compensation plans required by Item 201(d) of Regulation S-K.

Unregistered Sales and Repurchases of Equity Securities

None.

Item 6. Selected Financial Data.

(Dollars in thousands, except per share data)	At or for the Year Ended December 31,				
	2023	2022	2021	2020	2019
Balance Sheet Data:					
Total Assets	\$ 16,952,516	\$ 12,615,227	\$ 11,278,638	\$ 9,645,375	\$ 6,371,928
Loans held for investment	10,199,553	7,470,872	5,782,663	5,535,426	3,028,310
Allowance for credit losses ⁽¹⁾	(71,752)	(44,014)	(31,344)	(27,500)	(15,842)
Loans held for sale	3,144,756	2,910,576	3,303,199	3,070,154	2,093,789
Deposits	14,061,460	10,071,345	8,982,613	7,408,066	5,478,075
Total liabilities	15,251,432	11,155,488	10,123,229	8,834,754	5,718,200
Total shareholders' equity	1,701,084	1,459,739	1,155,409	810,621	653,728
Tangible common shareholders' equity (non-GAAP)	1,184,889	943,100	775,708	579,847	421,438
Income Statement Data:					
Interest Income	\$ 1,077,798	\$ 480,833	\$ 311,886	\$ 282,790	\$ 211,995
Interest Expense	629,727	162,282	33,892	58,644	89,697
Net interest income	448,071	318,551	277,994	224,146	122,298
Provision for credit losses	40,231	17,295	5,012	11,838	3,940
Noninterest income	114,668	125,936	157,333	127,473	47,089
Noninterest expense	174,601	136,050	125,385	96,424	63,313
Income before taxes	347,907	291,142	304,930	243,357	102,134
Provision for income taxes	68,673	71,421	77,826	62,824	24,805
Net income	279,234	219,721	227,104	180,533	77,329
Preferred stock dividends	34,670	25,983	20,873	14,473	9,216
Net income available to common shareholders	\$ 244,564	\$ 193,738	\$ 206,231	\$ 166,060	\$ 68,113
Credit Quality Data:					
Nonperforming loans	\$ 82,015	\$ 26,683	\$ 761	\$ 6,321	\$ 4,678
Nonperforming loans to total loans	0.80 %	0.36 %	0.01 %	0.11 %	0.15 %
Nonperforming assets	\$ 82,015	\$ 26,683	\$ 761	\$ 6,321	\$ 4,822
Nonperforming assets to total assets	0.48 %	0.21 %	0.01 %	0.07 %	0.08 %
Allowance for credit losses to total loans	0.70 %	0.59 %	0.54 %	0.50 %	0.52 %
Allowance for credit losses to nonperforming loans	87.49 %	164.95 %	4,118.79 %	435.06 %	338.65 %
Net charge-offs/(recoveries) to average loans and loans held for sale	0.08 %	0.01 %	0.01 %	0.00 %	0.02 %
Per Share Data (Common Stock):					
Diluted earnings per share	\$ 5.64	\$ 4.47	\$ 4.76	\$ 3.85	\$ 1.58
Dividends declared	\$ 0.32	\$ 0.28	\$ 0.24	\$ 0.21	\$ 0.19
Tangible book value (non-GAAP)	\$ 27.40	\$ 21.88	\$ 17.96	\$ 13.45	\$ 9.79
Weighted average shares outstanding					
Basic	43,224,042	43,164,477	43,172,078	43,113,741	43,057,688
Diluted	43,345,799	43,316,904	43,325,303	43,167,113	43,118,561
Shares outstanding at period end	43,242,928	43,113,127	43,180,079	43,120,625	43,059,657
Performance Metrics:					
Return on average assets	1.85 %	1.99 %	2.23 %	2.12 %	1.47 %
Return on average equity	17.63 %	17.21 %	22.07 %	25.09 %	14.37 %
Return on average tangible common equity (non-GAAP)	22.92 %	22.50 %	30.10 %	34.02 %	17.56 %
Net interest margin	3.06 %	2.97 %	2.79 %	2.69 %	2.40 %
Efficiency ratio (non-GAAP)	31.03 %	30.61 %	28.80 %	27.42 %	37.38 %
Loans and loans held for sale to deposits	94.90 %	103.08 %	101.15 %	116.17 %	93.50 %
Capital Ratios—Merchants Bancorp:					
Tangible common equity to tangible assets (non-GAAP)	7.0 %	7.5 %	6.9 %	6.0 %	6.6 %
Tier 1 common equity to risk-weighted assets	7.8 %	7.7 %	n/a %	n/a %	7.4 %
Tier 1 leverage ratio/CBLR	10.1 %	11.7 %	10.4 %	8.6 %	9.4 %
Tier 1 capital to risk-weighted assets	11.1 %	11.7 %	n/a %	n/a %	11.3 %
Total capital to risk-weighted assets	11.6 %	12.2 %	n/a %	n/a %	11.6 %
Capital Ratios—Merchants Bank Only:					
Tier 1 common equity to risk-weighted assets	10.9 %	11.3 %	n/a %	n/a %	11.7 %
Tier 1 capital to average assets	10.1 %	11.3 %	10.3 %	8.7 %	9.7 %
Tier 1 capital to risk-weighted assets	10.9 %	11.3 %	n/a %	n/a %	11.7 %
Total capital to risk-weighted assets	11.5 %	11.7 %	n/a %	n/a %	12.0 %

- (1) The Company adopted FASB Accounting Standards Update (ASU) 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (“CECL”) on January 1, 2022. ASU 2016-13 replaces the allowance for loan losses that used incurred loss impairment methodology in 2021-2019.

NON-GAAP FINANCIAL MEASURES

Some of the financial measures included in this report are not measures of financial performance recognized by GAAP. Our management uses these non-GAAP financial measures in its analysis of our performance. These non-GAAP financial measures include presentation of tangible common shareholders’ equity, tangible book value per share, tangible common shareholders’ equity to tangible assets, return on average tangible common equity, and efficiency ratio.

The reconciliation from shareholders' equity per GAAP to tangible common shareholders' equity is comprised of goodwill and intangibles totaling \$16.6 million at December 31, 2023, \$17.0 million at December 31, 2022, \$17.6 million at December 31, 2021, \$18.1 million at December 31, 2020 and \$19.6 million for the year ended December 31, 2019, as well as preferred stock totaling \$499.6 million at December 31, 2023, \$499.6 million at December 31, 2022, \$362.1 million at December 31, 2021, \$212.6 million at December 31, 2020 and \$212.6 million at December 31, 2019.

The reconciliation from consolidated assets per GAAP to tangible assets is comprised solely of consolidated assets less goodwill and intangibles totaling \$16.6 million at December 31, 2023, \$17.0 million at December 31, 2022, \$17.6 million at December 31, 2021, \$18.1 million at December 31, 2020 and \$19.6 million for the year ended December 31, 2019.

The efficiency ratio represents noninterest expense divided by the sum of net interest income and noninterest income.

Tangible book value per common share represents tangible common shareholders' equity divided by ending common shares.

Return on average tangible common equity represents net income available to common shareholders divided by average shareholders' equity, less average goodwill, average intangibles, and average preferred stock.

We believe that these non-GAAP financial measures provide useful information to management and investors that is supplementary to our financial condition, results of operations and cash flows computed in accordance with GAAP; however, we acknowledge that the non-GAAP financial measures have a number of limitations. As such, you should not view these disclosures as a substitute for results determined in accordance with GAAP, and these disclosures are not necessarily comparable to non-GAAP financial measures that other companies use.

A reconciliation of GAAP to non-GAAP financial measures is as follows:

(Dollars in thousands)	At December 31,				
	2023	2022	2021	2020	2019
Tangible common shareholders' equity:					
Shareholders' equity per GAAP	\$ 1,701,084	\$ 1,459,739	\$ 1,155,409	\$ 810,621	\$ 653,728
Less: goodwill & intangibles	(16,587)	(17,031)	(17,552)	(18,128)	(19,644)
Tangible shareholders' equity	1,684,497	1,442,708	1,137,857	792,493	634,084
Less: preferred stock	(499,608)	(499,608)	(362,149)	(212,646)	(212,646)
Tangible common shareholders' equity	\$ 1,184,889	\$ 943,100	\$ 775,708	\$ 579,847	\$ 421,438
Average tangible common shareholders' equity:					
Average shareholders' equity per GAAP	\$ 1,583,485	\$ 1,276,443	\$ 1,028,834	\$ 719,630	\$ 537,946
Less: average goodwill & intangibles	(16,801)	(17,293)	(17,841)	(18,899)	(20,243)
Less: average preferred stock	(499,608)	(398,182)	(325,904)	(212,646)	(129,881)
Average tangible common shareholders' equity	\$ 1,067,076	\$ 860,968	\$ 685,089	\$ 488,085	\$ 387,822
Tangible assets:					
Assets per GAAP	\$ 16,952,516	\$ 12,615,227	\$ 11,278,638	\$ 9,645,375	\$ 6,371,928
Less: goodwill & intangibles	(16,587)	(17,031)	(17,552)	(18,128)	(19,644)
Tangible assets	\$ 16,935,929	\$ 12,598,196	\$ 11,261,086	\$ 9,627,247	\$ 6,352,284
Ending Common Shares	43,242,928	43,113,127	43,180,079	43,120,625	43,059,657
Tangible book value per common share	\$ 27.40	\$ 21.88	\$ 17.96	\$ 13.45	\$ 9.79
Return on average tangible common equity	22.92 %	22.50 %	30.10 %	34.02 %	17.56 %
Tangible common equity to tangible assets	7.0 %	7.5 %	6.9 %	6.0 %	6.6 %

	For the Year Ended December 31,				
	2023	2022	2021	2020	2019
Net income as reported per GAAP	\$ 279,234	\$ 219,721	\$ 227,104	\$ 180,533	\$ 77,329
Less: preferred stock dividends	(34,670)	(25,983)	(20,873)	(14,473)	(9,216)
Net income available to common shareholders	<u>\$ 244,564</u>	<u>\$ 193,738</u>	<u>\$ 206,231</u>	<u>\$ 166,060</u>	<u>\$ 68,113</u>
Efficiency ratio (based on all GAAP metrics):					
Noninterest expense	\$ 174,601	\$ 136,050	\$ 125,385	\$ 96,424	\$ 63,313
Net interest income (before provision for credit losses)	448,071	318,551	277,994	224,146	122,298
Noninterest income	114,668	125,936	157,333	127,473	47,089
Total revenues for efficiency ratio	<u>\$ 562,739</u>	<u>\$ 444,487</u>	<u>\$ 435,327</u>	<u>\$ 351,619</u>	<u>\$ 169,387</u>
Efficiency ratio	31.03 %	30.61 %	28.80 %	27.42 %	37.38 %

Item 7. Management’s Discussion and Analysis of Financial Condition and the Results of Operations.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with “Selected Consolidated Financial Data” and our audited consolidated financial statements and the accompanying notes included elsewhere in this report.

Discussion and Analysis of the Company’s financial condition and the results of operations for the year ended December 31, 2022 compared to the year ended December 31, 2021 is contained in Item 7 of Form 10-K for the year ended December 31, 2022 filed with the SEC on March 16, 2023.

This discussion and analysis contains forward-looking statements that are subject to known and unknown risks and uncertainties that could cause our results to differ materially from our expectations. Actual results and the timing of events may differ significantly from those expressed or implied by such forward-looking statements due to a number of factors, including those set forth under Item 1 - “Special Note Regarding Forward Looking Statements,” Item 1A - “Risk Factors,” and elsewhere in this report. We assume no obligation to update any of these forward-looking statements.

Financial Highlights for the Year Ended December 31, 2023

- Net income of \$279.2 million increased \$59.5 million, or 27%, compared to December 31, 2022.
- Diluted earnings per share of \$5.64 increased 26% compared to December 31, 2022.
- The \$59.5 million, or 27%, increase in net income compared to the year ended December 31, 2022 was primarily driven by a \$129.5 million, or 41% increase in net interest income that was partially offset by a \$38.6 million, or 28% increase in noninterest expense, a \$22.9 million, or 133%, increase in provision for credit losses, and an \$11.3 million, or 9% decrease in noninterest income.
- Total assets of \$17.0 billion increased \$4.3 billion, or 34%, compared to December 31, 2022.
- As of December 31, 2023, the Company had \$6.0 billion, or 36% of total assets, in unused borrowing capacity with the Federal Home Loan Bank and the Federal Reserve Discount window, based on available collateral, compared to \$3.1 billion at December 31, 2022.
- 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 repurchase agreements included in loans receivable. Taken together, with unused borrowing capacity, these totaled \$10.6 billion, or 62%, of the \$17.0 billion in total assets as of December 31, 2023.
- Loans receivable of \$10.1 billion, net of allowance for credit losses on loans, increased \$2.7 billion, or 36%, compared to December 31, 2022.
- Efficiency ratio of 31.03% increased 42 basis points compared to 30.61% at December 31, 2022.

- As of December 31, 2023, approximately 93% 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 \$27.40 increased 25% compared to \$21.88 at December 31, 2022.
- In March 2023, the Company issued and sold \$158.1 million senior credit linked notes, due May 26, 2028. The net proceeds of the offering were approximately \$153.5 million and resulted in a reduction of risk-weighted assets, which have benefited regulatory capital ratios to support loan growth.
- In August 2023, the Company completed a \$303.6 million securitization of 11 multi-family mortgage loans through a Freddie Mac-sponsored Q-Series transaction.
- Our LIHTC syndications business raised \$483.7 million in equity, closing seven new multi-investor and proprietary funds during 2023. A total of \$1.4 billion in equity has been raised since its inception in 2020.
- In September 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. The sale was completed in January 2024.
- The volume of warehouse loans funded during the year ended December 31, 2023, amounted to \$33.0 billion, a decrease of \$193.9 million, or 1%, compared to the same period in 2022. This compared to the 29% industry decrease in single-family residential loan volumes from the year ended December 31, 2023 to the same period in 2022, according to an estimate of industry volume by the Mortgage Bankers Association.
- The total volume of loans originated and acquired through our multi-family business was \$6.2 billion, a decrease of \$2.7 billion, or 30%, compared to \$8.9 billion for the year ended December 31, 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 \$3.0 billion, a decrease of \$3.0 billion, or 49%, compared to \$6.0 billion for the year ended December 31, 2022. The volume of loans originated and acquired for sale in the secondary market increased by \$162.4 million, or 9%, to \$2.0 billion, compared to \$1.8 billion for the year ended December 31, 2022.

Company and Business Segment 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.

See “Company Overview and Our Business Segments,” in Item 1 “Business”, “Operating Segment Analysis for the Years Ended December 31, 2023 and 2022” in Item 7 “Management’s Discussion and Analysis of Financial Condition and the Results of Operations”, and “Segment Information,” in Note 26: Segment Information for further information about our segments.

Primary Factors We Use to Evaluate Our Business

As a financial institution, we manage and evaluate various aspects of both our results of operations and our financial condition. We evaluate the comparative levels and trends of the line items in our consolidated balance sheet and income statement as well as various financial ratios that are commonly used in our industry. We analyze these ratios and financial trends against our own historical performance, our budgeted performance, and the financial condition and performance of comparable financial institutions in our region.

Results of operations

In addition to net income, the primary factors we use to evaluate and manage our results of operations include net interest income, noninterest income, noninterest expense, and return on average equity.

Net interest income. Net interest income represents interest income less interest expense. We generate interest income from interest (net of deferred origination fees received and costs paid, which are amortized over the expected life of the loans) and fees received on interest-earning assets, including loans, investment securities, cash, and dividends on FHLB stock we own. We incur interest expense from interest paid on interest-bearing liabilities, including interest-bearing deposits and borrowings. Net interest income is the most significant contributor to our revenues and net income. To evaluate net interest income, we measure and monitor: (a) yields on our loans and other interest-earning assets; (b) duration on our loans, deposits, and borrowings; (c) the costs of our deposits and other funding sources; (d) our net interest margin; and (e) the regulatory risk weighting associated with the assets. Net interest margin is calculated as the annualized net interest income divided by average interest-earning assets. Because noninterest-bearing sources of funds, such as noninterest-bearing deposits and shareholders' equity, also fund interest-earning assets, net interest margin includes the benefit of these noninterest-bearing sources.

Changes in market interest rates, the slope of the yield curve, and interest we earn on interest-earning assets or pay on interest-bearing liabilities, as well as the volume and types of interest-earning assets, interest-bearing and noninterest-bearing liabilities and shareholders' equity, usually have the largest impact on changes in our net interest spread, net interest margin and net interest income during a reporting period.

Noninterest Income. Noninterest income consists of, among other things: (a) gain on sale of loans; (b) loan servicing fees; (c) fair value adjustments to the value of servicing rights; (d) mortgage warehouse fees; and (e) syndication and asset management fees; and (f) other noninterest income.

Gain on sale of loans includes placement and origination fees, capitalized servicing rights, trading gains and losses, gains and losses on certain derivatives and other related income. Loan servicing fees are collected as payments are received for loans in the servicing portfolio and reduced by amortization on servicing rights. Fair value adjustments to the value of servicing rights are also included in noninterest income. Mortgage warehouse fees are accrued at the time of funding. Syndication fee income is recognized at the point in time when investor equity capital is obtained primarily to acquire qualifying investments in low-income housing tax credit projects for its funds. Related asset management fees for syndicated low-income housing tax credit or debt funds are recognized over time. Other noninterest income includes the recognition and changes in value to protective derivatives associated with certain investment securities.

Noninterest expense. Noninterest expense includes, among other things: (a) salaries and employee benefits, including commissions; (b) loan origination and servicing expenses; (c) occupancy and equipment expense; (d) professional fees; (e) FDIC insurance expense; (f) technology expense; and (g) other general and administrative expenses.

Salaries and employee benefits includes commissions, other compensation, employee benefits and employer tax expenses for our personnel.

Loan origination and servicing expenses include third party processing for financing activities and loan-related origination expenses. Occupancy expense includes depreciation expense on our owned properties, lease expense on our leased properties and other occupancy-related expenses. Equipment expense includes furniture, fixtures and equipment related expenses. Professional fees include legal, accounting, consulting and other outsourcing arrangements. FDIC insurance expense represents the assessments that we pay to the FDIC for deposit insurance. Technology expense includes data processing fees paid to our third-party data processing system provider and other data service providers.

Other general and administrative expenses include expenses associated with servicing expense, advertising, marketing, travel, meals, training, supplies, and postage, among other miscellaneous expenses.

Noninterest expenses generally increase as we grow our business. Noninterest expenses have increased significantly over the past few years as we have grown organically, and as we have built out and modernized our operational infrastructure and implemented our plan to build an efficient, technology-driven mortgage banking operation with significant operational capacity for growth.

Return on Average Equity. Return on average equity is the measure of annual net income divided by the value of our total shareholders' equity, expressed as a percentage. It reflects how efficiently equity investments are turned into profits. Changes in profitability and the ability to effectively manage levels of capital can influence this measure. The higher the ratio, the more profitable our Company is.

Financial Condition

The primary factors we use to evaluate and manage our financial condition are asset levels, liquidity, capital and asset quality.

Asset Levels. We manage our asset levels based upon forecasted closings or fundings within our business segments to ensure we have the necessary liquidity and capital to meet the required regulatory capital ratios. Each segment evaluates its funding needs by forecasting the fundings and sales of loans, communicating with customers on their projected funding needs, and reviewing its opportunities to add new customers.

Liquidity. We manage our liquidity based upon factors that include: (a) our amount of custodial and brokered deposits as a percentage of total deposits (b) the level of diversification of our funding sources (c) the allocation and amount of our deposits among deposit types (d) the short-term funding sources used to fund assets (e) the amount of non-deposit funding used to fund assets (f) the availability of unused funding sources; (g) off-balance sheet obligations; (h) the availability of assets to be readily converted into cash without a material loss on the investment; (i) the amount of cash and cash equivalent; (j) the repricing characteristics of our assets; (k) maturity and duration of our assets when compared to the repricing characteristics of our liabilities; (l) costs of available funding options; and (m) other factors.

Capital. We manage our regulatory capital based upon factors that include: (a) the level and quality of capital and our overall financial condition; (b) risk weighting of our assets; (c) the trend and volume of problem assets; (d) the dollar amount of servicing rights as a percentage of capital; (e) the level and quality of earnings; (f) the risk exposures on our balance sheet as well as off-balance sheet exposures; and (g) other factors. In addition, we have continually increased our capital through net income less dividends and equity issuances. Our regulatory capital ratios can be influenced by various factors including levels of delinquency on loans.

Asset Quality. We manage the diversification and quality of our assets based upon factors that include: (a) the level, distribution, severity and trend of problem, classified, delinquent, nonaccrual, nonperforming and restructured assets; (b) the adequacy of our allowance for credit losses on loans ("ACL-Loans"); (c) the diversification and quality of loan and investment portfolios; (d) the extent of counterparty risks; (e) credit risk concentrations; (f) the liquidity of our assets; and (g) other factors.

Recent Developments and Material Trends

Economic and Interest Rate Environment. The results of our operations are highly dependent on economic conditions, mortgage volumes, and market interest rates. Residential mortgage volumes fluctuate based on market interest rates, economic conditions, and the credit parameters set by government agencies, such as Fannie Mae, Freddie Mac, and Ginnie Mae, and other market participants. Prior to May 2022, the Board of Governors of the Federal Reserve System ("Federal Reserve") continued to reduce interest rates, leading to historically low overnight interest rates in the range of 0.0% to 0.25%, which was the lowest the rates had been since 2009. The overnight federal funds rate that the Federal Reserve uses to affect economic conditions affects the entire term structure of interest rates, so rates on longer term debt (like mortgages) also moved lower. As inflation increased throughout 2022 and 2023, on the heels of the COVID-19 pandemic, the Federal Reserve responded by rapidly increasing interest rates to the highest levels seen since January 2008, as the Federal funds rate steadily increased and stabilized to 5.33% as of December 31, 2023. According

to Federal Reserve data, thirty-year mortgage rates rose to over 7% during 2022 for the first time since 2002, and remained elevated until the end of 2023, when rates began to fall slightly below 7%.

The lower interest rates in 2020 contributed to the significant loan growth we experienced for the year ended December 31, 2020, particularly related to single family mortgage refinancing activity that increased net interest income and noninterest income in our Mortgage Warehousing segment. Growth moderated and declined during the years ended December 31, 2021, 2022 and 2023 in this line of business as interest rates increased, and it may not resume until rates stabilize or decline in 2024. Supporting this expectation are industry forecasts from the Mortgage Bankers Association, which has forecasted a 22% increase in single-family residential mortgage volume, to \$2.001 trillion for 2024, from \$1.639 trillion in 2023, and an increase of 17%, to \$2.339 trillion in 2025, followed by an increase to \$2.436 trillion for 2026. The higher rate environment has also slowed multi-family permanent, agency-eligible loan originations and sales to the secondary market.

Regulatory Environment. We believe an important trend affecting community banks in the United States over the foreseeable future will be related to heightened regulatory capital requirements, regulatory burdens generally, and interest margin compression. We expect that troubled community banks will continue to face significant challenges when attempting to raise capital. We also believe that heightened regulatory capital requirements will make it more difficult for even well-capitalized, healthy community banks to grow in their communities by taking advantage of opportunities in their markets that result as the economy improves. We believe these trends will favor community banks that have sufficient capital, a diversified business model and a strong deposit franchise.

As described further in Item 1 - “Supervision and Regulation—Merchants Bank—Capital Requirements and Basel III” the federal regulators finalized and adopted rules regarding the community bank leverage ratio (“CBLR”) in November 2019. Under CBLR, if a qualifying depository institution or depository institution holding company elected to use such measure, such institution or holding company was considered well capitalized if its ratio of Tier 1 capital to average total consolidated assets (i.e., leverage ratio) exceeded a 9% threshold, subject to a limited two quarter grace period, during which the leverage ratio could not go 100 basis points below the then applicable threshold, and would not be required to calculate and report risk-based capital ratios. At September 30, 2022 the Company’s total assets exceeded \$10 billion, off-balance sheets exposures exceeded 25% of total assets, and the allowable grace periods under the CBLR rules expired. Accordingly, the Company has been reporting fully phased-in Basel III risk-based capital ratios since September 30, 2022.

Allowance for Credit Losses on Loans (“ACL-Loans”). One of our key operating objectives has been, and continues to be, maintenance of an appropriate level of ACL-Loans in our loan portfolio. The provision for credit losses recorded in prior years was primarily due to growth in our loan portfolio, as our historical loss rates remained very low. As we anticipate that our loan portfolio overall will continue to grow in 2024, we could expect the provision to increase, but could also be influenced by any changes to problem loans in our portfolio or the loan type mix within the portfolio. It could also be influenced by external market factors, such as interest rates and economic activity. Additional details are provided in the ACL-Loans portion of the Comparison of Financial Condition at December 31, 2023 and December 31, 2022. Because there could be unforeseen future losses, the Company continues to monitor the situation and may need to adjust future expectations as developments occur.

Issuance and Redemption of Preferred Stock. On September 27, 2022, the Company issued 5,200,000 depository shares, each representing a 1/40th interest in a share of its 8.25% Fixed Rate Reset 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 depository 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 \$4.7 million paid to third parties, the Company received total net proceeds of \$125.3 million. On September 30, 2022, the Company issued an additional 500,000 depository 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.

During 2024, dividends on the Company’s 7% Series A and 6% Series B Preferred Stock are scheduled to reset at higher rates in April 2024 and October 2024, respectively. At that time, we shall have the option to pay higher dividends, redeem the shares, or refinance them with another preferred offering. See “Capital Resources” section of “Liquidity”, later in this Item 7 for more information.

Loan Sales and Securitizations. Growth in the loan origination pipeline has prompted the Company to seek additional avenues to effectively manage regulatory capital levels and reduce credit risk, in addition to issuing preferred stock. Accordingly, we have completed several loan sale and securitization transactions. In doing so, the Company has been able to effectively reduce its risk-weighted assets and maintain well-capitalized capital ratios. Also see *Note 5: Loans and Allowance for Credit Losses on Loans*.

General and Administrative Expenses. We expect to continue incurring increased noninterest expense attributable to general and administrative expenses related to building out and modernizing our operational infrastructure, marketing, and other administrative expenses to execute our strategic initiatives, as well as expenses to hire additional personnel and other costs required to continue our growth. We also expect costs to increase with additional regulatory compliance requirements.

Comparison of Operating Results for the Years Ended December 31, 2023 and 2022

General. Net income of \$279.2 million for the year ended December 31, 2023 increased by \$59.5 million, or 27%, compared to net income of \$219.7 million for the year ended December 31, 2022. The increase was primarily driven by a \$129.5 million, or 41%, increase in net interest income. The increase was partially offset by a \$38.6 million, or 28%, increase in noninterest expense, \$22.9 million, or 133%, increase in provision for credit losses, and an \$11.3 million, or 9%, decrease in noninterest income.

Net Interest Income. Net interest income of \$448.1 million for the year ended December 31, 2023 increased \$129.5 million, or 41%, compared to \$318.6 million for the year ended December 31, 2022. The 41% increase reflected a \$597.0 million, or 124%, increase in interest income from higher yields and average balances on loans and loans held for sale, as well as higher average balances of securities held to maturity. These increases were partially offset by a \$467.4 million, or 288%, increase in interest expense from higher interest rates and average balances of 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 2.51% for the year ended December 31, 2023, decreased 21 basis points compared to 2.72% for the year ended December 31, 2022.

Our net interest margin increased nine basis points, to 3.06%, for the year ended December 31, 2023 from 2.97% for the year ended December 31, 2022.

Interest Income. Interest income of \$1.1 billion for the year ended December 31, 2023 increased \$597.0 million, or 124%, compared to \$480.8 million for the year ended December 31, 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.

Interest income of \$959.7 million for loans and loans held for sale increased \$507.7 million, or 112%, during 2023. The average balance of loans, including loans held for sale, during the year ended December 31, 2023 increased \$3.1 billion, or 33%, to \$12.4 billion compared to \$9.3 billion for the year ended December 31, 2022. The average yield on loans increased 288 basis points, to 7.73% for the year ended December 31, 2023, compared to 4.85% for the year ended December 31, 2022. The increase in average balances of loans and loans held for sale was primarily due to increases in the healthcare, commercial lines of credit collateralize by mortgage servicing rights real estate and multi-family portfolios, but all loan portfolios contributed to the growth during the period. The increase in the average yield reflected a significant portion of our loan portfolio with adjustable rates that increased with market rates.

Interest income of \$70.0 million for securities held to maturity increased \$57.6 million, or 465%, during 2023. The average balance of securities held to maturity, during the year ended December 31, 2023 increased \$820.0 million, to \$1.1 billion compared to \$277.5 million for the year ended December 31, 2022. The average yield on securities held to maturity increased 192 basis points, to 6.38 % for the year ended December 31, 2023, compared to 4.46% for the year ended December 31, 2022. The increase in average balance of securities held to maturity was primarily related to held to maturity securities acquired as part of loan securitizations that the Company originated.

Interest income of \$21.6 million on securities available for sale increased \$18.8 million, or 670%, during 2023. The average balance of securities available for sale increased \$300.7 million, or 93%, to \$623.7 million for the year ended December 31, 2023, from \$323.0 million for the year ended December 31, 2022. The average yield increased 260

basis points, to 3.47% for the year ended December 31, 2023, compared to 0.87% for the year ended December 31, 2022. The increase in average balances of securities available for sale was primarily associated with the acquisition of certain securities from a warehouse customer that provide protective put options and interest rate floor derivatives to prevent losses in value.

Interest income of \$11.6 million on interest-earning deposits and other increased \$7.6 million, or 187%, during 2023. The average balance of interest-earning deposits and other decreased \$321.1 million, or 57%, to \$240.8 million for the year ended December 31, 2023, from \$561.9 million for the year ended December 31, 2022. The average yield increased 480 basis points, to 5.74% for the year ended December 31, 2023, compared to 0.94% for the year ended December 31, 2022.

Interest income of \$12.7 million for mortgage loans in process or securitization increased \$4.2 million, or 50%, during 2023. The average balance of mortgage loans in process of securitization increased \$3.8 million, or 2%, to \$257.7 million for the year ended December 31, 2023 compared to the year ended December 31, 2022. The average yield increased 160 basis points, to 4.91% for the year ended December 31, 2023, compared to 3.31% for the year ended December 31, 2022.

Interest Expense. Total interest expense of \$629.7 million for the year ended December 31, 2023 increased \$467.4 million, or 288%, compared to \$162.3 million for the year ended December 31, 2022.

Interest expense on deposits increased \$427.6 million, or 286%, to \$577.2 million for the year ended December 31, 2023 compared to \$149.6 million for the year ended December 31, 2022. The increase was primarily due to higher rates on certificates of deposit, interest-bearing checking, and money market accounts, as well as higher average balances on certificates of deposit. The higher rates on our deposits were in response to higher interest rates set by the Federal Reserve.

Interest expense of \$233.1 million for certificate of deposit accounts increased \$201.9 million during 2023. The average balance of certificates of deposit of \$4.6 billion for the year ended December 31, 2023 increased \$3.0 billion, or 194%, compared to \$1.6 billion for the year ended December 31, 2022. The average rate on certificates of deposit was 5.08% for the year ended December 31, 2023, which was a 308 basis point increase compared to 2.00% for year ended December 31, 2022.

Interest expense of \$216.5 million for interest-bearing checking accounts increased \$147.4 million during 2023. The average balance of interest-bearing checking accounts of \$4.7 billion for the year ended December 31, 2023 increased \$567.4 million, or 14%, compared to \$4.1 billion for the year ended December 31, 2022. The average yield of interest-bearing checking accounts was 4.59% for the year ended December 31, 2023, which was a 293 basis point increase compared to 1.66% for year ended December 31, 2022.

Interest expense of \$126.4 million for money market accounts increased \$77.6 million during 2023. The average balance of money market accounts of \$2.8 billion for the year ended December 31, 2023 increased \$153.8 million, or 6%, compared to \$2.7 billion for the year ended December 31, 2022. The average yield of money market accounts was 4.51% for the year ended December 31, 2023, which was a 267 basis point increase compared to 1.84% for year ended December 31, 2022.

Interest expense on borrowings increased \$39.9 million, or 316%, to \$52.5 million for the year ended December 31, 2023 from \$12.6 million for the year ended December 31, 2022. The increase reflected a 624 basis point increase in the average cost of borrowings to 8.37%, compared to 2.13% for the year ended December 31, 2022. The increase was primarily related to the credit linked notes issued by the Company in 2023. Also contributing to the increase in interest expense for borrowings was an increase of \$33.1 million, or 6%, in the average balance of borrowings of \$627.5 million compared to \$594.4 million for the year ended December 31, 2022.

Included in interest expense on 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 8.36% and 1.56%, to an effective rate of 8.37% and 2.13% for the year ended December 31, 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.

(Dollars in thousands)	Year Ended December 31,					
	2023			2022		
	Average Balance ⁽¹⁾	Interest Inc / Exp	Average Yield / Rate	Average Balance ⁽¹⁾	Interest Inc / Exp	Average Yield / Rate
Assets:						
Interest-bearing deposits, and other	\$ 240,758	\$ 13,828	5.74 %	\$ 561,883	\$ 5,264	0.94 %
Securities available for sale	623,678	21,621	3.47 %	322,990	2,807	0.87 %
Securities held to maturity	1,097,414	69,983	6.38 %	277,464	12,382	4.46
Mortgage loans in process of securitization	257,683	12,652	4.91 %	253,847	8,407	3.31 %
Loans and loans held for sale	12,420,869	959,714	7.73 %	9,318,288	451,973	4.85 %
Total interest-earning assets	<u>14,640,402</u>	<u>1,077,798</u>	7.36 %	<u>10,734,472</u>	<u>480,833</u>	4.48 %
Allowance for credit losses on loans	(57,617)			(36,057)		
Noninterest-earning assets	495,605			346,474		
Total assets	<u>\$ 15,078,390</u>			<u>\$ 11,044,889</u>		
Liabilities/Equity:						
Interest-bearing checking	\$ 4,717,300	216,484	4.59 % ⁽⁴⁾	\$ 4,149,942	69,057	1.66 % ⁽⁴⁾
Savings deposits	239,509	1,251	0.52 %	240,481	561	0.23 %
Money market	2,805,284	126,422	4.51 %	2,651,532	48,872	1.84 %
Certificates of deposit	4,589,312	233,053	5.08 %	1,561,261	31,155	2.00 %
Total interest-bearing deposits	<u>12,351,405</u>	<u>577,210</u>	4.67 %	<u>8,603,216</u>	<u>149,645</u>	1.74 %
Borrowings	627,516	52,517	8.37 %	594,423	12,637	2.13 %
Total interest-bearing liabilities	<u>12,978,921</u>	<u>629,727</u>	4.85 %	<u>9,197,639</u>	<u>162,282</u>	1.76 %
Noninterest-bearing deposits	337,723			453,387		
Noninterest-bearing liabilities	178,261			117,420		
Total liabilities	<u>13,494,905</u>			<u>9,768,446</u>		
Equity	<u>1,583,485</u>			<u>1,276,443</u>		
Total liabilities and equity	<u>\$ 15,078,390</u>			<u>\$ 11,044,889</u>		
Net interest income			<u>2.51 %</u>			<u>2.72 %</u>
Interest rate spread	<u>\$ 1,661,481</u>			<u>\$ 1,536,833</u>		
Net interest-earning assets		<u>\$ 448,071</u>			<u>\$ 318,551</u>	
Net interest margin			<u>3.06 %</u>			<u>2.97 %</u>
Average interest-earning assets to average interest-bearing liabilities			<u>112.80 %</u>			<u>116.71 %</u>

- (1) Average balances are average daily balances.
- (2) Represents the average rate earned on interest-earning assets minus the average rate paid on interest-bearing liabilities.
- (3) Represents net interest income (annualized) divided by total average earning assets.
- (4) Reflects changes in interest rates on mortgage custodial deposits.

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.

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:

(Dollars in thousands)	Year ended December 31, 2023 compared to Year ended December 31, 2022		
	Increase (Decrease)		
	Due to		
	Volume	Rate	Total
Interest income			
Interest-bearing deposits and other	\$ (3,008)	\$ 11,572	\$ 8,564
Securities available for sale	2,613	16,201	18,814
Securities held to maturity	36,591	21,010	57,601
Mortgage loans in process of securitization	127	4,118	4,245
Loans and loans held for sale	150,487	357,254	507,741
Total interest income	186,810	410,155	596,965
Interest expense			
Deposits			
Interest-bearing checking	9,441	137,986	147,427
Savings deposits	(2)	692	690
Money market deposits	2,834	74,716	77,550
Certificates of deposit	60,425	141,473	201,898
Total Deposits	72,698	354,867	427,565
Borrowings	704	39,176	39,880
Total interest expense	73,402	394,043	467,445
Net interest income	\$ 113,408	\$ 16,112	\$ 129,520

Provision for Credit Losses. We recorded a total provision for credit losses of \$40.2 million for the year ended December 31, 2023, an increase of \$22.9 million, compared to \$17.3 million for the year ended December 31, 2022.

The \$40.2 million total provision for credit losses consisted of \$37.5 million for the ACL-Loans and \$2.7 million for the allowance for off-balance sheet credit exposures (“ACL-OBCEs”).

The ACL-Loans was \$71.8 million, or 0.70% of loans receivable at December 31, 2023, compared to \$44.0 million, or 0.59% of loans receivable at December 31, 2022. The higher ACL-Loans reflected increases associated with loan growth, changes in qualitative loss factors, and specific reserves. Additional details are provided in the ACL-Loans portion of the Comparison of Financial Condition at December 31, 2023 and 2022, and in *Note 1: Nature of Operations and Significant Accounting Policies* and *Note 5: Loans and Allowance for Credit Losses*.

Noninterest Income. Noninterest income of \$114.7 million for the year ended December 31, 2023 decreased \$11.3 million, or 9%, compared to \$125.9 million for the year ended December 31, 2022. The decrease was primarily due to lower gain on sale and loan servicing fees that were partially offset by higher syndication and asset management fees.

Gain on sale of loans of \$48.2 million for the year ended December 31, 2023 decreased \$16.0 million, or 25%, compared to \$64.2 million for the year ended December 31, 2022. The decrease in gain on sale of loans was associated with a business mix shift in multi-family lending from volumes sold in the secondary market towards those maintained on the balance sheet.

A summary of the gain on sale of loans for the years ended December 31, 2023 and 2022 is below:

(Dollars in thousands)	Gain on Sale of Loans For the Years Ended December 31,	
	2023	2022
Loan Type:		
Multi-family	\$ 42,979	\$ 56,819
Single-family	1,247	1,133
Small Business Administration (SBA)	3,957	6,198
Total	\$ 48,183	\$ 64,150

Loan servicing fees of \$26.2 million for the year ended December 31, 2023 decreased \$4.0 million, or 13%, compared to the year ended December 31, 2022. Loan servicing fees included a \$4.6 million positive adjustment to the fair value of servicing rights for the year ended December 31, 2023, compared to a \$19.8 million positive adjustment to the fair value of servicing rights for the year ended December 31, 2022.

Partially offsetting the decrease in noninterest income was a \$3.5 million increase in syndication and asset management fees, which reached \$12.4 million for the year ended December 31, 2023.

Noninterest Expense. Noninterest expense of \$174.6 million for the year ended December 31, 2023 increased \$38.6 million, or 28%, compared to \$136.1 million for the year ended December 31, 2022. The increase was due primarily to a \$19.1 million, or 21%, increase in salaries and employee benefits associated with higher commissions on higher production volume and to support loan growth, as well as a \$10.1 million, or 292% increase in FDIC deposit insurance expenses. The efficiency ratio was at 31.03% for the year ended December 31, 2023, compared with 30.61% for the year ended December 31, 2022.

Income Taxes. Provision for income tax of \$68.7 million for the year ended December 31, 2023 decreased \$2.7 million, or 4%, compared to \$71.4 million for the year ended December 31, 2022. The decrease reflected tax benefits of \$12.2 million related to tax refunds receivable and changes to state apportionment calculations that were partially offset by taxes on higher pre-tax income.

The effective tax rate was 19.7% for the year ended December 31, 2023 and 24.5% for the year ended December 31, 2022.

Asset Quality

Total nonperforming loans (nonaccrual and greater than 90 days late but still accruing) were \$82.0 million, or 0.80% of total loans, at December 31, 2023, compared to \$26.7 million, or 0.36% of total loans, at December 31, 2022. The increase in nonperforming loans compared to both periods was primarily due to six customers in our multi-family and healthcare portfolios.

As a percentage of nonperforming loans, the ACL-Loans was 87% at December 31, 2023 compared to 165% at December 31, 2022. The decrease in percentage was due to an increase in nonperforming loans. The increase in nonperforming loans was primarily related to increases in the nonaccrual classification and have all been individually evaluated for impairment.

Total loans greater than 30 days past due were \$183.5 million at December 31, 2023 compared to \$39.8 million at December 31, 2022. Since the majority of loans to customers have variable rates, the rapid increase in interest rates over the last several quarters negatively impacted borrowers by increasing their required payment amounts.

Special Mention loans were \$191.3 million at December 31, 2023 compared to \$137.8 million in Special Mention (Watch) loans at December 31, 2022. While these categories are not precisely comparable as described in *Note 5: Loans and Allowance for Credit Losses*, the increase was primarily due to the increase in interest rates for our borrowers.

Substandard loans were \$128.6 million at December 31, 2023 compared to \$64.8 million at December 31, 2022. The increase in substandard loans was primarily due to the increase in nonperforming loans described above.

We had \$41,000 of recoveries and \$9.8 million of charge offs primarily related to one customer, during the year ended December 31, 2023, and \$753,000 of recoveries and \$1.3 million of charge offs during the year ended December 31, 2022.

Operating Segment Analysis for the Years Ended December 31, 2023 and 2022

We operate in three primary segments: Multi-Family Mortgage Banking, Mortgage Warehousing, and Banking, as discussed in “*Our Business Segments*” of *Item 1* and *Note 26: Segment Information*. The reportable segments are consistent with the internal reporting and evaluation of the principal lines of business of the Company.

Our segment financial information was compiled utilizing the policies described in *Note 1: Nature of Operations and Summary of Significant Accounting Policies*, and *Note 26: Segment Information*, included elsewhere in this report. As a result, reported segments and the financial information of the reported segments are not necessarily comparable with similar information reported by other financial institutions. Furthermore, changes in management structure or allocation methodologies and procedures may result in future changes to previously reported segment financial data. Transactions between segments consist primarily of borrowed funds and overhead expense sharing. Intersegment interest expense is allocated to the Mortgage Warehousing and Banking segments based on Merchants Bank’s cost of funds. The provision for credit losses is allocated based on information included in our ACL-Loans analysis and specific loan data for each segment.

Our segments diversify the net income of Merchants Bank and provide synergies across the segments. Strategic opportunities come from MCC and MCS, where loans are funded by the Banking segment and the Banking segment provides Ginnie Mae custodial services to MCC and MCS. Low-income tax credit syndication and debt fund offerings complement the lending activities of new and existing multi-family mortgage customers. The securities available for sale and held to maturity funded by MCC custodial deposits or purchases of securitized loans originated by MCC are pledged to 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. Retail and commercial customers provide cross selling opportunities within the banking segment. Merchants Mortgage is a risk mitigant to Mortgage Warehousing because it provides us with a ready platform to sell the underlying collateral to secure repayment. These and other synergies form a part of our strategic plan.

The Other segment presented below, in *Note 26: Segment Information*, and elsewhere in this report includes general and administrative expenses for provision of services to all segments, internal funds transfer pricing offsets resulting from allocations to or from the other segments, certain elimination entries, and investments in low-income housing tax credit limited partnerships or Limited Liability Companies (“LLC”).

The following table presents our primary operating results for our operating segments for the years ended December 31, 2023 and 2022.

(Dollars in thousands)	Multi-family Mortgage Banking	Mortgage Warehousing	Banking	Other	Total
Year Ended December 31, 2023					
Interest income	\$ 5,718	\$ 276,366	\$ 789,399	\$ 6,315	\$ 1,077,798
Interest expense	52	184,486	451,952	(6,763)	629,727
Net interest income	5,666	91,880	337,447	13,078	448,071
Provision for credit losses	—	2,782	37,449	—	40,231
Net interest income after provision for credit losses	5,666	89,098	299,998	13,078	407,840
Noninterest income	123,980	14,315	(12,527)	(11,100)	114,668
Noninterest expense	83,862	14,003	42,811	33,925	174,601
Income (loss) before income taxes	45,784	89,410	244,660	(31,947)	347,907
Income taxes	9,311	15,885	50,262	(6,785)	68,673
Net income (loss)	<u>\$ 36,473</u>	<u>\$ 73,525</u>	<u>\$ 194,398</u>	<u>\$ (25,162)</u>	<u>\$ 279,234</u>
Total assets	<u>\$ 411,097</u>	<u>\$ 4,522,175</u>	<u>\$ 11,760,943</u>	<u>\$ 258,301</u>	<u>\$ 16,952,516</u>

(Dollars in thousands)	Multi-family Mortgage Banking	Mortgage Warehousing	Banking	Other	Total
Year Ended December 31, 2022					
Interest income	\$ 2,239	\$ 115,870	\$ 354,482	\$ 8,242	\$ 480,833
Interest expense	—	48,079	117,284	(3,081)	162,282
Net interest income	2,239	67,791	237,198	11,323	318,551
Provision for credit losses	1,153	37	16,105	—	17,295
Net interest income after provision for credit losses	1,086	67,754	221,093	11,323	301,256
Noninterest income	155,883	5,400	(26,177)	(9,170)	125,936
Noninterest expense	82,213	10,420	18,303	25,114	136,050
Income (loss) before income taxes	74,756	62,734	176,613	(22,961)	291,142
Income taxes	20,114	14,130	42,392	(5,215)	71,421
Net income (loss)	<u>\$ 54,642</u>	<u>\$ 48,604</u>	<u>\$ 134,221</u>	<u>\$ (17,746)</u>	<u>\$ 219,721</u>
Total assets	<u>\$ 351,274</u>	<u>\$ 2,519,810</u>	<u>\$ 9,587,544</u>	<u>\$ 156,599</u>	<u>\$ 12,615,227</u>

Multi-family Mortgage Banking. The Multi-family Mortgage Banking segment reported net income of \$36.5 million for the year ended December 31, 2023, a decrease of \$18.2 million, or 33%, compared to \$54.6 million reported for the year ended December 31, 2022. The decline was primarily due to lower noninterest income that was partially offset by a lower provision for income taxes.

A \$31.9 million decrease in noninterest income reflected a \$34.4 million decrease in gain on sale of loans, as sales to the secondary market declined, and a \$4.9 million decrease in other noninterest income. This was partially offset by a \$3.4 million increase in loan servicing fees and a \$4.0 million increase in syndication and asset management fees.

Loan servicing fees reflected a positive fair market value adjustment of \$3.9 million on servicing rights for the year ended December 31, 2023 compared to a positive fair market value adjustment of \$14.0 million for the year ended December 31, 2022.

A \$10.8 million decrease in provision for income tax expense reflected a tax benefit related to tax refunds receivable and changes to state tax apportionment calculations, as well as lower pre-tax income.

The total volume of loans originated and acquired through our multi-family business was \$6.2 billion for the year ended December 31, 2023, a decrease of \$2.7 billion, or 30%, compared to \$8.9 billion for the year ended December 31, 2022. Loans originated include bridge loans housed in our banking segment while borrowers await conversion to

permanent financing. The volume of bridge loans was \$3.0 billion for the year ended December 31, 2023, a decrease of \$3.0 billion, or 49%, compared to \$6.0 billion for the year ended December 31, 2022. The volume of loans originated and acquired for sale in the secondary market increased by \$162.4 million, or 9%, to \$2.0 billion, compared to \$1.8 billion for the year ended December 31, 2022.

Total assets in the Multi-family segment increased 17%, to \$411.1 million at December 31, 2023, compared to \$351.3 million at December 31, 2022.

Mortgage Warehousing. The Mortgage Warehousing segment reported net income of \$73.5 million for the year ended December 31, 2023, an increase of \$24.9 million, or 51%, compared to \$48.6 million for the year ended December 31, 2022. The higher net income reflected higher interest income and mortgage warehouse fees even as industry volumes declined.

The volume of loans funded during the year ended December 31, 2023 amounted to \$33.0 billion, a decrease of \$193.9 million, or 1%, compared to the same period in 2022. This compared to the 29% industry decrease in single-family residential loan volumes from the year ended December 31, 2023 to the year ended December 31, 2022, according to the Mortgage Bankers Association.

Total assets in the Mortgage Warehousing segment increased 79%, to \$4.5 billion at December 31, 2023, compared to \$2.5 billion at December 31, 2022.

Banking. The Banking segment reported net income for the year ended December 31, 2023, of \$194.4 million, an increase of \$60.2 million, or 45%, compared to \$134.2 million for the year ended December 31, 2022. The increase was primarily due to a \$100.2 million increase in net interest income due to higher balances in multifamily and healthcare bridge loans and a \$13.6 million increase in noninterest income. These were partially offset by a \$24.5 million increase in noninterest expense, primarily due to increases in salaries and employee benefits that reflected higher commissions on higher production volume, as well as increases in deposit insurance expense.

Noninterest income for the year ended December 31, 2023 included a positive fair market value adjustment of \$688,000 on single-family servicing rights compared to a positive fair market value adjustment of \$5.8 million for the year ended December 31, 2022.

Total assets in the Banking segment increased 23%, to \$11.8 billion at December 31, 2023, compared to \$9.6 billion at December 31, 2022.

See “Our Business Segments,” in Item 1 “Business”, and Note 26: Segment Information, for further information about our segments.

Financial Condition

As of December 31, 2023, we had approximately \$17.0 billion in total assets, \$14.1 billion in deposits, and \$1.7 billion in total shareholders’ equity. Total assets as of December 31, 2023 included approximately \$584.4 million of cash and cash equivalents, \$3.1 billion of loans held for sale and \$10.1 billion of loans receivable, net of ACL-Loans. Total assets also included \$110.6 million of mortgage loans in process of securitization that represent pre-sold multi-family rental real estate loan originations in primarily Fannie Mae, Freddie Mac, or Ginnie Mae mortgage backed securities pending settlements that typically occur within 30 days. There were also \$1.2 billion of securities held to maturity that were primarily acquired in conjunction with the securitization of loans that the Company originated. Additionally, we had \$1.1 billion in securities available for sale, the majority of which were acquired from a warehouse customer, and others 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 multi-family custodial deposits where we set the cost of deposits based on the yield of the related securities. Servicing rights at December 31, 2023 were \$158.5 million based on the fair value of the loan servicing, which includes Ginnie Mae multi-family servicing rights with 10-year call protection. The \$306.4 million in other assets includes \$161.3 million of low income housing tax credit investments.

Comparison of Financial Condition at December 31, 2023 and 2022

Total Assets. Total assets of \$17.0 billion at December 31, 2023 increased \$4.3 billion, or 34%, compared to \$12.6 billion at December 31, 2022. The increase was due primarily to significant growth in the multi-family, healthcare, commercial lines of credit collateralized by mortgage servicing rights, and mortgage warehouse loan portfolios.

Cash and Cash Equivalents. Cash and cash equivalents of \$584.4 million at December 31, 2023 increased \$358.3 million, or 158%, compared to December 31, 2022. The 158% increase reflected higher liquidity to fund anticipated loan growth. Included in cash equivalents was \$36.4 million in restricted cash associated with the March 2023 issuance of senior credit linked notes described in *Note 1: Nature of Operations and Summary of Significant Accounting Policies* and *Note 14: Borrowings*.

Mortgage Loans in Process of Securitization. Mortgage loans in process of securitization of \$110.6 million at December 31, 2023 decreased \$43.6 million, or 28%, compared to \$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 Ginnie Mae or other agency mortgage-backed securities with a firm investor commitment to purchase the securities. The 28% decrease was primarily due to a decrease in the volume of loans that had not yet settled with government agencies.

Securities Available for Sale. Securities available for sale of \$1.1 billion at December 31, 2023 increased \$790.4 million, or 244%, compared to \$323.3 million at December 31, 2022. The increase in available for sale securities was primarily due to purchases of \$1.3 billion, partially offset by calls, maturities, repayments, sales and other adjustments of \$501.5 million during the period. The purchases were primarily acquired from a warehouse customer, which provided put option and interest rate floor protections against any loss in fair value.

Included in securities available for sale were \$722.5 million of investment for which a fair value option was elected. Fair value option securities represent securities which the Company has elected to carry at fair value and are separately identified on the Consolidated Balance Sheets with changes in the fair value recognized in earnings as they occur.

As of December 31, 2023, Accumulated Other Comprehensive Losses (“AOCL”) of \$2.5 million, related to securities available for sale, decreased \$8.0 million, or 76%, compared to losses of \$10.5 million at December 31, 2022. The \$2.5 million of AOCL losses as of December 31, 2023 represented less than 1% of total equity and less than 1% of total securities available for sale.

Securities Held to Maturity. Held to maturity securities of \$1.2 billion at December 31, 2023 increased 8% compared to \$1.1 billion at December 31, 2022. The increase was primarily due to purchases of \$293.3 million offset by calls, maturities and repayments of securities totaling \$208.1 million during the period.

The following table shows the maturity distribution and weighted average yields of the securities available for sale and held to maturity portfolio:

December 31, 2023 (Dollars in thousands)	Due within one year		Due after one but within five years		Due after five but within ten years		Due after ten years	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Securities available for sale:								
Treasury notes	\$ 123,226	4.70 %	\$ 5,742	3.68 %	\$ —	— %	\$ —	— %
Federal agencies	182,179	1.09 %	65,576	5.61 %	—	— %	—	— %
Mortgage-backed - Government Agency ("Agency") ⁽¹⁾	—	— %	—	— %	39	4.11 %	14,428	3.84 %
Mortgage-backed - Non-Agency residential - fair value option	—	— %	—	— %	—	— %	485,500	4.50 %
Mortgage-backed - Agency - fair value option	—	— %	—	— %	—	— %	236,997	4.49 %
Total securities available for sale	<u>\$ 305,405</u>	2.55 %	<u>\$ 71,318</u>	5.45 %	<u>\$ 39</u>	4.11 %	<u>\$ 736,925</u>	4.48 %
Securities held to maturity:								
Mortgage-backed - Non-Agency multi-family	\$ —	— %	\$ 719,662	6.24 %	\$ —	— %	\$ —	— %
Mortgage-backed - Non-Agency residential	—	— %	—	— %	—	— %	472,539	6.83 %
Mortgage-backed - Agency	—	— %	—	— %	—	— %	12,016	3.80 %
Total securities held to maturity	<u>\$ —</u>	— %	<u>\$ 719,662</u>	6.24 %	<u>\$ —</u>	— %	<u>\$ 484,555</u>	6.75 %

(1) Agency includes government sponsored agencies, such as Fannie Mae, Freddie Mac, and Ginne Mae.

Loans Held for Sale. Loans held for sale of \$3.1 billion at December 31, 2023 increased \$234.2 million, or 8%, compared to \$2.9 billion at December 31, 2022. The increase in loans held for sale was due primarily to an increase in warehouse participations, partially offset by loans associated with credit linked notes that were transferred to loans receivable during 2023. Loans held for sale are comprised primarily of single-family residential real estate loan participations that meet Fannie Mae, Freddie Mac, or Ginnie Mae eligibility. It also includes a growing portfolio of multi-family loans.

Loans Receivable, Net. The following table shows our allocation of loans held for investment as of the dates presented:

(Dollars in thousands)	December 31, 2023		December 31, 2022		December 31, 2021	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Mortgage warehouse repurchase agreements	\$ 752,468	7 %	\$ 464,785	6 %	\$ 781,437	14 %
Residential real estate ⁽¹⁾	1,324,305	13 %	1,178,401	16 %	843,101	15 %
Multi-family financing	4,006,160	40 %	3,135,535	43 %	2,702,042	46 %
Healthcare financing	2,356,689	23 %	1,604,341	21 %	826,157	14 %
Commercial and commercial real estate ⁽²⁾⁽³⁾	1,643,081	16 %	978,661	13 %	520,199	9 %
Agricultural production and real estate	103,150	1 %	95,651	1 %	97,060	2 %
Consumer and margin	13,700	—	13,498	—	12,667	—
Total	10,199,553		7,470,872		5,782,663	
Allowance for credit losses	(71,752)		(44,014)		(31,344)	
Total loans held for investment, net	\$ 10,127,801	100 %	\$ 7,426,858	100 %	\$ 5,751,319	100 %

- (1) Includes \$1.2 billion, \$1.1 billion, and \$749.5 million of All-in-One[®] first-lien home equity lines of credit at December 31, 2023, 2022, and 2021, respectively.
- (2) Includes \$1.1 billion, \$497.0 million, and \$209.8 million of revolving lines of credit collateralized primarily by mortgage servicing rights as of December 31, 2023, 2022, and 2021, respectively.
- (3) Includes only \$8.4 million, \$12.8 million, and \$13.9 million of non-owner occupied commercial real estate as of December 31, 2023, 2022, and 2021, respectively.

Loans receivable, net, of \$10.1 billion at December 31, 2023, which are comprised of loans held for investment, increased \$2.7 billion, or 36%, compared to \$7.4 billion at December 31, 2022. The increase was comprised primarily of:

- an increase of \$870.6 million, or 28%, in multi-family financing loans, to \$4.0 billion at December 31, 2023,
- an increase of \$752.3 million, or 47%, in healthcare financing loans, to \$2.4 billion at December 31, 2023,
- an increase of \$664.4 million, or 68%, in commercial and commercial real estate loans, to \$1.6 billion at December 31, 2023,
- an increase of \$287.7 million, or 62%, in mortgage warehouse lines of credit, to \$752.5 million at December 31, 2023, and
- an increase of \$145.9 million, or 12%, in residential real estate loans, to \$1.3 billion at December 31, 2023.

The \$870.6 million increase in multi-family financing loan balances was primarily in the construction and bridge portfolios that were generated through our multi-family segment and will remain on our balance sheet until they convert to permanent financing or are otherwise paid off over the next one to three years. Although overall production volumes have declined compared to the twelve months ended December 31, 2022, loan balances have increased as borrowers have been hesitant to convert to permanent financing at recently elevated interest rate levels, which has slowed loan sales to the secondary market.

The \$752.3 million increase in 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 \$664.4 million increase in commercial and commercial real estate was primarily due to higher revolving lines of credit on collateralized mortgage servicing rights during the period.

The \$287.7 million increase in mortgage warehouse lines of credit was due to higher loan volume from increased sales efforts and market exits of several competitors.

The \$145.9 million increase in residential real estate loans was primarily due an increase in All-in-One first-lien home equity line of credit.

As of December 31, 2023, approximately 93% 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 following table presents an analysis of the ACL-Loans for the periods presented:

(Dollars in thousands)	At or For the Year Ended December 31,		
	2023	2022	2021
Balance at beginning of period	\$ 44,014	\$ 31,344	\$ 27,500
Less charge-offs:			
Residential real estate	(34)	(4)	(2)
Multi-family financing	(8,400)	—	—
Commercial and commercial real estate	(1,356)	(1,238)	(1,184)
Consumer and margin	(1)	(15)	(6)
Total charge-offs	(9,791)	(1,257)	(1,192)
Plus recoveries:			
Commercial and commercial real estate	41	746	—
Consumer and margin	—	7	24
Total recoveries	41	753	24
Net (charge-offs) recoveries	(9,750)	(504)	(1,168)
Transfers out:			
Impact of adopting CECL	—	(299)	—
Provision for credit losses	37,488	13,473	5,012
Balance at end of period	\$ 71,752	\$ 44,014	\$ 31,344
Ratios:			
Total net charge-offs to average loans outstanding	(0.08)%	(0.01)%	(0.01)%
Net charge-offs to average loans outstanding: Multi-family financing	(0.24)%	— %	— %
Net (charge-offs) recoveries to average loans outstanding: Commercial and commercial real estate	(0.10)%	(0.07)%	(0.26)%
Net (charge-offs) recoveries to average loans outstanding: Consumer and margin	(0.01)%	(0.06)%	0.14 %
Allowance for credit losses to nonperforming loans at end of period	87.49 %	164.95 %	4,118.79 %
Allowance for credit losses to total loans at end of period	0.70 %	0.59 %	0.54 %

The following table presents an analysis of the ACL-Loans for the periods presented:

(Dollars in thousands)	At December 31,								
	2023			2022			2021		
	Amount	Percent of Allowance to Total	Percent of Loans in Category to Total Loans	Amount	Percent of Allowance to Total	Percent of Loans in Category to Total Loans	Amount	Percent of Allowance to Total	Percent of Loans in Category to Total Loans
Mortgage warehouse repurchase agreements	\$ 2,070	3 %	7 %	\$ 1,249	3 %	6 %	\$ 1,955	6 %	14 %
Residential real estate	7,323	10 %	13 %	7,029	16 %	16 %	4,170	13 %	15 %
Multi-family financing	26,874	38 %	40 %	16,781	39 %	43 %	14,084	46 %	46 %
Healthcare financing	22,454	31 %	23 %	9,882	22 %	21 %	4,461	14 %	14 %
Commercial and commercial real estate	12,243	17 %	16 %	8,326	19 %	13 %	5,879	19 %	9 %
Agricultural production and real estate	619	1 %	1 %	565	1 %	1 %	657	2 %	2 %
Consumer and margin	169	- %	- %	182	- %	- %	138	- %	- %
Total allowance for credit losses	<u>\$ 71,752</u>	<u>100 %</u>	<u>100 %</u>	<u>\$ 44,014</u>	<u>100 %</u>	<u>100 %</u>	<u>\$ 31,344</u>	<u>100 %</u>	<u>100 %</u>

The following table sets forth the amounts of nonperforming loans and nonperforming assets at the dates indicated:

(Dollars in thousands)	At December 31,		
	2023	2022	2021
Nonaccrual loans:			
Residential real estate	\$ 1,486	\$ 245	\$ 362
Multi-family financing	39,608	—	—
Healthcare financing	28,783	21,783	—
Commercial and commercial real estate	3,820	4,390	—
Agricultural production and real estate	147	147	158
Consumer and margin	3	6	4
Total	73,847	26,571	524
Accruing loans 90 days or more past due:			
Residential real estate	894	96	22
Healthcare financing	7,216	—	—
Commercial and commercial real estate	43	—	149
Agricultural production and real estate	—	—	30
Consumer and margin	15	16	36
Total	8,168	112	237
Total nonperforming loans	\$ 82,015	\$ 26,683	\$ 761
Real estate owned	—	—	—
Total nonperforming assets	\$ 82,015	\$ 26,683	\$ 761
Modifications/TDR¹:			
Commercial and commercial real estate	\$ 3,778	\$ 3,778	\$ 4,961
Agricultural production and real estate	—	—	—
Total	\$ 3,778	\$ 3,778	\$ 4,961
Ratios:			
Total nonperforming loans to total loans	0.80 %	0.36 %	0.01 %
Total nonperforming loans to total assets	0.48 %	0.21 %	0.01 %
Total nonperforming assets to total assets	0.48 %	0.21 %	0.01 %
Total nonperforming loans and modifications/TDRs to total loans	0.84 %	0.41 %	0.10 %
Total nonperforming loans and modifications/TDRs to total assets	0.51 %	0.24 %	0.05 %
Total nonperforming assets and modifications/TDRs to total assets	0.51 %	0.24 %	0.05 %

(1) 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. See *Note 5: Loans and Allowance for Credit Losses on Loans*.

The ACL-Loans of \$71.8 million at December 31, 2023 increased \$27.7 million, or 63%, compared to December 31, 2022. The increase was primarily in the healthcare and multi-family financing portfolios, due to a combination of loan growth, changes in qualitative factors, and specific reserves.

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.

Premises and Equipment, Net. Premises and equipment, net, of \$42.3 million at December 31, 2023 increased \$6.9 million, or 19%, compared to \$35.4 million at December 31, 2022. The increase was primarily due to an increase in land acquired to expand our headquarters and to support business growth.

Goodwill. Goodwill of \$15.8 million at December 31, 2023 remained unchanged compared to December 31, 2022. As of December 31, 2023, the Company’s market capitalization was well above its book value, despite stock

market volatility. Given the continued strength of the Company's results, we do not believe there exists any impairment to goodwill or intangible assets.

Servicing Rights. Servicing rights of \$158.5 million at December 31, 2023 increased \$12.2 million, or 8%, compared to December 31, 2022. During the year ended December 31, 2023, originated and purchased servicing of \$15.3 million and a positive fair market value adjustment of \$4.6 million were partially offset by paydowns of \$7.6 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. The servicing rights are recorded and carried at fair value. The fair value increase recorded during the year ended December 31, 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 and the value of custodial deposits. A significant portion of our servicing rights are for Ginnie Mae multi-family loans with 10-year call protection.

Other Assets and Receivables. Other assets and receivables of \$306.4 million at December 31, 2023 increased \$148.9 million, or 95%, compared to \$157.4 million at December 31, 2022. The 95% increase in other assets and receivables was primarily due to investments in low-income housing tax credit funds and investments in joint ventures that are involved in single-family, multi-family, and healthcare debt financing. Also contributing to the increase were protective derivatives associated with the acquisition of certain investment securities from a warehouse customer, in addition to higher valuations on derivatives. See *Note 11: Other Assets and Receivables* for additional information.

Deposits. Deposits of \$14.1 billion at December 31, 2023 increased \$4.0 billion, or 40%, compared to \$10.1 billion at December 31, 2022. The 40% increase in total deposits was primarily due to a \$2.2 billion increase in certificates of deposit, primarily in brokered deposits, and a \$1.9 billion increase in demand deposits. As of December 31, 2023, approximately 89% of the total deposits at Merchants repriced within three months.

Uninsured deposits totaled approximately \$2.7 billion as of December 31, 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 \$1.6 billion and \$1.5 billion as of December 31, 2023 and 2022, respectively.

Core deposits increased by \$782.2 million, or 11%, to \$8.1 billion at December 31, 2023 compared to December 31, 2022. Core deposits represented 58% of total deposits at December 31, 2023 compared to 73% of total deposits at December 31, 2022.

We increased our use of total brokered deposits by \$3.2 billion, or 116%, to \$6.0 billion at December 31, 2023 compared to \$2.8 billion at December 31, 2022. Brokered deposits represented 42% of total deposits at December 31, 2023, compared to 27% of total deposits at December 31, 2022.

- Brokered certificates of deposit accounts increased \$1.8 billion to \$4.5 billion at December 31, 2023 from \$2.7 billion at December 31, 2022.
- Brokered demand deposit accounts increased \$1.5 billion, to \$1.5 billion at December 31, 2023 from \$13,000 at December 31, 2022.
- Brokered savings deposits decreased \$81.0 million, to \$589,000 at December 31, 2023 from \$81.5 million at December 31, 2022.

As of December 31, 2023, brokered certificates of deposit had a weighted average remaining duration of 55 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").

Interest-bearing deposits increased \$3.8 billion, or 39%, to \$13.5 billion at December 31, 2023, and noninterest-bearing deposits increased \$193.2 million, or 59%, to \$520.1 million at December 31, 2023.

The following tables show the average balance amounts and the average contractual rates paid on our deposits for the periods indicated:

(Dollars in thousands)	For the Year Ended December 31, 2023		For the Year Ended December 31, 2022		For the Year Ended December 31, 2021	
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
Noninterest-bearing demand	\$ 337,723	— %	\$ 453,387	— %	\$ 678,494	— %
Interest-bearing demand	4,717,300	4.59 %	4,149,942	1.66 %	4,589,269	0.14 %
Money market savings	2,805,284	4.51 %	2,651,532	1.84 %	2,264,063	0.77 %
Savings	239,509	0.52 %	240,481	0.23 %	208,467	0.07 %
Certificates of deposit	4,589,312	5.08 %	1,561,261	2.00 %	687,002	0.66 %
Total	<u>\$ 12,689,128</u>	<u>4.55 %</u>	<u>\$ 9,056,603</u>	<u>1.65 %</u>	<u>\$ 8,427,295</u>	<u>0.34 %</u>

The following table shows time deposits of \$250,000 or more by time remaining until maturity:

(Dollars in thousands)	At December 31, 2023
Three months or less	\$ 70,573
Over three months through six months	79,973
Over six months through one year	154,558
Over one year to three years	106,073
Over three years	—
Total	<u>\$ 411,177</u>

Borrowings. Borrowings of \$964.1 million at December 31, 2023 increased \$33.7 million, or 4%, from December 31, 2022. The increase was primarily due to the issuance of senior credit linked notes in March 2023 that was partially offset by decreased borrowing from the FHLB and Federal Reserve. Depending on rates and timing, borrowing can be a more effective liquidity management alternative than utilizing brokered certificates of deposits. The Company 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 December 31, 2023, unused lines of credit totaled \$6.0 billion, compared to \$3.1 billion at December 31, 2022.

The following table sets forth certain information regarding our borrowings at the dates and for the periods indicated:

(Dollars in thousands)	At or For the Years Ended December 31,		
	2023	2022	2021
Balance at end of period	\$ 964,127	\$ 930,392	\$ 1,033,954
Average balance during period	627,516	594,423	657,573
Maximum outstanding at any month end	1,654,075	1,440,904	1,103,443
Weighted average interest rate at end of period ⁽¹⁾	7.51 %	4.06 %	0.27 %
Average interest rate during period	8.37 %	2.13 %	0.86 %

- (1) The weighted-average interest rate at the end of the period reflects the stated interest rates on the borrowings. In addition to the stated rate, the borrowing term on subordinated debt includes payment of an amount equal to a portion of the net income from our warehouse structured finance arrangements, which is a driver of the higher average interest rate during the period relative to the stated rate at end of period.

Other Liabilities. Other liabilities of \$205.9 million at December 31, 2023 increased \$71.8 million, or 54%, compared to \$134.1 million at December 31, 2022. The 54% increase in other liabilities was primarily due to interest payable, unfunded commitments for low-income housing credit investments, and a change in the valuation for back-to-back swap derivatives.

Total Shareholders' Equity. Shareholders' equity was \$1.7 billion as of December 31, 2023, compared to \$1.5 billion as of December 31, 2022. The \$241.3 million, or 17%, increase resulted primarily from net income of \$279.2 million, which was partially offset by dividends paid on common and preferred shares of \$48.5 million during the period.

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 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 December 31, 2023, based on collateral, we had \$6.0 billion in available unused borrowing capacity with the FHLB and the Federal Reserve discount window. This compared to \$3.1 billion at December 31, 2022. While the amounts available fluctuate daily, we also had available capacity 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 repurchase agreements included in loans receivable. Taken together with its unused borrowing capacity of \$6.0 billion described above, these totaled \$10.6 billion, or 62%, of its \$17.0 billion total assets at December 31, 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 \$2.7 billion as of December 31, 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 \$1.6 billion and \$1.5 billion as of December 31, 2023 and 2022, respectively.

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. As of December 31, 2023, Accumulated Other Comprehensive Losses ("AOCL") of \$2.5 million losses, related to securities available for sale, decreased \$8.0 million, or 76%, compared to losses of \$10.5 million as of December 31, 2022. The \$2.5 million loss in AOCL as of December 31, 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 \$(356.4) million and \$975.8 million for the years ended December 31, 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 \$(3.3) billion and \$(2.9) billion for the years ended December 31, 2023 and 2022, respectively. Net cash provided by financing activities, which is comprised primarily of net change in deposits was \$4.0 billion and \$1.1 billion for the years ended December 31, 2023 and 2022, respectively.

Certificates of deposit that are scheduled to mature in less than one year from December 31, 2023 totaled \$5.0 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.

Off-Balance Sheet Arrangements

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.

At December 31, 2023, we had \$4.0 billion in outstanding commitments to extend credit that are subject to credit risk and \$3.7 billion in outstanding commitments subject to certain performance criteria and cancellation by the Company, including loans pending closing, unfunded construction draws, and unfunded warehouse repurchase agreements. We anticipate that we will have sufficient funds available to meet our current loan origination commitments. Additionally, the Company's business model is designed to continuously sell a significant portion of its loans, which provides flexibility in managing its liquidity.

For more information about our loan commitments, unused lines of credit and standby letters of credit, see *Note 25: Commitments and Credit Risk*.

Capital Resources

The access to and cost of funding 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, 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 \$1.7 billion as of December 31, 2023, compared to \$1.5 billion as of December 31, 2022. The \$241.3 million, or 17%, increase resulted primarily from net income of \$279.2 million, which was partially offset by dividends paid on common and preferred shares of \$48.5 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.

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 has replaced 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, if the Series A Preferred Stock remains outstanding on or after April 1, 2024, in addition to using three-month SOFR as a benchmark, the Company will increase 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 has received all necessary regulatory approvals to redeem the Series A Preferred Stock and on February 28, 2024 announced that it will redeem all outstanding shares of the Series A Preferred Stock on April 1, 2024 at a price equal to the liquidation preference of \$25.00 per share. As of the redemption date the Series A Preferred Stock will not have any accrued but unpaid dividends. The Company will redeem the Series A Preferred Stock using cash on hand.

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 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 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 has replaced 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, if the Series B Preferred Stock remains outstanding on or after October 1, 2024, in addition to using three-month SOFR as the benchmark, the Company will increase 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 October 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 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 Reset 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 preference, plus any declared and unpaid dividends (without regard to any undeclared dividends) to, but excluding, the date of redemption. If the Series D Preferred Stock remains outstanding on October 1, 2027, its dividend rate would reset to the 5-year Treasury rate, plus 4.34% and would remain at that level for an additional 5 years.

Common Shares/Dividends. As of December 31, 2023, the Company had 43,242,928 common shares issued and outstanding. The Board declared a quarterly dividend of \$0.08 per share in each quarter of 2023 and expects to raise its dividend in 2024. The Board declared a quarterly dividend of \$0.09 per share for the first quarter of 2024.

Capital Adequacy. The following tables present the Company's capital ratios at December 31, 2023 and 2022.

	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
December 31, 2023						
Total capital ⁽¹⁾ (to risk-weighted assets)						
Company	\$ 1,772,195	11.6 %	\$ 1,598,260	10.5 %	\$ —	N/A %
Merchants Bank	1,724,505	11.5 %	1,577,434	10.5 %	1,502,318	10.0 %
FMBI	40,613	21.1 %	20,209	10.5 %	19,247	10.0 %
Tier I capital ⁽¹⁾ (to risk-weighted assets)						
Company	1,686,202	11.1 %	1,293,830	8.5 %	—	N/A %
Merchants Bank	1,639,171	10.9 %	1,276,970	8.5 %	1,201,854	8.0 %
FMBI	39,953	20.8 %	16,360	8.5 %	15,398	8.0 %
Common Equity Tier I capital ⁽¹⁾ (to risk-weighted assets)						
Company	1,186,594	7.8 %	1,065,507	7.0 %	—	N/A %
Merchants Bank	1,639,171	10.9 %	1,051,623	7.0 %	976,507	6.5 %
FMBI	39,953	20.8 %	13,473	7.0 %	12,511	6.5 %
Tier I capital ⁽¹⁾ (to average assets)						
Company	1,686,202	10.1 %	832,706	5.0 %	—	N/A %
Merchants Bank	1,639,171	10.1 %	815,191	5.0 %	815,191	5.0 %
FMBI	39,953	11.5 %	17,391	5.0 %	17,391	5.0 %

(1) As defined by regulatory agencies.

	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
December 31, 2022						
Total capital ⁽¹⁾ (to risk-weighted assets)						
Company	\$ 1,507,968	12.2 %	\$ 992,883	10.5 %	\$ —	N/A %
Merchants Bank	1,427,738	11.7 %	975,853	10.5 %	1,219,817	10.0 %
FMBI	34,769	11.3 %	24,703	10.5 %	30,878	10.0 %
Tier I capital ⁽¹⁾ (to risk-weighted assets)						
Company	1,452,456	11.7 %	744,662	8.5 %	—	N/A %
Merchants Bank	1,372,941	11.3 %	731,890	8.5 %	975,853	8.0 %
FMBI	34,054	11.0 %	18,527	8.5 %	24,703	8.0 %
Common Equity Tier I capital ⁽¹⁾ (to risk-weighted assets)						
Company	952,848	7.7 %	558,497	7.0 %	—	N/A %
Merchants Bank	1,372,941	11.3 %	548,917	7.0 %	792,881	6.5 %
FMBI	34,054	11.0 %	13,895	7.0 %	20,071	6.5 %
Tier I capital ⁽¹⁾ (to average assets)						
Company	1,452,456	11.7 %	497,604	5.0 %	—	N/A %
Merchants Bank	1,372,941	11.3 %	487,511	5.0 %	609,389	5.0 %
FMBI	34,054	10.7 %	12,702	5.0 %	15,878	5.0 %

(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 December 31, 2023 and December 31, 2022, that the Company, Merchants Bank, and FMBI met all capital adequacy requirements to which they were subject.

As of December 31, 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.

Contractual obligations

The following table summarizes aggregated information about our outstanding contractual obligations and other long-term liabilities as of December 31, 2023. The payment amounts represent those amounts contractually due to the recipients.

(Dollars in thousands)	Payments Due by Period				
	Total	Less Than One Year	One to Three Years	Three to Five Years	More than Five Years
Deposits without a stated maturity	\$ 8,894,058	\$ 8,894,058	\$ —	\$ —	\$ —
Time deposits	5,167,402	5,022,745	144,228	429	—
Borrowings	964,127	754,284	80,941	120,088	8,814
Operating lease obligations	12,217	2,441	4,164	3,484	2,128
Total	\$ 15,037,804	\$ 14,673,528	\$ 229,333	\$ 124,001	\$ 10,942

Also see *Note 10: Leases*, *Note 13: Deposits*, *Note 14: Borrowings*, and *Note 25: Commitments, Credit Risk, and Contingencies* as of December 31, 2023.

Critical Accounting Policies and Estimates

The discussion and analysis of the financial condition and results of operations are based on our financial statements, which are prepared in conformity with generally accepted accounting principles used in the United States of America. The preparation of these financial statements requires management to make estimates and judgements that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the reported amounts of income and expenses. We consider the accounting policies discussed below to be critical accounting policies. The estimates and assumptions that we use are based on historical experience and various other factors and are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions, resulting in a change that could have a material impact on the carrying value of our assets and liabilities and our results of operations.

The following represent our critical accounting policies:

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 twelve months ended December 31, 2023. This evaluation is 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 segmenting loans with similar risk 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.

Additional information regarding ACL-Loans estimates can be found in *Note 1: Nature of Operations and Summary of Significant Accounting Policies* and *Note 5: Loans and Allowance for Credit Losses on Loans*.

Servicing Rights. Servicing assets are recognized separately when rights are acquired through purchase or through sale of financial assets. Servicing rights resulting from the sale or securitization of loans originated by us are initially measured at fair value at the date of transfer. We have elected to initially and subsequently measure the servicing rights for mortgage loans using the fair value method. Under the fair value method, the servicing rights are carried in the balance sheet at fair value and the changes in fair value are reported in earnings in the period in which the changes occur.

Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model is from an independent third party and it incorporates assumptions that market participants would use in estimating future net servicing cash flows, such as the cost to service, the discount rate, the custodial assets earnings rate, an inflation rate, ancillary income, prepayment speeds, prepayment penalties, and default rates and losses. We review the reasonableness of the assumptions and the methodology to ensure the estimated fair value complies with accounting standards generally accepted in the United States. These variables change from quarter to quarter as market conditions and projected interest rates change and may have an adverse impact on the value of the mortgage-servicing right and may result in a reduction to noninterest income.

Fair Value Measurements. The fair value of a financial instrument is defined as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. We estimate the fair value of a financial instrument and any related asset impairment using a variety of valuation methods. Where financial instruments are actively traded and have quoted market prices, quoted market prices are used for fair value. When the financial instruments are not actively traded, other observable market inputs, such as quoted prices of securities with similar characteristics, may be used, if available, to determine fair value. When observable market prices do not exist, we estimate fair value. These estimates are subjective in nature and imprecision in estimating these factors can impact the amount of gain or loss recorded. A more detailed description of the fair values measured at each level of the fair value hierarchy and the methodology utilized by us can be found in *Note 23: Disclosures About Fair Value of Assets and Liabilities*.

Recently Issued Accounting Pronouncements

For a discussion of the expected impact of accounting pronouncements recently issued but not adopted by us as of December 31, 2023, see *Note 28: Recent Accounting Pronouncements*.

Item 7A. 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

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 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 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 December 31, 2023, 2022, and 2021:

	Net Interest Income Sensitivity			
	Twelve Months Forward			
	- 200	- 100	+ 100	+ 200
	(Dollars in thousands)			
December 31, 2023:				
Dollar change	\$ (73,311)	\$ (36,576)	\$ 29,601	\$ 57,294
Percent change	(15.0)%	(7.5)%	6.0 %	11.7 %
December 31, 2022:				
Dollar change	\$ (96,861)	\$ (48,581)	\$ 37,232	\$ 74,094
Percent change	(23.8)%	(11.9)%	9.2 %	18.2 %
December 31, 2021:				
Dollar change	\$ (13,810)	\$ (17,991)	\$ 21,895	\$ 65,010
Percent change	(4.9)%	(6.3)%	7.7 %	22.9 %

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 the years ended December 31, 2023, 2022, and 2021 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)			
	Immediate Change in Rates			
	- 200	- 100	+ 100	+ 200
	(Dollars in thousands)			
December 31, 2023:				
Dollar change	\$ 180,864	\$ 92,793	\$ (34,800)	\$ (79,455)
Percent change	10.8 %	5.5 %	(2.1)%	(4.7)%
December 31, 2022:				
Dollar change	\$ 22,855	\$ 11,640	\$ (10,925)	\$ (26,385)
Percent change	1.6 %	0.8 %	(0.8)%	(1.9)%
December 31, 2021:				
Dollar change	\$ 3,703	\$ 42,983	\$ (6,817)	\$ (6,288)
Percent change	0.3 %	4.0 %	(0.6)%	(0.6)%

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 December 31, 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 8. Financial Statements and Supplementary Data.

**Index to Consolidated Financial Statements of
Merchants Bancorp**

Report of Independent Registered Public Accounting Firm (FORVIS, LLP, Indianapolis, Indiana, PCAOB ID 686)

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Consolidated Financial Statements

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All financial statement schedules have been omitted as the required information either is not applicable or is included in the financial statements or related notes.

Report of Independent Registered Public Accounting Firm

To the Shareholders, Board of Directors and Audit Committee
Merchants Bancorp
Carmel, Indiana

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Merchants Bancorp (the “Company”) as of December 31, 2023 and 2022 the related consolidated statements of income, comprehensive income, shareholders’ equity, and cash flows for each of the years in the three-year period ended December 31, 2023, and the related notes (collectively referred to as the “financial statements”). In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2023, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company’s internal control over financial reporting as of December 31, 2023, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 12, 2024, expressed an unqualified opinion thereon.

Change in Accounting Principle

As discussed in *Note 1* to the financial statements, the Company changed its method of accounting for credit losses effective January 1, 2022 due to the adoption of Accounting Standards Topic 326: Financial Instruments – Credit Losses.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits.

We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud.

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

Critical Audit Matter

The critical audit matters communicated below are matters arising from the current-period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion

on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Allowance for Credit Losses

The Company's loan portfolio totaled \$10.2 billion as of December 31, 2023, and the associated allowance for credit losses on loans was \$71.8 million. As discussed in Notes 1 and 5 to the consolidated financial statements, the allowance for credit losses ("ACL") related to loans is a contra-asset valuation account that is deducted from the amortized cost basis of loans to present the net amount expected to be collected. The amount of the ACL represented management's best estimate of current expected credit losses on loans considering all relevant available information, from internal and external sources, relevant to assessing exposure to credit loss over the contractual term of the instrument.

In calculating the allowance for credit losses, loans were segmented into pools based upon similar risk characteristics. For each loan pool, management measured expected credit losses over the life of each loan utilizing either a remaining life or a discounted cash flow (DCF) model. The remaining life method primarily utilized Company or peer group historical loss rates applied to the estimated remaining life of each pool. The DCF model primarily measures probability of default ("PD") and loss given default ("LGD") with PD and LGD estimated by analyzing internally sourced data or peer group data related to historical performance of each loan pool over a complete economic cycle. In some cases, management determined that an individual loan exhibited unique risk characteristics which differentiated the loan from other loans with the identified loan pools. In such cases, the loans were evaluated for expected credit losses on an individual basis and excluded from the collective evaluation. The models were adjusted to reflect the current impact of certain macroeconomic variables as well as their expected changes over a reasonable and supportable forecast period. After the reasonable and supportable forecast period, the forecasted macroeconomic variables were reverted to their historical mean utilizing a rational, systematic basis.

Management qualitatively adjusted model results for risk factors that were not considered within the modeling processes but were deemed relevant in assessing the expected credit losses within the loan pools. These qualitative factor adjustments modified management's estimate of expected credit losses by a calculated percentage or amount based upon the estimated level of risk.

We identified the valuation of the ACL as a critical audit matter. Auditing management's estimate of the ACL involved a high degree of subjectivity due to the nature of the qualitative factor adjustments included in the allowances for credit losses and complexity of the remaining life and DCF models. Management's identification and measurement of the qualitative factor adjustments is highly judgmental and could have a significant effect on the ACL.

How We Addressed the Matter in Our Audit

The primary procedures we performed related to this CAM included:

- Obtained an understanding of the Company's process for establishing the ACL, including the models and the qualitative factor adjustments of the ACL
- Evaluated and tested the design and operating effectiveness of related controls, including information system controls, over the reliability and accuracy of data used to calculate and estimate the various components of the ACL including:
 - Loan data completeness and accuracy
 - Grouping of loans by segment and methodology selection
 - Peer groups utilized
 - Establishment of qualitative factors
- Tested the completeness and accuracy, including the evaluation of the relevance and reliability, of inputs utilized in the calculation of the ACL

- Evaluated the qualitative adjustments to the ACL including assessing the basis for adjustments and the reasonableness of the significant assumptions
- Evaluated credit quality trends in delinquencies, non-accruals, charge-offs and loan risk ratings
- Evaluated the overall reasonableness of the ACL and evaluated trends identified within peer groups

/s/ FORVIS, LLP
FORVIS, LLP

We have served as the Company's auditor since 2014.

Indianapolis, Indiana
March 12, 2024

Merchants Bancorp
Consolidated Balance Sheets
December 31, 2023 and 2022
(In thousands, except share data)

	December 31, 2023	December 31, 2022
Assets		
Cash and due from banks	\$ 15,592	\$ 22,170
Interest-earning demand accounts	568,830	203,994
Cash and cash equivalents	584,422	226,164
Securities purchased under agreements to resell	3,349	3,464
Mortgage loans in process of securitization	110,599	154,194
Securities available for sale (\$722,497 and \$0 utilizing fair value option, respectively)	1,113,687	323,337
Securities held to maturity (\$1,203,535 and \$1,118,966 at fair value, respectively)	1,204,217	1,119,078
Federal Home Loan Bank (FHLB) stock	48,578	39,130
Loans held for sale (includes \$86,663 and \$82,192 at fair value, respectively)	3,144,756	2,910,576
Loans receivable, net of allowance for credit losses on loans of \$71,752 and \$44,014, respectively	10,127,801	7,426,858
Premises and equipment, net	42,342	35,438
Servicing rights	158,457	146,248
Interest receivable	91,346	56,262
Goodwill	15,845	15,845
Intangible assets, net	742	1,186
Other assets and receivables	306,375	157,447
Total assets	<u>\$ 16,952,516</u>	<u>\$ 12,615,227</u>
Liabilities and Shareholders' Equity		
Liabilities		
Deposits		
Noninterest-bearing	\$ 520,070	\$ 326,875
Interest-bearing	13,541,390	9,744,470
Total deposits	14,061,460	10,071,345
Borrowings	964,127	930,392
Deferred tax liabilities	19,923	19,613
Other liabilities	205,922	134,138
Total liabilities	<u>15,251,432</u>	<u>11,155,488</u>
Commitments and Contingencies		
Shareholders' Equity		
Common stock, without par value		
Authorized - 75,000,000 shares		
Issued and outstanding - 43,242,928 shares at December 31, 2023 and 43,113,127 shares at December 31, 2022		
	140,365	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
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 depository shares)		
	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 depository shares)		
	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 depository shares)		
	137,459	137,459
Retained earnings	1,063,599	832,871
Accumulated other comprehensive loss	(2,488)	(10,521)
Total shareholders' equity	<u>1,701,084</u>	<u>1,459,739</u>
Total liabilities and shareholders' equity	<u>\$ 16,952,516</u>	<u>\$ 12,615,227</u>

See Notes to Consolidated Financial Statements

Merchants Bancorp
Consolidated Statements of Income
Years Ended December 31, 2023, 2022 and 2021
(In thousands, except share data)

	Year Ended December 31,		
	2023	2022	2021
Interest Income			
Loans	\$ 959,714	\$ 451,973	\$ 293,830
Mortgage loans in process of securitization	12,652	8,407	12,746
Investment securities:			
Available for sale - taxable	21,621	2,807	3,309
Available for sale - tax exempt	—	—	41
Held to maturity	69,983	12,382	—
Federal Home Loan Bank stock	2,205	1,220	1,143
Other	11,623	4,044	817
Total interest income	<u>1,077,798</u>	<u>480,833</u>	<u>311,886</u>
Interest Expense			
Deposits	577,210	149,645	28,256
Borrowed funds	52,517	12,637	5,636
Total interest expense	<u>629,727</u>	<u>162,282</u>	<u>33,892</u>
Net Interest Income	<u>448,071</u>	<u>318,551</u>	<u>277,994</u>
Provision for credit losses	40,231	17,295	5,012
Net Interest Income After Provision for Credit Losses	<u>407,840</u>	<u>301,256</u>	<u>272,982</u>
Noninterest Income			
Gain on sale of loans	48,183	64,150	111,185
Loan servicing fees, net	26,198	30,198	16,373
Mortgage warehouse fees	7,701	5,394	12,396
Gains on sale of investments available for sale (includes \$0, \$0 and \$191, respectively, related to accumulated other comprehensive earnings reclassifications)	—	—	191
Syndication and asset management fees	12,355	9,493	6,507
Other income	20,231	16,701	10,681
Total noninterest income	<u>114,668</u>	<u>125,936</u>	<u>157,333</u>
Noninterest Expense			
Salaries and employee benefits	108,181	89,085	85,727
Loan expenses	3,409	4,703	7,657
Occupancy and equipment	9,220	8,169	7,365
Professional fees	12,704	9,065	5,427
Deposit insurance expense	13,582	3,463	2,691
Technology expense	6,515	5,282	4,200
Other expense	20,990	16,283	12,318
Total noninterest expense	<u>174,601</u>	<u>136,050</u>	<u>125,385</u>
Income Before Income Taxes	<u>347,907</u>	<u>291,142</u>	<u>304,930</u>
Provision for income taxes (includes \$0, \$0 and \$46, respectively, related to income tax expense for reclassification items)	68,673	71,421	77,826
Net Income	<u>\$ 279,234</u>	<u>\$ 219,721</u>	<u>\$ 227,104</u>
Dividends on preferred stock	(34,670)	(25,983)	(20,873)
Net Income Allocated to Common Shareholders	<u>244,564</u>	<u>193,738</u>	<u>206,231</u>
Basic Earnings Per Share	<u>\$ 5.66</u>	<u>\$ 4.49</u>	<u>\$ 4.78</u>
Diluted Earnings Per Share	<u>\$ 5.64</u>	<u>\$ 4.47</u>	<u>\$ 4.76</u>
Weighted-Average Shares Outstanding			
Basic	<u>43,224,042</u>	<u>43,164,477</u>	<u>43,172,078</u>
Diluted	<u>43,345,799</u>	<u>43,316,904</u>	<u>43,325,303</u>

See Notes to Consolidated Financial Statements

Merchants Bancorp
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2023, 2022 and 2021
(In thousands)

	Year Ended December 31,		
	2023	2022	2021
Net Income	\$ 279,234	\$ 219,721	\$ 227,104
Other Comprehensive Loss:			
Net change in unrealized gains/(losses) on investment securities available for sale, net of tax (expense)/benefits of \$(2,750), \$3,022 and \$566, respectively	8,033	(9,067)	(1,683)
Less: Reclassification adjustment for gains included in net income, net of tax expense of \$0, \$0 and \$(46), respectively	—	—	145
Other comprehensive income (loss) for the period	8,033	(9,067)	(1,828)
Comprehensive Income	<u>\$ 287,267</u>	<u>\$ 210,654</u>	<u>\$ 225,276</u>

See Notes to Consolidated Financial Statements

Merchants Bancorp
Consolidated Statements of Shareholders' Equity
Years Ended December 31, 2023, 2022 and 2021
(In thousands, except share data)

	Year Ended December 31,					
	2023		2022		2021	
	Shares	Amount	Shares	Amount	Shares	Amount
Common Stock						
Balance beginning of period	43,113,127	\$ 137,781	43,180,079	\$ 137,565	43,120,625	\$ 135,857
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	29,149	537
Shares issued for stock compensation plans, net of taxes withheld to satisfy tax obligations	96,508	1,774	77,405	1,325	30,305	1,171
Balance end of period	43,242,928	140,365	43,113,127	137,781	43,180,079	137,565
8% Preferred Stock						
Balance beginning of period	-	-	-	-	41,625	41,581
Redemption of 8% preferred stock	-	-	-	-	(41,625)	(41,581)
Balance end of period	-	-	-	-	-	-
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
6% Series B Preferred Stock						
Balance at beginning and end of period	125,000	120,844	125,000	120,844	125,000	120,844
6% Series C Preferred Stock						
Balance beginning of period	196,181	191,084	196,181	191,084	-	-
Issuance of 6% Series C preferred stock, net of \$5.1 million in offering expenses	-	-	-	-	150,000	144,926
Private issuance of 6% Series C preferred stock, net of \$23 in offering expenses	-	-	-	-	46,181	46,158
Balance end of period	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	-	-	-	-
Issuance of 8.25% Series D preferred stock, net of \$5.0 million in offering expenses	-	-	142,500	137,459	-	-
Balance end of period	142,500	137,459	142,500	137,459	-	-
Retained Earnings						
Balance beginning of period		832,871		657,149		461,744
Net income		279,234		219,721		227,104
Impact from adoption of ASU 2016-13 (Credit Losses)		-		(3,648)		-
Impact from adoption of ASU 2016-02 (Leases)		-		(110)		-
Dividends on 8% preferred stock, \$80.00 per share, annually		-		-		(833)
Final dividend for redemption of 8% preferred stock, \$3.33 per share		-		-		(139)
Dividends on 7% Series A preferred stock, \$1.75 per share, annually		(3,643)		(3,643)		(3,643)
Dividends on 6% Series B preferred stock, \$60.00 per share, annually		(7,500)		(7,500)		(7,500)
Dividends on 6% Series C preferred stock, \$60.00 per share, annually		(11,771)		(11,772)		(8,758)
Dividends on 8.25% Series D preferred stock, \$82.50 per share, annually		(11,756)		(3,068)		-
Dividends on common stock, \$0.32 per share, annually in 2023, \$0.28 per share, annually in 2022 and \$0.24 per share, annually in 2021		(13,836)		(12,084)		(10,362)
Deconsolidation of entities		-		-		(419)
Redemption of 8% preferred stock		-		-		(45)
Repurchase of common stock		-		(2,174)		-
Balance end of period		1,063,599		832,871		657,149
Accumulated Other Comprehensive Income (Loss)						
Balance beginning of period		(10,521)		(1,454)		374
Other comprehensive income (loss)		8,033		(9,067)		(1,828)
Balance end of period		(2,488)		(10,521)		(1,454)
Total shareholders' equity		\$ 1,701,084		\$ 1,459,739		\$ 1,155,409

See Notes to Consolidated Financial Statements

Merchants Bancorp
Consolidated Statements of Cash Flows
Years Ended December 31, 2023, 2022 and 2021
(In thousands)

	Year Ended December 31,		
	2023	2022	2021
Operating activities:			
Net income	\$ 279,234	\$ 219,721	\$ 227,104
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	2,852	2,485	2,191
Provision for credit losses	40,231	17,295	5,012
Deferred income tax, net	(2,442)	4,731	5,310
Gain on sale of securities	—	—	(191)
Gain on sale of loans	(48,183)	(64,150)	(111,185)
Proceeds from sales of loans	22,136,235	25,773,056	61,231,720
Loans and participations originated and purchased for sale	(22,713,037)	(25,342,944)	(61,182,161)
Purchases of low-income housing tax credits for sale	(67,683)	(39,699)	(9,605)
Proceeds from sale of low-income housing tax credits	9,334	13,604	7,009
Change in servicing rights for paydowns and fair value adjustments	3,059	(8,776)	4,296
Net change in:			
Mortgage loans in process of securitization	43,595	415,045	(230,506)
Other assets and receivables	(85,181)	(37,264)	(6,616)
Other liabilities	41,516	20,778	3,823
Other	4,068	1,892	4,583
Net cash (used in) provided by operating activities	<u>(356,402)</u>	<u>975,774</u>	<u>(49,216)</u>
Investing activities:			
Net change in securities purchased under agreements to resell	115	2,424	692
Purchases of securities available for sale	(1,291,874)	(51,197)	(221,191)
Purchases of securities held to maturity	(293,268)	(1,252,793)	—
Proceeds from the sale of securities available for sale	1,516	11,379	38,566
Proceeds from calls, maturities and paydowns of securities available for sale	489,602	13,988	138,013
Proceeds from calls, maturities and paydowns of securities held to maturity	208,129	133,715	—
Purchases of loans	(358,462)	(551,091)	(369,148)
Net change in loans receivable	(2,047,806)	(1,929,569)	(349,887)
Proceeds from loans held for sale previously classified as loans receivable	65,768	788,848	262,086
Purchase of FHLB stock	(9,448)	(10,326)	(3,932)
Proceeds from sale of FHLB stock	—	784	45,000
Purchases of premises and equipment	(7,528)	(6,761)	(3,645)
Purchases of servicing rights	—	(2,057)	—
Proceeds from sale of servicing rights	—	—	438
Purchase of limited partnership and LLC interests	(18,762)	(14,590)	(11,194)
Cash paid in deconsolidation of subsidiary	—	—	(464)
Other investing activities	1,937	4,395	404
Net cash used in investing activities	<u>(3,260,081)</u>	<u>(2,862,851)</u>	<u>(474,262)</u>
Financing activities:			
Net change in deposits	3,990,115	1,088,732	1,572,442
Proceeds from borrowings	95,570,319	65,777,538	31,471,236
Repayment of borrowings	(95,700,385)	(65,885,100)	(31,787,578)
Proceeds from credit link note	153,546	—	—
Repayment of credit link note	(34,270)	—	—
Proceeds from notes payable	64,922	4,000	2,040
Payments on notes payable	(21,000)	—	—
Proceeds from issuance of preferred stock	—	137,459	191,084
Repurchase of preferred stock	—	—	(41,625)
Repurchase of common stock	—	(3,935)	—
Dividends	(48,506)	(38,067)	(31,235)
Net cash provided by financing activities	<u>3,974,741</u>	<u>1,080,627</u>	<u>1,376,364</u>
Net Change in Cash and Cash Equivalents	<u>358,258</u>	<u>(806,450)</u>	<u>852,886</u>
Cash and Cash Equivalents, Beginning of Period	<u>226,164</u>	<u>1,032,614</u>	<u>179,728</u>
Cash and Cash Equivalents, End of Period	<u>\$ 584,422</u>	<u>\$ 226,164</u>	<u>\$ 1,032,614</u>
Additional Cash Flows Information:			
Interest paid	\$ 609,689	\$ 140,365	\$ 33,900
Income taxes paid, net of refunds	67,388	66,508	78,758
ROU assets obtained in exchange for new operating lease liabilities	1,113	5,535	—
Transfer of loans from loans held for sale to loans receivable	377,460	—	16,771
Transfer of loans from loans receivable to loans held for sale	65,768	788,849	210,826
Payable for servicing rights	—	—	2,057
Payable for limited partnership interests	—	—	34,808
Deconsolidation of debt fund entities	—	—	See Note 1

See Notes to Consolidated Financial Statements

Merchants Bancorp

Notes to Consolidated Financial Statements

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

The accompanying 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”) (whose branches were sold to unaffiliated third parties and its remaining charter collapsed into Merchants Bank on January 26, 2024), 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”.

Merchants Bank operates under an Indiana state bank charter and provides full banking services. As a state bank and non-Federal Reserve member, it is subject to the regulation of the Indiana Department of Financial Institutions (“IDFI”) and the Federal Deposit Insurance Corporation (“FDIC”). The Company is further subject to regulations of the Board of Governors of the Federal Reserve System (“Federal Reserve”) governing bank holding companies. Merchants Bank operates from six locations in Indiana, including Lynn, Spartanburg, Richmond, Carmel and Indianapolis. Merchants Bank generates multi-family, commercial, mortgage and consumer loans and receives deposits from customers located primarily in Hamilton, Marion, Wayne, Randolph and surrounding counties in Indiana. Merchants Bank’s loans are generally secured by specific items of collateral including real property, consumer assets and business assets. Merchants Bank’s Mortgage Warehousing segment funds and participates in single-family and multi-family, agency eligible loans across the nation.

Prior to the sale of its branches, and merger of its remaining charter into Merchants Bank, on January 26, 2024, FMBI operated under an Illinois state bank charter and provided full banking services. As a state bank and non-Federal Reserve member, it was subject to the regulation of the Illinois Department of Financial and Professional Regulation (“IDFPR”) and the FDIC. FMBI operated from four offices located in Joy, Paxton, Melvin, and Piper City, Illinois.

MCC is primarily engaged in mortgage banking, specializing in lending for multi-family rental properties and healthcare facilities. It is a Federal Housing Authority (“FHA”) approved mortgagee and a Government National Mortgage Association (“Ginnie Mae”), Federal National Mortgage Association (“Fannie Mae”) Affordable, and Federal Home Loan Mortgage Corporation (“Freddie Mac”) issuer. It is also a fully integrated syndicator of low-income housing tax credit and debt funds.

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.

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.

On January 26, 2024, the transaction was completed after having met customary closing conditions, including regulatory approval.

In addition to the branches, Bank of Pontiac acquired approximately \$164.8 million in deposits and \$19.2 million in loans, and CBI Bank & Trust acquired approximately \$65.1 million in deposits and \$28.6 million in loans.

Total assets of approximately \$50.8 million and \$230.2 million of liabilities were sold. A net gain of \$703,000 is expected from the transaction, which includes a \$10.1 million deposit premium and the extinguishment of \$7.8 million in goodwill and \$0.5 million in intangibles. The gain on the transaction will be recognized during the three months ended March 31, 2024.

Merchants Bancorp

Notes to Consolidated Financial Statements

Principles of Consolidation

The consolidated financial statements as of and for the years ended December 31, 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.

During 2022, Merchants Foundation, Inc., a nonprofit corporation, was incorporated and its results are consolidated with the Company's consolidated financial statements as of December 31, 2023 and 2022.

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 our 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.

In May 2023, the Company acquired a variable interest in an investment 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 it was deemed not to be a primary beneficiary of as of December 31, 2023. These VIEs are not consolidated and the equity or 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 12: Variable Interest Entities (VIEs)* for additional information about VIEs.

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

Deconsolidation

The consolidated financial statements included consolidated results from certain entities primarily involved in single-family debt financing until January 30, 2021, while the Company was deemed to be a primary beneficiary. On February 1, 2021, the Company's debt fund entities were restructured in such a way that its ownership and participation was significantly reduced with the inclusion of additional, unrelated investors and the Company was no longer classified as a primary beneficiary. Accordingly, results from these entities were no longer consolidated after this date, in accordance with the consolidation guidelines of the Accounting Standards Update of Topic 810.

Following the deconsolidation, the carrying value of assets and liabilities of these entities were removed from the consolidated balance sheet, and the continuing investments were recorded at fair value at the date of deconsolidation. The total amount deconsolidated from the balance sheet included net assets of approximately \$10 million, consisting primarily of \$66.6 million in loans receivable and \$52.7 million in borrowings with Merchants Bank, that was previously eliminated in consolidation. The fair value of its continuing investments was approximately \$10 million on the deconsolidation date and has been reported in Other Assets after deconsolidation. The estimated fair value was determined based on third-party evaluations of similar assets in the underlying business. The difference between the fair value of these deconsolidated entities and their carrying value was deemed to be immaterial, resulting in no gain or loss on deconsolidation. These continuing investments after deconsolidation are classified as variable interest entities, have not been consolidated, and are accounted for under the equity method of accounting. See *Note 12: Variable Interest Entities (VIEs)* for additional information about VIEs.

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.

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Notes to Consolidated Financial Statements

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

Significant Accounting Policies

Cash and Cash Equivalents

The Company considers all liquid investments with original maturities of three months or less to be cash equivalents. Cash equivalents consist primarily of cash amounts due from depository institutions, interest-bearing deposits in other banks, money market accounts, and federal funds sold. For information on restricted cash see *Note 2: Restriction on Cash and Due from Banks*.

At December 31, 2023, the Company's cash accounts exceeded federally insured limits by approximately \$564.5 million. Included in this amount is approximately \$510.2 million with the Federal Reserve and \$5.8 million with the Federal Home Loan Bank of Indianapolis ("FHLBI"), and \$156,000 with the Federal Home Loan Bank of Chicago ("FHLBC").

At December 31, 2022, the Company's cash accounts exceeded federally insured limits by approximately \$208.4 million. Included in this amount is approximately \$185.6 million with the Federal Reserve and \$3.6 million with the FHLBI, and \$150,000 with the FHLBC.

Securities purchased under agreements to resell

Securities purchased pursuant to a simultaneous agreement Reverse Repurchase Agreement ("RRA") to resell the same securities at a specified price and date generally have maturity dates of 90 days or less and are carried at cost. Every 90 days the RRAs rollover.

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 Fannie Mae and Freddie Mac participation certificates, all of which are pending settlement with firm investor commitments to purchase the securities, typically occurring within 30 days.

Investment Securities

Securities held to maturity are carried at amortized cost when the Company has the positive intent and ability to hold to maturity. Securities not classified as held to maturity or trading are classified as "available for sale" and recorded at fair value. If no fair value option is elected, unrealized gains and losses are excluded from earnings and reported in other comprehensive income. For securities available for sale utilizing the fair value option, the Company periodically evaluates the securities for changes in fair value and changes are recognized in current period income. The securities are held with the intent that the gains or losses will offset changes in the fair value of other financial instruments. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Regular assessments are performed on securities available for sale to confirm there are no perceived credit losses that would require an allowance for credit losses to be established in accordance with FASB Accounting Standards Update (ASU) No. 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("CECL"). Securities held to maturity generally require an allowance for lifetime expected credit losses when the security is purchased. Management considers several factors when making such estimates, including issuer bond ratings, historical loss rates for given bond ratings, the financial condition of the issuer, and whether issuers continue to make timely principal and interest payments under the contractual terms of the securities, among others.

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Notes to Consolidated Financial Statements

For securities available for sale 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 losses (“AOCL”), net of tax. Credit-related impairment is recognized as an ACL for securities available for sale 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 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.

Prior to the adoption of CECL, unrealized losses on securities were evaluated to determine if there was any other-than-temporary impairment. These unrealized losses were not recognized into income because the Company had the intent and ability to hold the securities for the foreseeable future and the decline in fair value was primarily due to increased market rates. The fair value was expected to recover as the securities approached their maturity dates.

Loans Held for Sale under Mortgage Banking Activities

The Company uses participation agreements to fund mortgage loans held for sale from closing or purchase until sold to an investor. Under a participation agreement the Company elects to purchase a participation interest of up to 100% in individual loans. The Company shares proportionately in the interest income and the credit risk until the loan is sold to an investor. The Company holds the collateral until it is sent under a bailee arrangement to the investor. Typical investors are large financial institutions or government agencies. These loans are carried at the lower of cost or fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance and included in noninterest income.

For all loans held for sale, interest earned from the time of funding to the time of sale is accrued and recognized as interest income. Gains and losses on loan sales are recorded in noninterest income.

The gain on sale of loans in the income statement may include placement and origination fees, capitalized servicing rights, trading gains and losses and other related income or expense.

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 amortized at 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 \$60.4 million and \$35.0 million at December 31, 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 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,

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(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 principal 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 repurchase agreements 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 when accrued. Warehouse fees are accrued as noninterest income.

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 year ended December 31, 2023. This evaluation is 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 innate 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 segmenting loans with similar risk 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.

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 repurchase agreements	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

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Loan characteristics used in determining the segmentation included the underlying collateral, type or purpose of the loan, and expected credit loss patterns. The initial estimate of expected credit losses for each segment is based on historical credit loss 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.

ACL-Off-Balance Sheet Credit Exposures ("OBCEs")

The allowance for credit losses on 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 and letters 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 life of the commitment or other off-balance sheet exposure. 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 allowance for OBCEs is adjusted through the income statement as a component of provision for credit loss.

ACL-Guarantees

The allowance for credit losses on guarantees ("ACL-Guarantees") is a liability account representing expected credit losses over the contractual period for which the Company is exposed to credit risk resulting from a reimbursement and security agreement with Freddie Mac. This agreement was associated with the Company's May 2022 securitization arrangement. The Company agreed to reimburse Freddie Mac for a first loss position in the underlying loan portfolio, not to exceed 12% of the unpaid principal amount of the loans comprising the securitization pool at settlement. An initial ACL - Guarantee of \$1.2 million was established. For the period of exposure, the estimate of expected credit losses considers both the likelihood that losses will occur and the amount of losses over the estimated remaining life of the guarantee. The likelihood and expected losses are based on historical loan loss experience from peers, as well as from similar loans in our ACL-Loans, for each class of loans. The amount of the allowance represents management's best estimate of expected credit losses over the contractual life of the commitment. The ACL - Guarantees is adjusted through the income statement as a component of provision for credit loss. Also see *Note 5: Loans and Allowance for Credit Losses*.

Premises and Equipment

Depreciable assets are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful lives of the assets.

The estimated useful lives for premises and equipment are as follows:

Buildings	7 to 40	years
Leasehold improvements	2 to 11	years
Software and intangible assets	5 to 10	years
Furniture, fixtures, and equipment	3 to 15	years
Vehicles	5	years

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Expenditures for property and equipment and for renewals or betterments that extend the originally estimated economic life of the assets are capitalized. Expenditures for maintenance and repairs are charged to expense. When an asset is retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any gain or loss is included in the results of operations.

Leases

The Company has operating leases for various locations with terms ranging from one to eleven years. Operating leases are included in Other Assets and Other Liabilities on the Consolidated Balance Sheets and lease expense for lease payments is recognized on a straight-line basis over the lease term. Right of Use (“ROU”) assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the term. An ROU asset represents the right to use the underlying asset for the lease term and also includes any direct costs and payments made prior to lease commencement and excludes lease incentives. When an implicit rate is not available, an incremental borrowing rate based on the information available at commencement date is used in determining the present value of the lease payments. The Company elected not to separate non-lease components from lease components for its operating leases. A lease term may include an option to extend or terminate the lease when it is reasonably certain the option will be exercised. Renewal and termination options are considered when determining short-term leases. Leases are accounted for at the individual level.

Federal Home Loan Bank Stock

Federal Home Loan Bank (FHLB) stock is a required investment for institutions that are members of a FHLB. The required investment in the common stock is based on a predetermined formula, carried at cost and evaluated for impairment.

Other Real Estate Owned

Assets acquired through, or in lieu of, loan foreclosure are classified as other assets and are initially recorded at fair value less cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in net income or expense from other real estate.

Servicing Rights

Servicing assets are recognized separately when rights are acquired through purchase or through sale of financial assets. Under the servicing assets and liabilities accounting guidance (ASC 860-50), servicing rights resulting from the sale or securitization of loans originated by the Company are initially measured at fair value at the date of transfer. The Company has elected to initially and subsequently measure the servicing rights for mortgage loans using the fair value method. Under the fair value method, the servicing rights are carried in the balance sheet at fair value and the changes in fair value are reported in earnings in the period in which the changes occur.

Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model is from an independent third party and it incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds, prepayment penalties, and default rates and losses. These variables change from quarter to quarter as market conditions and projected interest rates change, and any change in fair values is recorded to noninterest income.

Servicing fee income is recorded when fees are earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal or a fixed amount per loan and are recorded as income. The change in the fair value of the mortgage-servicing rights is netted against loan servicing fee income.

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Goodwill and Intangible Assets

Goodwill is tested annually for impairment or more frequently if impairment indicators are present. If the implied fair value of goodwill is lower than its carrying amount, a goodwill impairment is indicated and goodwill is written down to its implied fair value. Subsequent increases in goodwill value are not recognized in the financial statements.

Intangible assets, which include licenses and trade names, are amortized over a period ranging from 84 to 120 months using a straight-line method of amortization. Customer list intangible assets are amortized over 21 months using a straight-line method of amortization. Also included are core deposit intangibles that are amortized over a 10 year period using the accelerated sum of the years digits method of amortization. On a periodic basis, the Company evaluates events and circumstances that may indicate a change in the recoverability of the carrying value.

Investment in Low-Income Housing Tax Credit Limited Partnerships or Limited Liability Companies (“LLC”)

The Company has elected to account for its investment in affordable housing tax credit limited partnerships or LLCs using the proportional amortization method described in FASB ASU 2014-01, “Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Low-Income Housing Tax Credit Projects (A Consensus of the FASB Emerging Issues Task Force)”, which was updated in March 2023 and released as FASB ASU 2023-02. Under the proportional amortization method, an investor amortizes the initial cost of the investment to income tax expense in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense. The investment in the limited partnerships or LLCs are included in other assets in the consolidated balance sheets. During the years ended December 31, 2023, 2022, and 2021, the Company sold some of these assets to funds in which it is a general partner and in some cases holds a minority interest in the limited partnership or LLC.

Income Taxes

The Company accounts for income taxes in accordance with income tax accounting guidance (ASC 740, Income Taxes). The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur. Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

Uncertain tax positions are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances and information available at the reporting date and is subject to management’s judgment. With a few exceptions, the Company is no longer subject to U.S. federal, state and local or non-U.S. income tax examinations by tax authorities for years before 2020.

The Company recognizes interest and penalties, if any, as other noninterest expense.

The Company files consolidated income tax returns with its subsidiaries.

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Notes to Consolidated Financial Statements

Earnings Per Share

Basic earnings per share is the Company's net income available to common shareholders, which represents net income less dividends paid or payable to preferred stock shareholders, if any, divided by the weighted-average number of common shares outstanding during each period. Diluted earnings per share is calculated in the same manner as basic earnings per share, but also reflects the issuance of additional common shares that would have been diluted if such shares had been outstanding, as well as any adjustment to income that would result from the assumed issuance.

Share-based Compensation Plans

The Company has an equity incentive plan that provides for annual awards of shares to certain members of senior management based upon the Company's performance and attainment of certain performance goals established by the Board of Directors. Share awards are valued at the estimated fair value on the date of the award and generally vest over three years. Compensation expense for the awards is recognized in the consolidated financial statements ratably over the vesting period.

In 2018, the Compensation Committee of the Board of Directors also approved a plan for non-executive directors to receive a portion of their annual fees in the form of restricted common stock, which has been issued once per year, subsequent to the annual meeting of shareholders. This plan was amended to issue allocated shares on a quarterly basis, beginning after the Company's 2021 annual meeting of shareholders.

In 2020, the Company established an employee stock ownership plan ("ESOP") to provide certain benefits for all employees who meet certain requirements.

Revenue Recognition

The Company's principal source of revenue is interest income from loans, investment securities and other financial instruments that are not within the scope of Accounting Standards Codification Topic 606, "Revenue from Contracts with Customers". The Company has evaluated the nature of its contracts with customers and determined that further disaggregation of revenue from contracts with customers into more granular categories beyond what is presented in the Consolidated Statements of Income was not necessary. Because performance obligations are satisfied as services are rendered and the transaction prices are fixed, there is little judgment involved in applying Topic 606 that significantly affects the determination of the amount and timing of revenue from contracts with customers.

The Company recognizes revenues as they are earned based on contractual terms, as transactions occur, or as services are provided and collectability is reasonably assured.

Interest income on loans is accrued as earned using the interest method based on unpaid principal balances, except for interest on loans in nonaccrual status. Interest on loans in nonaccrual status is recorded as a reduction of loan principal when received.

The Company also earns other noninterest income through a variety of financial and transaction services provided to corporate and consumer clients such as deposit service charges, debit card network fees, safe deposit box rental fees, LIHTC syndication, and asset management fees. Revenue is recorded for noninterest income based on the contractual terms for the service or transaction performed.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income (loss), net of applicable income taxes. Other comprehensive income (loss) and accumulated other comprehensive income consist of unrealized appreciation (depreciation) on available for sale investment securities and reclassification adjustments for investment gains/(losses) on the sale of available for sale investment securities.

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Derivative Financial Instruments

The Company occasionally enters into derivative financial instruments as part of its interest rate risk management strategies. These derivative financial instruments consist primarily of interest rate locks, forward sale commitments, interest rate swaps, put options, and interest rate floor contracts. These derivative instruments are recorded on the Consolidated Balance Sheets, as either an asset or liability, at their fair value. Changes in fair value are recognized in noninterest income on the Consolidated Statements of Income. The Company also offers interest rate swaps to some customers through 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 are 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.

Reclassifications

Certain reclassifications may have been made to the 2022 and 2021 financial statements to conform to the financial statement presentation as of and for the year ended December 31, 2023. These reclassifications had no effect on net income.

Note 2: Restriction on Cash and Due From Banks

On March 26, 2020, the Federal Reserve reduced all banks' reserve requirements to 0%. The effective reserve requirement has remained at 0% as of December 31, 2023 and 2022.

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 December 31, 2023, there was \$36.4 million in restricted cash. Also see *Note 14: Borrowings*.

Note 3: 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:

	December 31, 2023			Approximate Fair Value
	Amortized Cost (1)	Gross Unrealized Gains	Gross Unrealized Losses	
(In thousands)				
Securities available for sale:				
Treasury notes	\$ 129,261	\$ 45	\$ 338	\$ 128,968
Federal agencies	250,731	—	2,976	247,755
Mortgage-backed - Government Agency ("Agency") ⁽²⁾	14,465	5	3	14,467
Mortgage-backed - Non-Agency residential - fair value option	485,500	—	—	485,500
Mortgage-backed - Agency - fair value option	236,997	—	—	236,997
Total securities available for sale	<u>\$ 1,116,954</u>	<u>\$ 50</u>	<u>\$ 3,317</u>	<u>\$ 1,113,687</u>
Securities held to maturity:				
Mortgage-backed - Non-Agency multi-family	\$ 719,662	\$ —	\$ 415	\$ 719,247
Mortgage-backed - Non-Agency residential	472,539	973	418	473,094
Mortgage-backed - Agency	12,016	—	822	11,194
Total securities held to maturity	<u>\$ 1,204,217</u>	<u>\$ 973</u>	<u>\$ 1,655</u>	<u>\$ 1,203,535</u>

(1) For fair value option securities, the amortized cost reflects the carrying value, which is also equal to the fair value.

(2) Agency includes government sponsored agencies, such as Fannie Mae, Freddie Mac, and Ginne Mae.

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

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

During 2023 the Company acquired both agency and non-agency mortgage-backed available for sale securities that are being carried utilizing the fair value option. Changes in the fair value are recognized in other income as they occur. These fair value option securities are included in the table above at December 31, 2023.

Accrued interest on securities available for sale totaled \$6.7 million at December 31, 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 \$5.8 million at December 31, 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 securities available for sale and held to maturity at December 31, 2023, 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.

	December 31, 2023	
	Amortized Cost (1)	Fair Value
(In thousands)		
Securities available for sale:		
Within one year	\$ 308,474	\$ 305,406
After one through five years	71,518	71,317
	379,992	376,723
Mortgage-backed - Agency	14,465	14,467
Mortgage-backed - Non-Agency residential - fair value option	485,500	485,500
Mortgage-backed - Agency - fair value option	236,997	236,997
	<u>\$ 1,116,954</u>	<u>\$ 1,113,687</u>
Securities held to maturity:		
Mortgage-backed - Non-Agency multi-family	\$ 719,662	\$ 719,247
Mortgage-backed - Non-Agency residential	472,539	473,094
Mortgage-backed - Agency	12,016	11,194
	<u>\$ 1,204,217</u>	<u>\$ 1,203,535</u>

(1) For fair value option securities, the amortized cost reflects the carrying value, which is also equal to the fair value.

During the year ended December 31, 2023, proceeds from sales of securities available for sale were \$1.5 million, and the net gain was inconsequential. During the year ended December 31, 2022, one of the mortgage-backed –

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non-agency multi-family securities available for sale was sold for \$11.4 million resulting in no gain or loss. During the year ended December 31, 2021, proceeds from sales of securities available for sale were \$38.6 million, and a net gain of \$191,000 was recognized, consisting of \$191,000 in gains and \$0 of losses.

The carrying value of securities pledged as collateral, to secure borrowings, public deposits and for other purposes, was \$1.1 billion and \$570.6 million at December 31, 2023 and 2022, respectively.

Certain investments in securities available for sale are reported in the consolidated financial statements at an amount less than their historical cost. The total fair value of these investments at December 31, 2023 and 2022 was \$263.4 million (28 positions) and \$308.0 million (37 positions), respectively, which is approximately 24%, and 95%, respectively, of the Company's available for sale investment portfolio.

Certain investments in securities held to maturity are reported in the consolidated financial statements at amortized cost. The amortized cost of these investments that were reported at less than their fair value at December 31, 2023 and 2022 totaled \$777.7 million (8 positions) and \$247.2 million (2 positions), respectively, which is approximately 65% and 22%, respectively, of the Company's held to maturity investment portfolio.

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 December 31, 2023 and 2022:

	December 31, 2023					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(In thousands)					
Securities available for sale:						
Treasury notes	\$ 3,052	\$ 6	\$ 32,080	\$ 332	\$ 35,132	\$ 338
Federal agencies	60,541	189	167,213	2,787	227,754	2,976
Mortgage-backed - Agency	364	1	186	2	550	3
	<u>\$ 63,957</u>	<u>\$ 196</u>	<u>\$ 199,479</u>	<u>\$ 3,121</u>	<u>\$ 263,436</u>	<u>\$ 3,317</u>

	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 - Agency	709	7	—	—	709	7
	<u>\$ 49,545</u>	<u>\$ 1,493</u>	<u>\$ 258,411</u>	<u>\$ 12,565</u>	<u>\$ 307,956</u>	<u>\$ 14,058</u>

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 noncredit 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

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amount would be recognized 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' 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 December 31, 2023 and 2022.

Securities held to maturity are comprised of non-agency mortgage-backed securities secured by multi-family or single-family properties, and agency mortgage-backed securities secured by multi-family properties. The agency securities are Ginnie Mae mortgage-backed securities and backed by the full faith and credit of the U.S. government. Accordingly, no allowance for credit losses has been recorded for these securities. The non-agency 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-agency securities.

Note 4: 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 Fannie Mae and Freddie Mac participation certificates, all of which are pending settlement with firm investor commitments to purchase the securities, typically occurring within 30 days. The fair value increases recorded in earnings for mortgage loans in process of securitization totaled \$0.8 million and \$0.3 million at December 31, 2023 and 2022, respectively.

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Note 5: Loans and Allowance for Credit Losses on Loans

Loan Portfolio Summary

Loans receivable at December 31, 2023 and 2022, include:

	December 31, 2023	December 31, 2022
	(In thousands)	
Mortgage warehouse repurchase agreements	\$ 752,468	\$ 464,785
Residential real estate ⁽¹⁾	1,324,305	1,178,401
Multi-family financing	4,006,160	3,135,535
Healthcare financing	2,356,689	1,604,341
Commercial and commercial real estate ⁽²⁾⁽³⁾	1,643,081	978,661
Agricultural production and real estate	103,150	95,651
Consumer and margin loans	13,700	13,498
	10,199,553	7,470,872
Less:		
ACL - Loans	71,752	44,014
Loans Receivable	\$ 10,127,801	\$ 7,426,858

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

(2) Includes \$1.1 billion and \$497.0 million of revolving lines of credit collateralized primarily by mortgage servicing rights as of December 31, 2023 and 2022, respectively.

(3) Includes only \$8.4 million and \$12.8 million of non-owner occupied commercial real estate as of December 31, 2023 and 2022, respectively.

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

Mortgage Warehouse Repurchase Agreements (MTG WHRA): 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 facility.

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 facility typically carries a base interest rate of the Federal Reserve's Secured 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 under a warehouse facility. However, the warehouse customers are required to hedge the change in value of these loans to mitigate the 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 margin. With the sunset of LIBOR, loans have been transitioned to the One-Year Constant Maturity Treasury ("CMT"), plus a margin.

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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 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 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 adjustable rate mortgage ("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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The following table presents, by loan portfolio segment, the activity in the ACL-Loans for the year ended December 31, 2023 and 2022:

	At or For the Year Ended December 31, 2023							TOTAL
	MTG WHRA	RES RE	MF FIN	HC FIN	CML & CRE	AG & AGRE	CON & MAR	
	(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	821	328	18,493	12,572	5,232	54	(12)	37,488
Loans charged to the allowance	—	(34)	(8,400)	—	(1,356)	—	(1)	(9,791)
Recoveries of loans previously charged off	—	—	—	—	41	—	—	41
Balance, end of period	<u>\$ 2,070</u>	<u>\$ 7,323</u>	<u>\$ 26,874</u>	<u>\$ 22,454</u>	<u>\$ 12,243</u>	<u>\$ 619</u>	<u>\$ 169</u>	<u>\$ 71,752</u>

The Company recorded a total provision for credit losses of \$40.2 million for the year ended December 31, 2023. The \$40.2 million provision for credit losses consisted of \$37.5 million for the ACL-Loans as shown above and \$2.7 million for the ACL-OBCEs.

	At or For the Year Ended December 31, 2022							TOTAL
	MTG WHRA	RES RE	MF FIN	HC FIN	CML & CRE	AG & AGRE	CON & MAR	
	(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	<u>\$ 1,249</u>	<u>\$ 7,029</u>	<u>\$ 16,781</u>	<u>\$ 9,882</u>	<u>\$ 8,326</u>	<u>\$ 565</u>	<u>\$ 182</u>	<u>\$ 44,014</u>

The Company recorded a total provision for credit losses of \$17.3 million for the year ended December 31, 2022. The \$17.3 million provision for credit losses consisted of \$13.5 million for the ACL-Loans as shown above, \$2.6 million for the ACL-OBCEs, and \$1.2 million for the ACL-Guarantees, contingent reserve related to the Freddie Mac-sponsored Q-series securitization transaction.

Prior to the adoption of CECL, the Company maintained an allowance for loan losses in accordance with the incurred loss model as disclosed in the Company's 2021 Annual Report on Form 10-K.

The following tables presents the allowance for loan losses as of December 31, 2021:

	For the Year Ended December 31, 2021							TOTAL
	MTG WHRA	RES RE	MF FIN	HC FIN	CML & CRE	AG & AGRE	CON & MAR	
	(In thousands)							
Allowance for loan losses								
Balance, beginning of year	\$ 4,018	\$ 3,334	\$ 12,140	\$ 2,591	\$ 4,641	\$ 636	\$ 140	\$ 27,500
Provision (credit) for loan losses	(2,063)	838	1,944	1,870	2,422	21	(20)	5,012
Loans charged to the allowance	—	(2)	—	—	(1,184)	—	(6)	(1,192)
Recoveries of loans previously charged off	—	—	—	—	—	—	24	24
Balance, end of year	<u>\$ 1,955</u>	<u>\$ 4,170</u>	<u>\$ 14,084</u>	<u>\$ 4,461</u>	<u>\$ 5,879</u>	<u>\$ 657</u>	<u>\$ 138</u>	<u>\$ 31,344</u>

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The below tables present the amortized cost basis and ACL-Loans allocated for collateral dependent loans, which are individually evaluated to determine expected credit losses as of December 31, 2023 and 2022:

	December 31, 2023				
	Real Estate	Accounts Receivable / Equipment	Other	Total	ACL-Loans Allocation
RES RE	\$ 1,557	\$ —	\$ 3	\$ 1,560	\$ 21
MF FIN	46,575	—	—	46,575	521
HC FIN	73,909	—	—	73,909	6,289
CML & CRE	146	3,603	2,684	6,433	1,132
AG & AGRE	147	—	—	147	1
CON & MAR	—	—	3	3	—
Total collateral dependent loans	<u>\$ 122,334</u>	<u>\$ 3,603</u>	<u>\$ 2,690</u>	<u>\$ 128,627</u>	<u>\$ 7,964</u>

There were no significant changes in the types of collateral securing the Company's collateral dependent loans compared to December 31, 2022.

	December 31, 2022				
	Real Estate	Accounts Receivable / Equipment	Other	Total	ACL-Loans Allocation
RES RE	\$ 237	\$ —	\$ 9	\$ 246	\$ 31
MF FIN	36,760	—	—	36,760	173
HC FIN	21,783	—	—	21,783	134
CML & CRE	—	4,917	966	5,883	842
AG & AGRE	147	—	—	147	1
CON & MAR	—	—	6	6	—
Total collateral dependent loans	<u>\$ 58,927</u>	<u>\$ 4,917</u>	<u>\$ 981</u>	<u>\$ 64,825</u>	<u>\$ 1,181</u>

Internal Risk Categories

The Company evaluates the loan risk grading system definitions and ACL-Loans methodology on an ongoing basis. As of December 31, 2023, the Company created a newly defined special mention risk rating category to be consistent with industry practices. Loans with a Watch classification are now included in the Pass risk rating category as of December 31, 2023. This updated policy was approved by the Company's Asset-Liability Committee ("ALCO"), to be effective as of December 31, 2023 on a prospective basis.

In adherence with policy, the Company uses the following internal risk grading categories and definitions for loans as of December 31, 2023:

Pass - Loans that are considered to be of acceptable credit quality, and not classified as Special Mention, Substandard or Doubtful. Also included are loans classified as watch loans, which represent loans that remain sound and collectible but contain elevated risk that requires management's attention.

Special Mention – Loans classified as special mention have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the institution's credit position at some future date. Special mention loans are not adversely classified and do not warrant adverse classification. Loans with questions or concerns regarding collateral, adverse market conditions impacting future performance, and declining financial trends would be considered for special mention.

Substandard - Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the borrower or of the collateral pledged, if any. Loans so classified must 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. When a loan in the form of a line of credit is downgraded to substandard, future draws under the line of credit require the approval of an officer of Senior Credit Officer or above.

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Notes to Consolidated Financial Statements

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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Notes to Consolidated Financial Statements

The following table presents the credit risk profile of the Company's loan portfolio based on internal risk rating categories as of December 31, 2023:

	December 31, 2023						Revolving Loans	TOTAL
	2023	2022	2021	2020	2019	Prior		
	(In thousands)							
MTG WHRA								
Pass	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 752,468	\$ 752,468
Total	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 752,468	\$ 752,468
Charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
RES RE								
Pass	31,011	10,086	6,573	22,725	3,298	9,340	1,239,161	1,322,194
Special Mention	—	—	—	—	59	492	—	551
Substandard	—	—	—	—	—	288	1,272	1,560
Total	\$ 31,011	\$ 10,086	\$ 6,573	\$ 22,725	\$ 3,357	\$ 10,120	\$ 1,240,433	\$ 1,324,305
Charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 21	\$ 13	\$ 34
MF FIN								
Pass	1,094,698	762,448	208,343	77,340	29,764	8,455	1,646,445	3,827,493
Special Mention	94,973	3,189	8,400	—	—	1,477	24,052	132,091
Substandard	11,682	28,360	6,534	—	—	—	—	46,576
Total	\$ 1,201,353	\$ 793,997	\$ 223,277	\$ 77,340	\$ 29,764	\$ 9,932	\$ 1,670,497	\$ 4,006,160
Charge-offs	\$ —	\$ 8,400	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 8,400
HC FIN								
Pass	752,591	996,273	110,197	—	14,563	—	351,110	2,224,734
Special Mention	35,869	9,520	—	—	—	—	12,658	58,047
Substandard	25,600	10,625	28,783	—	—	—	8,900	73,908
Total	\$ 814,060	\$ 1,016,418	\$ 138,980	\$ —	\$ 14,563	\$ —	\$ 372,668	\$ 2,356,689
Charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
CML & CRE								
Pass	51,110	119,386	77,316	21,154	21,088	17,066	1,328,980	1,636,100
Special Mention	—	—	292	172	—	84	—	548
Substandard	—	70	1,701	878	62	—	3,672	6,383
Doubtful	—	—	—	—	—	50	—	50
Total	\$ 51,110	\$ 119,456	\$ 79,309	\$ 22,204	\$ 21,150	\$ 17,200	\$ 1,332,652	\$ 1,643,081
Charge-offs	\$ —	\$ 496	\$ 274	\$ 586	\$ —	\$ —	\$ —	\$ 1,356
AG & AGRE								
Pass	16,850	9,825	6,490	14,267	5,237	16,606	33,728	103,003
Special Mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	147	—	147
Total	\$ 16,850	\$ 9,825	\$ 6,490	\$ 14,267	\$ 5,237	\$ 16,753	\$ 33,728	\$ 103,150
Charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
CON & MAR								
Pass	748	4,329	247	115	27	4,339	3,862	13,667
Special Mention	—	—	—	15	15	—	—	30
Substandard	—	—	—	—	—	3	—	3
Total	\$ 748	\$ 4,329	\$ 247	\$ 130	\$ 42	\$ 4,342	\$ 3,862	\$ 13,700
Charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 1	\$ —	\$ 1
Total Pass	\$ 1,947,008	\$ 1,902,347	\$ 409,166	\$ 135,601	\$ 73,977	\$ 55,806	\$ 5,355,754	\$ 9,879,659
Total Special Mention	\$ 130,842	\$ 12,709	\$ 8,692	\$ 187	\$ 74	\$ 2,053	\$ 36,710	\$ 191,267
Total Substandard	\$ 37,282	\$ 39,055	\$ 37,018	\$ 878	\$ 62	\$ 438	\$ 13,844	\$ 128,577
Total Doubtful	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 50	\$ —	\$ 50
Total Loans	\$ 2,115,132	\$ 1,954,111	\$ 454,876	\$ 136,666	\$ 74,113	\$ 58,347	\$ 5,406,308	\$ 10,199,553
Total Charge-offs	\$ —	\$ 8,896	\$ 274	\$ 586	\$ —	\$ 22	\$ 13	\$ 9,791

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The Company did not have any material revolving loans converted to term loans at December 31, 2023.

Prior to the updated policy described above, the Company used the following internal risk grading categories and definitions for loans as of December 31, 2022:

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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Notes to Consolidated Financial Statements

The following table presents the credit risk profile of the Company's loan portfolio based on internal risk rating categories as of December 31, 2022:

	December 31, 2022						Revolving Loans	TOTAL
	2022	2021	2020	2019	2018	Prior		
	(In thousands)							
MTG WHRA								
Pass	—	—	—	—	—	—	464,785	464,785
Total	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 464,785</u>	<u>\$ 464,785</u>
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	<u>\$ 13,344</u>	<u>\$ 8,192</u>	<u>\$ 24,708</u>	<u>\$ 3,559</u>	<u>\$ 1,796</u>	<u>\$ 12,006</u>	<u>\$ 1,114,796</u>	<u>\$ 1,178,401</u>
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
Substandard	36,760	—	—	—	—	—	—	36,760
Total	<u>\$ 1,281,687</u>	<u>\$ 544,823</u>	<u>\$ 208,829</u>	<u>\$ 32,349</u>	<u>\$ 4,416</u>	<u>\$ 7,229</u>	<u>\$ 1,056,202</u>	<u>\$ 3,135,535</u>
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	<u>\$ 1,039,698</u>	<u>\$ 348,193</u>	<u>\$ 78,792</u>	<u>\$ 13,770</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 123,888</u>	<u>\$ 1,604,341</u>
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	<u>\$ 123,800</u>	<u>\$ 88,463</u>	<u>\$ 25,357</u>	<u>\$ 24,921</u>	<u>\$ 12,434</u>	<u>\$ 9,659</u>	<u>\$ 694,027</u>	<u>\$ 978,661</u>
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	<u>\$ 12,126</u>	<u>\$ 7,540</u>	<u>\$ 16,122</u>	<u>\$ 6,229</u>	<u>\$ 3,300</u>	<u>\$ 20,712</u>	<u>\$ 29,622</u>	<u>\$ 95,651</u>
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	<u>\$ 4,673</u>	<u>\$ 463</u>	<u>\$ 327</u>	<u>\$ 101</u>	<u>\$ 4,589</u>	<u>\$ 17</u>	<u>\$ 3,328</u>	<u>\$ 13,498</u>
Total Pass	<u>\$ 2,353,570</u>	<u>\$ 948,348</u>	<u>\$ 344,099</u>	<u>\$ 80,256</u>	<u>\$ 26,199</u>	<u>\$ 47,345</u>	<u>\$ 3,468,410</u>	<u>\$ 7,268,227</u>
Total Special Mention (Watch)	<u>\$ 84,998</u>	<u>\$ 25,526</u>	<u>\$ 9,445</u>	<u>\$ 601</u>	<u>\$ 262</u>	<u>\$ 1,287</u>	<u>\$ 15,701</u>	<u>\$ 137,820</u>
Total Substandard	<u>\$ 36,760</u>	<u>\$ 23,800</u>	<u>\$ 591</u>	<u>\$ 72</u>	<u>\$ 74</u>	<u>\$ 991</u>	<u>\$ 2,537</u>	<u>\$ 64,825</u>
Total Loans	<u>\$ 2,475,328</u>	<u>\$ 997,674</u>	<u>\$ 354,135</u>	<u>\$ 80,929</u>	<u>\$ 26,535</u>	<u>\$ 49,623</u>	<u>\$ 3,486,648</u>	<u>\$ 7,470,872</u>

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Notes to Consolidated Financial Statements

Delinquent Loans

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

	December 31, 2023					
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans
	(In thousands)					
MTG WHRA	\$ —	\$ —	\$ —	\$ —	\$ 752,468	\$ 752,468
RES RE	4,557	—	2,379	6,936	1,317,369	1,324,305
MF FIN	38,218	11,055	39,609	88,882	3,917,278	4,006,160
HC FIN	—	47,275	35,999	83,274	2,273,415	2,356,689
CML & CRE	172	393	3,665	4,230	1,638,851	1,643,081
AG & AGRE	27	11	147	185	102,965	103,150
CON & MAR	1	3	18	22	13,678	13,700
	<u>\$ 42,975</u>	<u>\$ 58,737</u>	<u>\$ 81,817</u>	<u>\$ 183,529</u>	<u>\$ 10,016,024</u>	<u>\$ 10,199,553</u>

	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 WHRA	\$ —	\$ —	\$ —	\$ —	\$ 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
	<u>\$ 13,721</u>	<u>\$ 176</u>	<u>\$ 25,855</u>	<u>\$ 39,752</u>	<u>\$ 7,431,120</u>	<u>\$ 7,470,872</u>

The above tables do not include one delinquent loan that was classified as held for sale at December 31, 2023, totaling \$16.5 million.

Nonperforming Loans

Nonaccrual loans, including modified loans to borrowers experiencing financial difficulty 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 modified loans which are on nonaccrual status prior to being modified remain on nonaccrual status until 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 year ended December 31, 2023 was 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 December 31, 2023 and 2022.

	December 31, 2023		December 31, 2022	
	Nonaccrual	Total Loans > 90 Days & Accruing	Nonaccrual	Total Loans > 90 Days & Accruing
	(In thousands)			
RES RE	\$ 1,486	\$ 894	\$ 245	\$ 96
MF FIN	39,608	—	—	—
HC FIN	28,783	7,216	21,783	—
CML & CRE	3,820	43	4,390	—
AG & AGRE	147	—	147	—
CON & MAR	3	15	6	16
	<u>\$ 73,847</u>	<u>\$ 8,168</u>	<u>\$ 26,571</u>	<u>\$ 112</u>

The Company did not have any nonperforming loans without an estimated ACL at December 31, 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 December 31, 2023 that were both experiencing financial difficulty and modified during the year ended December 31, 2023, by class and by type of modification. There were no new loans modified for borrowers experiencing financial difficulty during the year ended December 31, 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:

	December 31, 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	\$ —	\$ 3,553	\$ —	\$ —	\$ —	\$ —	N/M %
Total	<u>\$ —</u>	<u>\$ 3,553</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>N/M %</u>

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 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.

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Notes to Consolidated Financial Statements

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:

	<u>30 - 59 Days Past Due</u>	<u>60 - 89 Days Past Due</u>	<u>Greater Than 90 Days</u>	<u>Total Past Due</u>
	(In thousands)			
Commercial and commercial real estate	\$ —	\$ —	\$ 3,553	\$ 3,553
Total	\$ —	\$ —	\$ 3,553	\$ 3,553

Foreclosures

There were no residential loans in process of foreclosures as of December 31, 2023 and 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 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.

Loan Sale and Securitization - 2022 Activity

On September 22, 2022, the Company completed a private securitization by which a \$1.2 billion portfolio of originated multi-family bridge loans was sold into a real estate mortgage investment conduit ("REMIC") and ultimately sold to investors as securities. The Company purchased the senior security for a total of \$1.0 billion and classified it as a held to maturity security at September 30, 2022. An unaffiliated, third-party institutional investor purchased the remaining subordinate interests and maintains the first-loss position on 13.4% of the losses in the loan portfolio. This transaction provided the Company an avenue to enhance capital efficiency and minimize credit risk on the balance sheet.

As part of the securitization transaction, the Company will be both Master Servicer and Special Servicer of the loans. As Master Servicer and Special Servicer, the Company will have obligations to collect and remit payments of principal and interest, manage payments of taxes and insurance, and otherwise administer the underlying loans.

Beyond 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 the securitization, the Company received proceeds and accrued interest on loans, net of the acquired securities, of \$150.6 million. No allowance for credit losses was recognized in connection with purchase of the security, in accordance with ASC 326. However, the \$4.0 million allowance for credit losses associated with the loans sold was released through the provision for credit losses.

The transfer of these loans was accounted for as a sale for financial reporting purposes, in accordance with ASC 860, and a \$525,000 net loss on sale was recognized. The net loss on sale included a \$5.4 million pricing loss and \$4.9 million in transaction expenses partially offset by a \$6.7 million positive impact of capitalizing servicing rights associated with this transaction and a \$3.2 million recognition of net deferred fee income on loans sold.

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Freddie Mac Q Series Securitization - 2022 Activity

May 2022

On May 5, 2022, the Company entered into an arrangement through a third-party trust and Freddie Mac, by which a \$214.0 million portfolio of multi-family loans were sold to the trust and ultimately securitized through Freddie Mac and sold to investors. The Company did not purchase any of the securities. The transfer of these loans was accounted for as a sale for financial reporting purposes, in accordance with ASC 860, and a \$2.3 million net gain on sale was recognized, which included establishing a contingent and noncontingent reserve and servicing rights associated with this transaction.

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 the securitization, the Company also entered into a reimbursement agreement for a first loss position in the underlying loan portfolio, not to exceed 12% of the unpaid principal amount of the loans comprising the securitization pool at settlement, or approximately \$25.7 million. A contingent reserve of \$1.2 million for estimated losses was established with respect to the first loss obligation on May 5, 2022, which was included in provision for credit losses on the consolidated statement of income and other liabilities on the consolidated balance sheet. A noncontingent reserve of \$2.5 million related to the Company's reimbursement obligation was included in other liabilities on the consolidated balance sheet and offset through gain on sale in the consolidated statement of income. The Company was also required to hold collateral against the reimbursement agreement. Accordingly, \$27.0 million of U.S. Treasury securities were acquired as part of the transaction.

As part of the securitization transaction, the Company released all mortgage servicing obligations and rights to Freddie Mac, who was designated as the Master Servicer. Freddie Mac appointed the Company with sub-servicing obligations, which include obligations to collect and remit payments of principal and interest, manage payments of taxes and insurance, and otherwise administer the underlying loans. Accordingly, the Company recognized a mortgage servicing asset of \$1.2 million on the sale date.

November 2022

On November 3, 2022, the Company completed a \$284.2 million securitization of 16 multi-family mortgage loans through a Freddie Mac-sponsored Q-Series transaction. The Company did not purchase any of the securities as part of this transaction. The transfer of these loans was accounted for as a sale for financial reporting purposes, in accordance with ASC 860, and a \$121,000 gain on sale was recognized, which included establishing servicing rights associated with this transaction.

The Company was retained as the mortgage sub-servicer for Freddie Mac on the entire \$284.2 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 the transaction a mortgage servicing right of \$1.3 million was established.

Loans Purchased

The Company purchased \$358.5 million and \$551.1 million of loans during the years ended December 31, 2023 and 2022, respectively.

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Note 6: 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.

Internal Interest Rate Risk Management

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.

The Company entered into a contract containing put options and interest rate floors on securities it acquired from a warehouse customer. These provide protection and prevent losses in value of certain available for sale securities. All changes in the fair market value of these options and floors associated with these securities have been included in other noninterest income.

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 consolidated statements of income. The fair value of derivative instruments with a positive fair value are reported in other assets in the consolidated balance sheets while derivative instruments with a negative fair value are reported in other liabilities in the consolidated balance sheets.

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

	Notional Amount	Balance Sheet Location	Fair Value	
	(In thousands)		Asset	Liability
December 31, 2023			(In thousands)	
Interest rate lock commitments	\$ 16,526	Other assets/liabilities	\$ 140	\$ 4
Forward contracts	25,500	Other assets/liabilities	4	391
Interest rate swaps	57,540	Other assets/liabilities	2,610	—
Put options	748,374	Other assets	25,877	—
Interest rate floors	748,374	Other assets	6,576	—
			<u>\$ 35,207</u>	<u>\$ 395</u>

	Notional Amount	Balance Sheet Location	Fair Value	
	(In thousands)		Asset	Liability
December 31, 2022			(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	—
			<u>\$ 3,104</u>	<u>\$ 75</u>

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Notes to Consolidated Financial Statements

The following table summarizes the periodic changes in the fair value of the derivative financial instruments on the consolidated statements of income for the years ended December 31, 2023, 2022, and 2021.

	Year Ended December 31,		
	2023	2022	2021
	(In thousands)		
Derivative gain (loss) included in gain on sale of loans:			
Interest rate lock commitments	\$ 130	\$ (218)	\$ (5,908)
Forward contracts (includes pair-off settlements)	201	5,277	5,956
Interest rate swaps	(420)	132	—
Net gain (loss)	<u>(89)</u>	<u>5,191</u>	<u>48</u>
Derivative gain (loss) included in other income:			
Put options	5,629	—	—
Interest rate floors	6,575	—	—
Net gain (loss)	<u>\$ 12,204</u>	<u>\$ —</u>	<u>\$ —</u>

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.

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

	Notional Amount	Balance Sheet Location	Fair Value	
	(In thousands)		Asset	Liability
December 31, 2023	\$ 607,169	Other assets/liabilities	\$ 12,426	\$ 12,426
December 31, 2022	\$ 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 consolidated statements of income as follows:

	Year Ended December 31,		
	2023	2022	2021
	(In thousands)		
Gross swap gains	\$ 9,385	\$ 1,910	\$ 2,039
Gross swap losses	9,385	1,910	2,039
Net swap gains (losses)	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

The Company pledged no collateral to secure its obligations under swap contracts at both December 31, 2023 and December 31, 2022.

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Note 7: Loan Servicing

Mortgage and SBA loans serviced for others are not included in the accompanying consolidated balance sheets and include multi-family, single-family and SBA loans sold in the secondary market. The risks inherent in servicing assets relate primarily to changes in prepayments that result from shifts in interest rates. Call protection is in place on certain multi-family loans to deter from prepayments on a 10-year sliding scale. The Company's total servicing portfolio, primarily managed in the Multi-family Mortgage Banking segment, had an unpaid principal balance of \$26.0 billion and \$21.9 billion as of December 31, 2023 and 2022, respectively. Included in the December 31, 2023 and 2022 amounts, respectively, were unpaid principal balances of loans serviced for others of \$15.3 billion and \$13.1 billion, an unpaid principal balance of loans sub-serviced for others of \$2.1 billion and \$1.9 billion, and other servicing balances of \$721.1 million and \$663.1 million. The Company also manages \$7.9 billion and \$6.2 billion of loans for customers that have loans on the balance sheet at December 31, 2023 and 2022, respectively. The servicing portfolio is primarily Ginnie Mae, Fannie Mae, and Freddie Mac loans and is a significant source of our noninterest income and deposits.

The following summarizes the activity in servicing rights measured using the fair value method for the years ended December 31, 2023, 2022, and 2021:

	For the Year Ended December 31,		
	2023	2022 (In thousands)	2021
Balance, beginning of period	\$ 146,248	\$ 110,348	\$ 82,604
Additions			
Purchased servicing	513	—	2,057
Originated servicing	14,755	27,124	30,421
Subtractions			
Paydowns	(7,621)	(10,985)	(16,691)
Sold servicing	—	—	(438)
Changes in fair value due to changes in valuation inputs or assumptions used in the valuation model	4,562	19,761	12,395
Balance, end of period	<u>\$ 158,457</u>	<u>\$ 146,248</u>	<u>\$ 110,348</u>

Contractually specified servicing fees for retained, purchased and sub-serviced loans were \$29.3 million, \$21.4 million, and \$20.7 million for the years ended December 31, 2023, 2022, and 2021, respectively.

In connection with certain loan servicing and sub-servicing agreements, the Company is to reconcile the payments received monthly on these loans, for principal and interest, taxes, insurance, and replacement reserves. The funds are required to be maintained in separate trust accounts and not commingled with the Company's general operating funds. At December 31, 2023 and 2022, the Company held restricted escrow funds for these loans at the Bank or other financial institution, amounting to \$1.3 billion and \$777.7 million, respectively.

Note 8: Goodwill and Intangibles

Goodwill at December 31, 2023 remained unchanged compared to December 31, 2022. As of December 31, 2023, the Company's market capitalization was above its book value, despite stock market volatility, rising interest rates and inflation concerns. Goodwill represents the amount by which the cost of an acquisition exceeded the fair value of net assets acquired. Goodwill is tested for impairment annually, or more frequently if events and circumstances exist that indicate a goodwill impairment test should be performed. Based upon management's assessment and evaluation of

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goodwill at year-end, the likelihood that an impairment of the current carrying amount of goodwill has occurred is considered remote.

	2023				2022				2021			
	<u>Multifamily</u>	<u>Banking</u>	<u>Warehouse</u>	<u>Total</u>	<u>Multifamily</u>	<u>Banking</u>	<u>Warehouse</u>	<u>Total</u>	<u>Multifamily</u>	<u>Banking</u>	<u>Warehouse</u>	<u>Total</u>
	(In thousands)				(In thousands)				(In thousands)			
Balance, beginning of period	\$ 3,791	\$ 8,353	\$ 3,701	\$ 15,845	\$ 3,791	\$ 8,353	\$ 3,701	\$ 15,845	\$ 3,791	\$ 8,353	\$ 3,701	\$ 15,845
Goodwill acquired during the period	—	—	—	—	—	—	—	—	—	—	—	—
Post-acquisition adjustments	—	—	—	—	—	—	—	—	—	—	—	—
Impairment losses	—	—	—	—	—	—	—	—	—	—	—	—
Balance, end of period	\$ 3,791	\$ 8,353	\$ 3,701	\$ 15,845	\$ 3,791	\$ 8,353	\$ 3,701	\$ 15,845	\$ 3,791	\$ 8,353	\$ 3,701	\$ 15,845

In conjunction with the acquisition of MCS on August 15, 2017, the Company recorded goodwill of \$3.8 million in the Multi-family segment, after reflecting a purchase accounting adjustment of \$412,000, related to contingent consideration for loans closed after the acquisition date, that increased goodwill during the year ended December 31, 2018. The Company also recorded intangible assets for licenses and trade names as summarized below. The licenses are being amortized over 84 months and trade names are being amortized over 120 months, both using the straight-line method. Amortization of these intangible assets was \$218,000 for the years ended December 31, 2023, 2022, and 2021.

In conjunction with the acquisition of FMBI on January 2, 2018, the Company recorded goodwill of \$988,000 in the Banking segment during the year ended December 31, 2018. The Company also recorded intangible assets for core deposits, as summarized below. The core deposit intangibles are being amortized over 10 years using the accelerated sum of the years digits method. Amortization for these intangible assets was \$38,000, \$53,000 and \$64,000 for the years ended December 31, 2023, 2022, and 2021, respectively. The assets associated with this goodwill and intangible assets were sold in January 2024 and were extinguished as of the transaction date.

In conjunction with the acquisition of Farmers-Merchants National Bank of Paxton (“FMNBP”) on October 1, 2018, the Company recorded goodwill of \$6.9 million in the Banking segment during the year ended December 31, 2018. A \$333,000 purchase accounting adjustment, primarily related to the valuation of securities decreased goodwill during 2019. The Company also recorded intangible assets for core deposits, as summarized below. The core deposit intangibles are being amortized over 10 years using the accelerated sum of the years digits method. Amortization for these intangible assets was \$188,000, \$250,000 and \$294,000 for the years ended December 31, 2023, 2022, and 2021, respectively. The assets associated with this goodwill and intangible assets were sold in January 2024 and were extinguished as of the transaction date.

In conjunction with the acquisition of the assets of NattyMac, LLC on December 31, 2018, the Company recorded goodwill of \$3.7 million in the Warehouse segment, after reflecting a \$1.6 million transfer to intangible assets and a \$271,000 purchase accounting adjustment related to contingent consideration that increased goodwill during 2019. Intangible assets of \$1.6 million, related to customer lists, were recorded and amortized over 21 months using the straight-line method. Accumulated amortization of these intangible assets was \$1.6 million and are fully amortized as of December 31, 2023, 2022, and 2021.

	2023			2022			2021		
	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Total</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Total</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Total</u>
	(In thousands)			(In thousands)			(In thousands)		
Licenses	\$ 1,370	\$ (1,247)	\$ 123	\$ 1,370	\$ (1,052)	\$ 318	\$ 1,370	\$ (856)	\$ 514
Trade names	224	(143)	81	224	(120)	104	224	(98)	126
Customer list	—	—	—	—	—	—	—	—	—
Core deposit intangible	2,417	(1,879)	538	2,417	(1,653)	764	2,417	(1,350)	1,067
Total intangible Assets	\$ 4,011	\$ (3,269)	\$ 742	\$ 4,011	\$ (2,825)	\$ 1,186	\$ 4,011	\$ (2,304)	\$ 1,707

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Estimated amortization expense for future years is as follows (in thousands):

Year ending December 31,	
2024	\$ 683
2025	23
2026	22
2027	14
2028	—
Thereafter	—
Total	<u>\$ 742</u>

Note 9: Premises and Equipment

Major classifications of premises and equipment, stated at cost, are as follows:

	December 31,	
	2023	2022
	(In thousands)	
Land	\$ 8,099	\$ 3,696
Buildings	29,291	29,661
Building and remodeling in progress	2,489	—
Leasehold improvements	352	310
Furniture, fixtures, equipment and software	13,321	10,500
Total cost	53,552	44,167
Accumulated depreciation	(11,210)	(8,729)
Net premises and equipment	<u>\$ 42,342</u>	<u>\$ 35,438</u>

The Company entered into a contract on September 15, 2023 for the construction of a new office building to expand its existing headquarters, which is expected to cost approximately \$27.6 million and be completed by June 2025.

Note 10: Leases

The Company has operating leases for various locations with terms ranging from one 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 \$10.1 million and \$11.0 million as of December 31, 2023 and 2022, respectively, and operating lease right-of-use liabilities of \$11.3 million and \$12.0 million as of December 31, 2023 and 2022, respectively.

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

	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Balance Sheet	(In thousands)	
Operating lease right-of-use asset (in other assets)	\$ 10,060	\$ 10,969
Operating lease liability (in other liabilities)	11,251	11,992
Weighted average remaining lease term (years)	6.0	6.5
Weighted average discount rate	2.89%	2.65%
Maturities of lease liabilities:		
One year or less	2,441	2,181
Year two	2,064	2,321
Year three	2,100	1,881
Year four	2,046	1,911
Year five	1,438	1,853
Thereafter	2,128	2,902
Total future minimum lease payments	12,217	13,049
Less: imputed interest	966	1,057
Total	\$ 11,251	\$ 11,992
	Year Ended	Year Ended
	<u>December 31, 2023</u>	<u>December 31, 2022</u>
	(In thousands)	
Income Statement		
Components of lease expense:		
Operating lease cost (in occupancy and equipment expense)	\$ 2,438	\$ 2,033
	Year Ended	Year Ended
	<u>December 31, 2023</u>	<u>December 31, 2022</u>
	(In thousands)	
Cash Flow Statement		
Supplemental cash flow information:		
Operating cash flows from operating leases	\$ 2,129	\$ 1,461

Note 11: Other Assets and Receivables

The following items are included in other assets and receivables in the consolidated balance sheets.

Investment in Low-Income Housing Tax Credit Limited Partnerships and LLCs

The Company invests in low-income housing tax credit limited partnerships and LLCs. At December 31, 2023 and 2022, the balance of the investments for low-income housing tax credit limited partnerships and LLCs was \$131.4 million and \$73.0 million, respectively. The Company became a minority investor in several limited partnerships or LLCs of syndicated funds during 2023, 2022, and 2021 in which it is obligated to make additional investments over the next several years. There was an obligation of \$61.4 million and \$36.8 million reflected in the investment balances at December 31, 2023 and 2022, respectively. During the years ended December 31, 2023, 2022, and 2021 the Company recorded amortization expense of \$7.9 million, \$2.1 million, and \$ 2.0 million, respectively. Expected tax credits related to these investments were \$8.4 million for the 2023 tax year, \$2.1 million for the 2022 tax year, and \$2.0 million for the 2021 tax year. The Company expects to receive additional tax credits and other benefits in 2024 and will continue to amortize these investments based on the proportional amortization method.

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Joint Ventures

The Company has investments in various joint ventures totaling \$52.2 million and \$37.5 million at December 31, 2023 and 2022, respectively. These investments are primarily made of up of investments in debt funds totaling \$33.2 million and \$29.8 million at December 31, 2023 and 2022, respectively. The Company was a primary beneficiary in only one of its joint venture investments, which was acquired in 2023 for \$11.0 million. Results from the remaining entities have not been consolidated in any year and are accounted for under the equity method of accounting. The Company is obligated to make additional investments over the next several years. There was an obligation of \$4.0 million and \$3.5 million reflected in the investment balance at December 31, 2023 and 2022, respectively. See *Note 12: Variable Interest Entities (VIEs)* for additional information about VIE's.

Other items included in other assets and receivables on the consolidated balance sheets are disclosed elsewhere, or are not individually significant.

Note 12: 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 VIEs, a REMIC trust that was established in conjunction with the September 2022 multi-family loan sale and securitization transaction, as well as a second REMIC trust that was established in December 2023 with a related party in conjunction with a loan sale and securitization. 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 December 31, 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 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 reflects the size of the VIEs as well as our maximum exposure to loss in connection with VIEs at December 31, 2023 and 2022. The totals in the table do not include bridge loans. Please see *Note 20: Related Party Transactions* for additional information. The Company also has bridge loans to unrelated parties totaling \$141.0 million at December 31, 2023 associated with low-income housing tax credit investments, which represents the Company's maximum exposure to loss.

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Assets (\$ in thousands)	Total Assets	Total Liabilities (In thousands)	Maximum Exposure to Loss
December 31, 2023			
Low-income housing credit investments	\$ 118,741	\$ 35,099	\$ 118,741
Debt funds	33,221	2,752	33,221
Total Unconsolidated VIEs	<u>\$ 151,962</u>	<u>\$ 37,851</u>	<u>\$ 151,962</u>
December 31, 2022			
Low-income housing credit investments	22,310	22,043	22,310
Debt funds	29,815	3,521	29,815
Total Unconsolidated VIEs	<u>\$ 52,125</u>	<u>\$ 25,564</u>	<u>\$ 52,125</u>

In addition to the table above, the Company is also involved with 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 \$719.7 million and \$871.8 million at December 31, 2023 and 2022, respectively.

The Company is also involved with a VIE in a REMIC trust that was established in December 2023 with a related party 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 \$472.5 million at December 31, 2023.

Note 13: Deposits

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

	December 31,	
	2023	2022
(In thousands)		
Noninterest-bearing deposits		
Demand deposits	\$ 520,070	\$ 326,875
Total noninterest-bearing deposits	520,070	326,875
Interest-bearing deposits		
Demand deposits	\$ 5,381,067	\$ 3,720,363
Savings deposits	2,992,921	3,034,818
Certificates of deposit	5,167,402	2,989,289
Total interest-bearing deposits	<u>13,541,390</u>	<u>9,744,470</u>
Total deposits	<u>\$ 14,061,460</u>	<u>\$ 10,071,345</u>

Maturities for certificates of deposit are as follows:

	December 31, 2023 (In thousands)
Due within one year	\$ 5,022,745
Due in one year to two years	143,286
Due in two years to three years	942
Due in three years to four years	429
Due in four years to five years	—
Due in five years to six years	—
	<u>\$ 5,167,402</u>

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Certificates of deposit of \$250,000 or more totaled \$411.2 million at December 31, 2023 and \$186.4 million at December 31, 2022.

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

	December 31,	
	2023	2022
	(In thousands)	
Brokered certificates of deposit	\$ 4,465,825	\$ 2,681,198
Brokered savings deposits	589	81,532
Brokered deposit on demand accounts	1,504,230	13
	\$ 5,970,644	\$ 2,762,743

Note 14: Borrowings

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

	December 31,	
	2023	2022
	(In thousands)	
Federal Reserve discount window borrowings	\$ —	\$ 20,000
Short-term subordinated debt	64,922	21,000
FHLB advances	771,392	859,392
American Financial Exchange borrowing	—	30,000
Credit linked notes	119,879	—
Other borrowings	7,934	—
Total borrowings	\$ 964,127	\$ 930,392

Federal Reserve Discount Window Borrowings

Federal Reserve discount window borrowings are secured by the collateral value of commercial, agricultural, construction and 1-4 family residential real estate loans totaling \$3.1 billion and \$2.4 billion as of December 31, 2023 and 2022, respectively. This arrangement has a maximum borrowing limit of collateral pledged multiplied by an advance rate. Borrowing maturities can range from 24 hours to up to a term of 90 days. Life to date, all Company borrowings were for a 24-hour period. As of December 31, 2023 and 2022, the outstanding balance was \$0 and \$20.0 million, respectively.

Short-Term Subordinated Debt

The Company entered into a warehouse financing arrangement in April 24, 2018 and was revised in December 2023, whereby a customer agreed to invest up to \$60.0 million in the Company's subordinated debt. The subordinated debt balance as of December 31, 2023 and 2022 was \$39.0 million and \$21.0 million, respectively. As of December 31, 2023, interest on the debt is paid quarterly by the Company at a rate equal to SOFR, plus 300 basis points, plus additional interest equal to 50% of the earnings generated. There is also a guaranteed interest rate floor associated with these earnings. The agreement is automatically renewed annually on June 30th for one or more terms of two years each unless either party notifies the other party at least 180 days prior to its renewable date, of its desire not to continue the relationship. As of December 31, 2023, neither party had made a notification of its intent to cancel this arrangement.

Additionally, the Company entered into an additional warehouse financing agreement on April 14, 2023 and revised on July 20, 2023, whereby a customer agreed to invest up to \$30 million in the Company's subordinated debt. The subordinated debt balance as of December 31, 2023 and 2022 was \$25.9 million and \$0, respectively. As of December 31, 2023, interest on the debt is paid quarterly by the Company at a rate equal to SOFR, plus 300 basis points, plus additional interest equal to 50% of the earnings generated. The agreement is automatically renewed annually on June 30th for one or more terms of two years each unless either party notifies the other party at least 180 days prior to its

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renewable date, of its desire not to continue the relationship. As of December 31, 2023, neither party had made a notification of its intent to cancel this arrangement.

FHLB Advances

FHLB advances are secured by the collateral value of mortgage loans totaling \$3.4 billion and \$2.8 billion at December 31, 2023 and 2022, respectively. In addition, securities available for sale, securities held to maturity, and securities purchased under agreements to resell with a carrying value of \$971.3 million and \$298.6 million were pledged as of December 31, 2023 and 2022, respectively. As of December 31, 2023 and 2022, the outstanding balances were \$771.4 million and \$859.4 million, respectively. At December 31, 2023 the FHLB advances had interest rates ranging from 2.18% to 5.52%, and ranged from 1.62% to 4.9% at December 31, 2022. These rates were subject to restrictions or penalties in the event of prepayment.

American Financial Exchange Borrowing

The Company joined the American Financial Exchange (“AFX”) in January of 2021. During the year ended December 31, 2023, the Company utilized unsecured overnight lending arrangements to borrow from other AFX members through extensions of credit. At December 31, 2023 and 2022, members of the AFX offered a combined borrowing limit of \$390.0 million and \$500.0 million, respectively, but availability fluctuates daily. As of December 31, 2023, the outstanding balance was \$0. As of December 31, 2022, the outstanding balance was \$30.0 million with a rate of 4.60%. Rates are set daily by participating members and may vary by lending member.

Credit Linked Notes

On March 30, 2023, the Company issued and sold \$158.1 million senior credit linked notes, due May 26, 2028. The net proceeds of the offering were approximately \$153.5 million. The repayment of principal on the notes is linked to an approximately \$1.1 billion reference pool of loans originated under the Bank’s healthcare commercial real estate lending program, but the notes are not secured by the loans. The notes provide periodic payments of interest in addition to payment of principal over the life of the note and these values are tied to the performance of the loans. Therefore, the notes effectively transfer credit risk in excess of the first 1% of losses on the reference pool of loans. The reduction in risk weighted assets provides additional balance sheet capacity and benefits capital ratios for additional growth in the existing loan pipeline. The Company maintains the ACL associated with the loans in the reference pool on the Company’s balance sheet.

The notes accrue interest at a rate equal to SOFR plus 15.50% and interest pays monthly. As of December 31, 2023, the effective interest rate was 20.9% and the balance, net of debt discount, of the notes was \$119.9 million.

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 aggregate unpaid principal of the notes. As of December 31, 2023, the account included \$36.4 million of restricted cash and \$89.0 million in short-term Treasury securities. These are reported as cash equivalents and securities available for sale in the consolidated balance sheets.

Other Borrowings

On May 4, 2023, the Company entered into a debt agreement that ultimately funded from a Sponsor Improvement Contribution as part of a low-income tax credit syndication transaction. The debt balance as of December 31, 2023 and 2022 was \$7.9 million and \$0, respectively. As of December 31, 2023, interest on the debt is paid by the Company at a rate equal to 1%. The agreement has a maturity date of December 31, 2047.

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Maturities of borrowings were as follows at December 31, 2023:

	<u>Short-Term Subordinated Debt</u>	<u>FHLB Advances</u>	<u>Credit Linked Notes</u>	<u>Other Borrowings</u>	<u>Borrowings Total</u>
Due within one year	\$ —	\$ 754,284	\$ —	\$ —	\$ 754,284
Due in one year to two years	64,922	15,759	—	—	80,681
Due in two years to three years	—	260	—	—	260
Due in three years to four years	—	150	—	—	150
Due in four years to five years	—	59	119,879	—	119,938
Thereafter	—	880	—	7,934	8,814
	<u>\$ 64,922</u>	<u>\$ 771,392</u>	<u>\$ 119,879</u>	<u>\$ 7,934</u>	<u>\$ 964,127</u>

At December 31, 2023, the Company had excess borrowing capacity of approximately \$6.0 billion with the FHLB and the Federal Reserve discount window, based on available collateral.

Note 15: Income Taxes

The provision for income taxes includes these components for the years ended December 31, 2023, 2022, and 2021:

	<u>Year Ended December 31,</u>		
	<u>2023</u>	<u>2022</u>	<u>2021</u>
	(In thousands)		
Income tax expense			
Current tax payable			
Federal	\$ 72,537	\$ 51,306	\$ 55,936
State	(1,422)	15,384	16,580
Deferred tax payable			
Federal	(503)	4,237	4,055
State	(1,939)	494	1,255
Income tax expense	<u>\$ 68,673</u>	<u>\$ 71,421</u>	<u>\$ 77,826</u>
Effective tax rate	<u>19.7 %</u>	<u>24.5 %</u>	<u>25.5 %</u>

A reconciliation of income tax expense at the statutory rate to the Company's actual income tax expense for the years ended December 31, 2023, 2022, and 2021, is shown below:

	<u>Year Ended December 31,</u>		
	<u>2023</u>	<u>2022</u>	<u>2021</u>
	(In thousands)		
Computed at the statutory rate -21%	\$ 73,061	\$ 61,140	\$ 64,035
Increase/(decrease) resulting from			
State income taxes	(2,655)	12,544	14,090
Tax Credits net of related amortization	(467)	57	8
Other	(1,266)	(2,320)	(307)
Actual tax expense	<u>\$ 68,673</u>	<u>\$ 71,421</u>	<u>\$ 77,826</u>

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The tax effects of temporary differences related to deferred taxes shown on the balance sheet were:

	December 31,	
	2023	2022
	(In thousands)	
Deferred tax assets		
Allowance for credit losses on loans	\$ 20,572	\$ 13,983
Unrealized loss on securities available for sale	779	3,530
Fair value adjustments on acquisitions	—	51
Other	4,727	3,945
Total assets	26,078	21,509
Deferred tax liabilities		
Depreciation	(2,779)	(2,809)
Intangible assets	(385)	(338)
Servicing rights	(37,290)	(36,043)
Limited partnership investments	(2,018)	(1,831)
State tax receivable	(1,711)	—
Derivative assets	(1,573)	—
Other	(245)	(101)
Total liabilities	(46,001)	(41,122)
Net deferred tax liability	\$ (19,923)	\$ (19,613)

Note 16: Regulatory Matters

The Company, Merchants Bank, and FMBI (prior to the January 26, 2024 sale of its branches and the merger of its remaining charter into Merchants Bank) 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 December 31, 2023 and December 31, 2022, that the Company, Merchants Bank, and FMBI met all capital adequacy requirements.

As of December 31, 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.

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

	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
(Dollars in thousands)						
December 31, 2023						
Total capital ⁽¹⁾ (to risk-weighted assets)						
Company	\$ 1,772,195	11.6 %	\$ 1,598,260	10.5 %	\$ —	N/A %
Merchants Bank	1,724,505	11.5 %	1,577,434	10.5 %	1,502,318	10.0 %
FMBI	40,613	21.1 %	20,209	10.5 %	19,247	10.0 %
Tier I capital ⁽¹⁾ (to risk-weighted assets)						
Company	1,686,202	11.1 %	1,293,830	8.5 %	—	N/A %
Merchants Bank	1,639,171	10.9 %	1,276,970	8.5 %	1,201,854	8.0 %
FMBI	39,953	20.8 %	16,360	8.5 %	15,398	8.0 %
Common Equity Tier I capital ⁽¹⁾ (to risk-weighted assets)						
Company	1,186,594	7.8 %	1,065,507	7.0 %	—	N/A %
Merchants Bank	1,639,171	10.9 %	1,051,623	7.0 %	976,507	6.5 %
FMBI	39,953	20.8 %	13,473	7.0 %	12,511	6.5 %
Tier I capital ⁽¹⁾ (to average assets)						
Company	1,686,202	10.1 %	832,706	5.0 %	—	N/A %
Merchants Bank	1,639,171	10.1 %	815,191	5.0 %	815,191	5.0 %
FMBI	39,953	11.5 %	17,391	5.0 %	17,391	5.0 %

(1) As defined by regulatory agencies.

	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
(Dollars in thousands)						
December 31, 2022						
Total capital ⁽¹⁾ (to risk-weighted assets)						
Company	\$ 1,507,968	12.2 %	\$ 992,883	10.5 %	\$ —	N/A %
Merchants Bank	1,427,738	11.7 %	975,853	10.5 %	1,219,817	10.0 %
FMBI	34,769	11.3 %	24,703	10.5 %	30,878	10.0 %
Tier I capital ⁽¹⁾ (to risk-weighted assets)						
Company	1,452,456	11.7 %	744,662	8.5 %	—	N/A %
Merchants Bank	1,372,941	11.3 %	731,890	8.5 %	975,853	8.0 %
FMBI	34,054	11.0 %	18,527	8.5 %	24,703	8.0 %
Common Equity Tier I capital ⁽¹⁾ (to risk-weighted assets)						
Company	952,848	7.7 %	558,497	7.0 %	—	N/A %
Merchants Bank	1,372,941	11.3 %	548,917	7.0 %	792,881	6.5 %
FMBI	34,054	11.0 %	13,895	7.0 %	20,071	6.5 %
Tier I capital ⁽¹⁾ (to average assets)						
Company	1,452,456	11.7 %	497,604	5.0 %	—	N/A %
Merchants Bank	1,372,941	11.3 %	487,511	5.0 %	609,389	5.0 %
FMBI	34,054	10.7 %	12,702	5.0 %	15,878	5.0 %

(1) As defined by regulatory agencies.

The Company's principal source of funds for dividend payments to shareholders is dividends received from Merchants Bank and FMBI (prior to the January 26, 2024 sale of its branches and the merger of its remaining charter

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into Merchants Bank). Banking statutes and regulations limit the maximum amount of dividends that a bank may pay without requesting prior approval of regulatory agencies. Under Indiana law, Merchants Bank may not pay a dividend if such dividend would be greater than retained net income (as defined) for the current year plus those for the previous two years, subject to the capital requirements described above. Under Illinois law, FMBI may not pay dividends in an amount greater than its current net profits after deducting losses and bad debts out of undivided profits provided that its surplus equals or exceeds its capital. At December 31, 2023, the amount available, without prior regulatory approval, for dividends which could be paid by Merchants Bank to the Company was \$601.4 million.

Note 17: Earnings Per Share

Earnings per share were computed as follows for years ended December 31, 2023, 2022, and 2021.

	Year Ended December 31,								
	2023			2022			2021		
	Net Income (In thousands)	Weighted- Average Shares	Per Share Amount	Net Income (In thousands)	Weighted- Average Shares	Per Share Amount	Net Income (In thousands)	Weighted- Average Shares	Per Share Amount
Net income	\$ 279,234			\$ 219,721			\$ 227,104		
Dividends on preferred stock	(34,670)			(25,983)			(20,873)		
Net income allocated to common shareholders	<u>\$ 244,564</u>			<u>\$ 193,738</u>			<u>\$ 206,231</u>		
Basic earnings per share		43,224,042	<u>\$ 5.66</u>		43,164,477	<u>\$ 4.49</u>		43,172,078	<u>\$ 4.78</u>
Effect of dilutive securities—restricted stock awards		121,757			152,427			153,225	
Diluted earnings per share		<u>43,345,799</u>	<u>\$ 5.64</u>		<u>43,316,904</u>	<u>\$ 4.47</u>		<u>43,325,303</u>	<u>\$ 4.76</u>

Note 18: Common Stock

Repurchase of Common Stock:

The Company did not have any repurchases of common stock during the year ended December 31, 2023. During the year ended December 31, 2022, the Company repurchased 165,037 shares for \$3.9 million at an average price of \$23.85 per share of common stock. The following table presents our repurchase activity on a cash basis:

	Year Ended December 31, 2023		Year Ended December 31, 2022	
Dollar value of shares repurchased	\$	—	\$	3,935,333
Shares repurchased ⁽¹⁾				165,037
Average price paid per share	\$	—	\$	23.85

- (1) On November 17, 2021, the Company announced an increase in authorization for its stock repurchase program, up to \$75,000,000 of common stock, expiring December 31, 2023. On April 29, 2022, the Company entered into a Rule 10b5-1 plan (the “10b5-1 Plan”) with a broker for the repurchase of shares of its common stock commencing on May 3, 2022. The details of this repurchase plan were provided in the Form 8-K filed by the Company on May 24, 2022.

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Note 19: Preferred Stock

Public Offerings of Preferred Stock:

Series A – On March 28, 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 (the “Series A Preferred Stock”). The aggregate gross offering proceeds for the shares issued by the Company was \$50.0 million, and after deducting underwriting discounts and commissions and offering expenses of approximately \$1.7 million paid to third parties, the Company received total net proceeds of \$48.3 million. On April 12, 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 additional \$2.0 million in net proceeds, after deducting \$41,000 in underwriting discounts.

The Series A Preferred Stock have no voting rights with respect to matters that generally require the approval of our common shareholders. Dividends on the Series A Preferred Stock, to the extent declared by the Company’s board, are payable quarterly. The Company has received all necessary regulatory approvals to redeem the Series A Preferred Stock and on February 28, 2024 announced that it will redeem all outstanding shares of the Series A Preferred Stock on April 1, 2024 at a price equal to the liquidation preference of \$25.00 per share. As of the redemption date the Series A Preferred Stock will not have any accrued but unpaid dividends. The Company will redeem the Series A Preferred Stock using cash on hand.

Series B – On August 19, 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 (the “Series B 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 \$125.0 million, and after deducting underwriting discounts and commissions and offering expenses of approximately \$4.2 million paid to third parties, the Company received total net proceeds of \$120.8 million.

The Series B Preferred Stock have no voting rights with respect to matters that generally require the approval of our common shareholders. Dividends on the Series B Preferred Stock, to the extent declared by the Company’s board, are payable quarterly. The Company may redeem the Series B Preferred Stock, in whole or in part, at its option, on any dividend payment date on or after October 1, 2024, 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.

Series C – 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-to-Floating 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.

The Series C Preferred Stock have no voting rights with respect to matters that generally require the approval of our common shareholders. 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 its 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.

Series D – 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 Reset 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 depositary shares of Series D Preferred Stock to the underwriters related to their exercise of an

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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.

The Series D Preferred Stock have no voting rights with respect to matters that generally require the approval of our common shareholders. 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 its 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 preference, plus any declared and unpaid dividends (without regard to any undeclared dividends) to, but excluding, the date of redemption.

Private Placement Offerings of Preferred Stock:

On April 15, 2021, all 41,625 shares of the Company's 8% preferred stock were redeemed for \$41.6 million, plus unpaid dividends of \$139,000. On May 6, 2021 these 8% preferred shareholders participated in a private offering to replace their redeemed shares with Series C Preferred Stock. Accordingly, 46,181 shares (1,847,233 depository shares) of Series C Preferred Stock were issued at a price of \$25 per depository share. The total capital raised from the private offering was \$46.2 million, net of \$23,000 in expenses.

Repurchase of Preferred Stock:

On April 15, 2021, all 41,625 shares of the 8% Preferred Stock were redeemed for \$41.6 million, plus unpaid dividends of \$139,000, as noted above.

Note 20: Related Party Transactions

The Company has entered into transactions with certain directors, executive officers, and their affiliates or associates (related parties). Such transactions were made in the ordinary course of business on substantially the same terms and conditions, including interest rates and collateral, as those prevailing at the same time for comparable transactions with other customers, and did not, in the opinion of management, involve more than normal credit risk or present other unfavorable features.

Legal Services

The Company retained a law firm of which a Board member of Merchants Bank is a partner. Services rendered are primarily related to documentation of current loan originations, and loan collections from Merchants Bank's borrowers. Fees paid to the law firm, both directly and indirectly, totaled \$9.4 million, \$9.4 million, and \$6.6 million for the years ended December 31, 2023, 2022 and 2021 respectively.

Speaking Engagements

The Company made payments to a Board member of Merchants Bank during 2023 for speaking engagements at corporate events. Fees paid to the Board member totaled \$30,000 for the year ended December 31, 2023.

Corporate Travel

The Company made payments to a company that is owned by a Board member and executive of Merchants Bank. Payments were made for charter flights taken during 2023 as part of corporate travel expenses. Payments made to the company totaled \$62,000 for the year ended December 31, 2023.

Investments

Investments in a Senior Housing and Healthcare Entity

The Company holds a 30% ownership in an LLC that provides funding to the senior housing and healthcare sectors that is accounted for using the equity method of accounting. Transactions with this entity are included in the chart below.

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Investments in Low-Income Housing Tax Credit Syndications

In 2020 the Company launched a low-income housing tax credit syndication business through one of its subsidiaries and serves as a general partner, limited partner, or managing member. This business is generally funded through capital investments from external investors and in some cases by Merchants Bank, in the form of limited partnership or managing member interests, and bridge loans. Merchants Bank also serves as a warehouse to fund certain low-income housing tax credit projects until they are sold into the syndicated funds. Due to the short time between purchase and sale, no gains or losses were recognized on the sales during 2023, 2022 or 2021. Transactions with these entities are included in the chart below.

Investments in Debt Financing Entities

The Company has invested in single-family, multi-family, and healthcare debt financing entities (debt funds) through its subsidiaries. This business is funded through capital investments from external investors and by the Company, in the form of limited partnership interests. During 2020, one of the debt funds was wholly owned by the Company. During 2021, this debt fund was deconsolidated see *Note 1: Nature of Operations and Summary of Significant Accounting Policies*. The Company also serves as a warehouse to acquire certain loans until they are sold into the debt funds. Transactions with these entities are included in the chart below.

The table below provides a summary of the transactions with related entities for which the Company holds an ownership investment. Additional information regarding these investments is provided in *Note 12: Variable Interest Entities*.

	Year Ended December 31,		
	2023	2022	2021
	(In thousands)		
Investments in Senior Housing and Healthcare Entity			
Origination fees received from borrowers referred by the LLC	\$ 12,669	\$ 24,830	\$ 17,848
Fees paid to LLC for loans referred and originated	(9,866)	(17,145)	(14,512)
Servicing income received for loans referred by the LLC	561	417	69
Servicing income participation paid to LLC	(281)	(209)	(34)
Income from investment in LLC	1,612	4,129	1,369
Distributions received from LLC	993	3,795	405
Interest income paid to LLC for loans originated and referred by the LLC	(3,587)	(6,725)	(4,522)
Investments in LIHTC Syndications			
Interest income, financing ⁽¹⁾ and other fees received from syndicated funds	\$ 16,592	\$ 11,012	\$ 8,030
Loans outstanding, net of participations sold, to syndicated funds	127,449	49,004	18,586
Investments in Debt Financing Entities			
Income from investments, servicing, interest income, and management of debt funds	\$ 29,992	\$ 4,642	\$ 1,139
Distributions received from debt funds	890	512	—
Loans outstanding, net of participations sold, to debt funds	108,055	35,732	20,700
Loans sold to debt funds	102,336	884,247	273,914
Gains (losses) recognized on loans sold to debt funds	(263)	—	—
Carrying value, at year-end, of held-to-maturity securities purchased from debt funds	472,539	248,366	—

(1) Financing fees, net of costs to originate, are deferred and recognized in income over the life of the loan.

Note 21: Employee Benefits

The Company offers employees a 401(k) plan. Pursuant to the plan agreement, matching contributions equal to 100% of the employees' elective deferrals which did not exceed 3% of the employees' compensation were made. In 2022, the Company began providing contributions to employee 401(k) plans, regardless of their participation levels. Employees generally receive 3% of their salary, with some executives subject to certain limitations. Employer

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contributions to the plans were \$1.9 million, \$1.6 million, and \$1.4 million for the years ended December 31, 2023, 2022, and 2021, respectively.

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. Expense recognized for the contribution to the ESOP totaled \$1.0 million, \$860,000 and \$595,000 for the years ended December 31, 2023, 2022, and 2021, respectively. The Company contributed 33,293 shares, 20,709 shares, and 29,149 shares to the ESOP for the years ended December 31, 2023, 2022, and 2021, respectively.

Note 22: 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”). Additionally, the Compensation Committee of the Board of Directors approved a plan during 2018 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 non-executive 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.

The following chart provides equity-based incentive awards and Board of Directors fees paid in shares for the years ending December 31, 2023, 2022, and 2021.

	Year Ended December 31,		
	2023	2022	2021
	(\$ in thousands)		
Equity-based incentive awards to Company officers:			
Shares issued	84,335	64,962	23,435
Expenses recognized	\$ 2,671	\$ 1,870	\$ 1,198
Unvested shares awarded	256,192	280,974	374,598
Unrecognized compensation costs	\$ 6,801	\$ 5,817	\$ 4,499
Equity-based retainer fees to non-executive Board of Directors:			
Shares issued	12,173	12,443	6,870
Expenses recognized	\$ 351	\$ 325	\$ 188

Note 23: 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 December 31, 2023 and 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)
(In thousands)				
December 31, 2023				
Mortgage loans in process of securitization	\$ 110,599	\$ —	\$ 110,599	\$ —
Securities available for sale:				
Treasury notes	128,968	128,968	—	—
Federal agencies	247,755	—	247,755	—
Mortgage-backed - Agency	14,467	—	14,467	—
Mortgage-backed - Non-agency residential - fair value option	485,500	—	—	485,500
Mortgage-backed - Agency - fair value option	236,997	—	236,997	—
Loans held for sale	86,663	—	86,663	—
Servicing rights	158,457	—	—	158,457
Derivative assets:				
Interest rate lock commitments	140	—	—	140
Forward contracts	4	—	4	—
Interest rate swaps	2,610	—	2,610	—
Interest rate swaps (back-to-back)	12,426	—	12,426	—
Put options	25,877	—	7,223	18,654
Interest rate floors	6,576	—	—	6,576
Derivative liabilities:				
Interest rate lock commitments	4	—	—	4
Forward contracts	391	—	391	—
Interest rate swaps (back-to-back)	12,426	—	12,426	—
December 31, 2022				
Mortgage loans in process of securitization	\$ 154,194	\$ —	\$ 154,194	\$ —
Securities available for sale:				
Treasury notes	36,280	36,280	—	—
Federal agencies	271,890	—	271,890	—
Mortgage-backed - Agency	15,167	—	15,167	—
Loans held for sale	82,192	—	82,192	—
Servicing rights	146,248	—	—	146,248
Derivative assets:				
Interest rate lock commitments	28	—	—	28
Forward contracts	46	—	46	—
Interest rate swaps	3,030	—	3,030	—
Interest rate swaps (back-to-back)	3,041	—	3,041	—
Derivative liabilities:				
Interest rate lock commitments	23	—	—	23
Forward contracts	52	—	52	—
Interest rate swaps (back-to-back)	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

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pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the years ended December 31, 2023 and 2022. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

Mortgage Loans in Process of Securitization, Securities Available for Sale, and Securities with a Fair Value Option Election

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

Interest rate lock commitments - 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.

Forward sales 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.

Interest rate swaps - The Company estimates the fair value of interest rate swaps based on prices that are obtained from a third party that uses observable market inputs, thereby supporting a Level 2 classification.

Put options - The fair value of put options are linked to securities available for sale that are accounted for using the fair value option and are classified as either Level 2 or Level 3 on the hierarchy. The put options are classified as Level 2 or Level 3 in the hierarchy, depending upon the magnitude of observable inputs in the valuation of the securities. These valuations are estimated by a third party.

Interest rate floors - The fair value of interest rate floors is linked to securities available for sale that are accounted for using the fair value option. The value of the interest rate floors is based on estimated discounted cash

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flows that are based on inputs that are not readily observable and, thus, are classified as Level 3 on the hierarchy. These valuations are estimated a third party.

Changes in fair value of the Company's derivative financial instruments are recognized through noninterest income and/or noninterest expenses on its consolidated statement of income.

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:

	Year Ended December 31,		
	2023	2022	2021
	(In thousands)		
Servicing rights			
Balance, beginning of period	\$ 146,248	\$ 110,348	\$ 82,604
Additions			
Purchased servicing	513	—	2,057
Originated servicing	14,755	27,124	30,421
Subtractions			
Paydowns	(7,621)	(10,985)	(16,691)
Sales of servicing	—	—	(438)
Changes in fair value due to changes in valuation inputs or assumptions used in the valuation model	4,562	19,761	12,395
Balance, end of period	<u>\$ 158,457</u>	<u>\$ 146,248</u>	<u>\$ 110,348</u>
Available for sale securities - Mortgage-backed - Non-Agency residential - fair value option			
Balance, beginning of period	\$ —	\$ —	\$ —
Purchased securities	483,906	—	—
Changes in fair value	1,594	—	—
Balance, end of period	<u>\$ 485,500</u>	<u>\$ —</u>	<u>\$ —</u>
Derivative Assets - put options			
Balance, beginning of period	\$ —	\$ —	\$ —
Purchases	20,248	—	—
Changes in fair value	(1,594)	—	—
Balance, end of period	<u>\$ 18,654</u>	<u>\$ —</u>	<u>\$ —</u>
Derivative Assets - interest rate floors			
Balance, beginning of period	\$ —	\$ —	\$ —
Purchases	6,576	—	—
Balance, end of period	<u>\$ 6,576</u>	<u>\$ —</u>	<u>\$ —</u>
Derivative Assets - interest rate lock commitments			
Balance, beginning of period	\$ 28	\$ 264	\$ 6,131
Changes in fair value	112	(236)	(5,867)
Balance, end of period	<u>\$ 140</u>	<u>\$ 28</u>	<u>\$ 264</u>
Derivative Liabilities - interest rate lock commitments			
Balance, beginning of period	\$ 23	\$ 41	\$ —
Changes in fair value	(19)	(18)	41
Balance, end of period	<u>\$ 4</u>	<u>\$ 23</u>	<u>\$ 41</u>

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Nonrecurring Measurements

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 December 31, 2023 and 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)
(In thousands)				
December 31, 2023				
Impaired loans (collateral-dependent)	\$ 47,026	\$ —	\$ —	\$ 47,026
December 31, 2022				
Impaired loans (collateral-dependent)	\$ 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.

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.

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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.

	<u>Fair Value</u> (In thousands)	<u>Valuation</u> <u>Technique</u>	<u>Unobservable Inputs</u>	<u>Range</u>	<u>Weighted</u> <u>Average</u>
At December 31, 2023:					
Available for sale securities - Mortgage-backed - Non-Agency residential - fair value option	\$ 485,500	Discounted cash flow	Market credit spread	2%	2%
Collateral dependent loans	\$ 47,026	Market comparable properties	Marketability discount	0% - 100%	2%
Servicing rights - Multi-family	\$ 122,218	Discounted cash flow	Discount rate	8% - 13%	9%
			Constant prepayment rate	0% - 50%	7%
Servicing rights - Single-family	\$ 30,959	Discounted cash flow	Discount rate	10% - 11%	10%
			Constant prepayment rate	6% - 16%	7%
Servicing rights - SBA	\$ 5,280	Discounted cash flow	Discount rate	16%	16%
			Constant prepayment rate	3% - 14%	9%
Derivative assets:					
Interest rate lock commitments	\$ 140	Discounted cash flow	Loan closing rates	45% - 99%	78%
Put options	\$ 18,654	Intrinsic option value	Market credit spread	2%	2%
Interest rate floors	\$ 6,576	Discounted cash flow	Discount rate	6%-7%	7%
Derivative liabilities - interest rate lock commitments	\$ 4	Discounted cash flow	Loan closing rates	45% - 99%	78%
At December 31, 2022:					
Collateral-dependent impaired loans	\$ 4,465	Market comparable properties	Marketability discount	4% - 54%	5%
Servicing rights - Multi-family	\$ 111,690	Discounted cash flow	Discount rate	8% - 13%	9%
			Constant prepayment rate	0% - 39%	8%
Servicing rights - Single-family	\$ 29,926	Discounted cash flow	Discount rate	9% - 10%	9%
			Constant prepayment rate	7% - 10%	7%
Servicing rights - SBA	\$ 4,632	Discounted cash flow	Discount rate	16%	16%
			Constant prepayment rate	3% - 12%	8%
Derivative assets - interest rate lock commitments	\$ 28	Discounted cash flow	Loan closing rates	60% - 87%	77%
Derivative liabilities - interest rate lock commitments	\$ 23	Discounted cash flow	Loan closing rates	60% - 87%	77%

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.

Securities Available for Sale with a Fair Value Option Election and Related Derivate Financial Instruments

The significant unobservable input used in the fair value measurement of certain securities available for sale and their related put options include market credit spreads that can be impacted by market conditions and drive a significant amount of a market participant's valuation of the security and its related put option. The impact of changes to the unobservable inputs for the securities is mitigated by changes to the unobservable inputs for the put options, which are valued in opposite directions, so as to minimize the financial impact to the Company.

The significant unobservable input used in the fair value measurement of the interest rate floor derivative associated with certain securities available for sale include the discount rate that can have a significant impact on the value of the derivative. Another variable that affects the floor value is the forward interest curve, which is observable, but changes with market conditions as interest rates and future interest rate expectations change.

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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 December 31, 2023 and 2022.

Assets	Carrying Value	Fair Value	Fair Value Measurements Using		
			Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2023					
Financial assets:					
Cash and cash equivalents	\$ 584,422	\$ 584,422	\$ 584,422	\$ —	\$ —
Securities purchased under agreements to resell	3,349	3,349	—	3,349	—
Securities held to maturity	1,204,217	1,203,535	—	484,288	719,247
FHLB stock	48,578	48,578	—	48,578	—
Loans held for sale	3,058,093	3,058,093	—	3,058,093	—
Loans receivable, net	10,127,801	10,088,468	—	—	10,088,468
Interest receivable	91,346	91,346	—	91,346	—
Financial liabilities:					
Deposits	14,061,460	14,062,457	8,894,058	5,168,399	—
Short-term subordinated debt	64,922	64,922	—	64,922	—
FHLB advances	771,392	771,029	—	771,029	—
Other borrowing	7,934	7,934	—	7,934	—
Credit linked notes	119,879	119,878	—	119,878	—
Interest payable	43,423	43,423	—	43,423	—
December 31, 2022					
Financial assets:					
Cash and cash equivalents	\$ 226,164	\$ 226,164	\$ 226,164	\$ —	\$ —
Securities purchased under agreements to resell	3,464	3,464	—	3,464	—
Securities held to maturity	1,119,078	1,118,966	—	247,182	871,784
FHLB stock	39,130	39,130	—	39,130	—
Loans held for sale	2,828,384	2,828,384	—	2,828,384	—
Loans receivable, net	7,426,858	7,431,731	—	—	7,431,731
Interest receivable	56,262	56,262	—	56,262	—
Financial liabilities:					
Deposits	10,071,345	10,064,941	7,082,056	2,982,885	—
Short-term subordinated debt	21,000	21,000	—	21,000	—
FHLB advances	859,392	858,984	—	858,984	—
Other borrowing	50,000	50,000	—	50,000	—
Interest payable	23,384	23,384	—	23,384	—

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Note 24: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Estimates related to the provision and allowance for credit losses are reflected in the notes regarding loans and the allowance for credit losses on loans (*Notes 1 and 5*). Estimates related to servicing rights are reflected in the notes on servicing rights and loan servicing (*Notes 1 and 7*). Estimates related to fair values are reflected in the footnote regarding fair values (*Note 23*). Current vulnerabilities due to certain concentrations of credit risk are discussed in the footnote on commitments, credit risk, and contingencies (*Note 25*). Other significant estimates and concentrations not discussed in those footnotes include:

Mortgage-backed Securities and Secondary Mortgage Market Programs

The Company is involved in government programs for issuing mortgage-backed securities (MBS). The objective of these programs is to facilitate secondary market activities in order to provide funding for the multi-family mortgage market.

The Company is subject to cancellation of secondary mortgage market programs, rapid increases in general interest rates, and competition associated with conventional mortgage programs. In addition, the Company could be responsible for covering shortfalls in amounts due to investors for delinquencies or foreclosures. No amounts have been reported in the consolidated financial statements since management believes that no near term financial losses will be incurred and these MBS programs will not be significantly affected by the controlling regulatory bodies.

Liquidity

In order to withstand rapidly changing market dynamics, the Company's business model minimizes concentration risk by having significant sources of liquidity. It emphasizes the origination and investment in floating rate loans that adjust when market interest rates change and thereby minimize the interest rate risk inherent in fixed rate loans that lose value when rates rise, as they did during 2022 and most of 2023. The Company also conservatively matches the duration of assets and liabilities. Its 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 repurchase agreements included in loans receivable. Taken together with its unused borrowing capacity of \$6.0 billion, these totaled \$10.6 billion, or 62% of its \$17.0 billion total assets at December 31, 2023. As of December 31, 2023, approximately 93% of Merchants' loan portfolio reprices within 30 days.

Major Customer

The Company had no major customers whose business represented more than 10% of revenues during the years ended December 31, 2023, 2022, or 2021.

Note 25: Commitments, Credit Risk, and Contingencies

Financial Instruments

Merchants offers certain financial instruments, including commitments with contracts that contain credit risk to the Company and others that are subject to certain performance criteria by the client and or cancellation by the Company. Such commitments were as follows at December 31, 2023 and 2022:

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	December 31,	
	2023	2022
	(In thousands)	
Commitments subject to credit risk:		
Commitments to extend credit	\$ 3,693,099	\$ 3,293,847
Standby letters of credit	129,655	108,312
Unfunded warehouse repurchase agreements	135,819	146,932
Total commitments subject to credit risk	\$ 3,958,573	\$ 3,549,091
Commitments subject to certain performance criteria and cancellation:		
Outstanding commitments to originate loans	\$ 692,582	\$ 1,042,497
Unfunded construction draws	266,369	247,504
Unfunded warehouse repurchase agreements and other lines of credit	2,783,916	3,183,257
Total commitments subject to certain performance criteria and cancellation	\$ 3,742,867	\$ 4,473,258

Included in the chart above are the following commitments that are subject to credit risk:

Commitments to extend credit. These are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation. Collateral held varies but may include accounts receivable, inventory, property and equipment, and income-producing commercial properties.

Standby letters of credit. These instruments are irrevocable, conditional commitments issued by the Company or by another party on behalf of the Company, for a fee, to guarantee the performance of a customer to a third party and they generally have fixed expiration dates or other termination clauses. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan commitments to customers. The Company's policy for obtaining collateral and/or guarantees and the nature thereof is generally the same as that involved extending commitments to its customers. The Company has not been required to fund nor has it incurred any losses on any standby letter of credit commitment during the years ended December 31, 2023, 2022, or 2021.

Included in the chart above are the following commitments that are subject to certain performance criteria and can be denied by the Company:

Outstanding commitments to originate loans. The Company has entered into lending commitments with customers who have applied for loans that are awaiting closing. The customers must meet certain credit and underwriting criteria before the Company is required to fund the loans. Closing and funding of the majority of these loans is contingent upon various performance criteria by the potential borrower and the commitment may be rescinded by the Company. The Company may also enter into a corresponding sales commitment if it is the Company's intent to close the loan and to sell the loan after closing.

Unfunded construction draws. Through the Multi-family Mortgage Banking segment, the Company has made commitments to fund certain FHA insured construction loans that are drawn upon throughout the construction period. These commitments are subject to certain performance criteria and inspections throughout the project, and funding can be denied by the Company. As construction draws are disbursed, the amounts are securitized and sold to Ginnie Mae, and the Company continues to service the loans.

Unfunded warehouse repurchase agreements and other lines of credit. Through the Mortgage Warehousing segment, the Company has repurchase agreements with its non-depository financial institution customers engaged in mortgage lending. Funds drawn on the warehouse repurchase agreements are used by the borrowers to fund the loans they originate. The customers' loans must meet certain credit and underwriting criteria before the Company will fund the draw requests on the repurchase agreements, and the draw requests can be denied by the Company. The majority of the warehouse repurchase agreements are unconditionally cancellable by the Company.

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Allowance for credit losses – off-balance sheet credit exposures (ACL-OBCE). The ACL-OBCE is a liability account representing expected credit losses over the contractual period for which the Company is exposed to credit risk resulting from contractual obligations to extend credit such as those included in the categories above. No allowance is recognized if there is an unconditional right to cancel the obligation. The amount of the allowance represents management's best estimate of expected credit losses on unfunded commitments expected to be funded over the contractual life of the commitment. The ACL-OBCE is adjusted through the income statement as a component of provision for credit loss.

Risk-Sharing Arrangements

As a Fannie Mae multifamily lender, Merchants assumes a limited portion of the risk of loss during the remaining term on each commercial mortgage loan that is sold to Fannie Mae. Under this loss sharing agreement, Merchants bears a risk of up to one-third of incurred losses resulting from borrower defaults. Accordingly, Merchants maintained a reserve liability for this risk-sharing obligation of \$0.8 million at December 31, 2023 and \$0.5 million at December 31, 2022. There have been no loans in default during the years ended December 31, 2023, 2022, or 2021.

Repurchase Obligations

Certain single-family loans sold to Fannie Mae or Freddie Mac may require the Company to repurchase loans if it is determined that the Company did not adhere to underwriting guidelines required by these government-sponsored entities. There was a reserve for potential obligations in other liabilities on the balance sheet for \$1.0 million and \$0.9 million at December 2023 and 2022, respectively.

Indemnification Agreements

As part of a Freddie Mac Q-Series Securitization transaction occurring in 2022, the Company established reserve liabilities in other liabilities on the balance sheet related to an indemnification agreement for potential loan losses. The Company established a reserve for contingent financial guarantees, which had a balance of \$1.2 million for both December 31, 2023 and 2022. The Company also established a non-contingent stand-by reserve, which had a balance of \$2.5 million for both December 31, 2023 and 2022. See *Note 5: Loans and Allowance for Credit Losses on Loans* for additional information on this transaction.

Unconditional Investment Obligations

The Company is contractually obligated to provide additional capital funding to certain investments in low-income housing tax credit limited partnerships and LLCs. There was an unfunded liability for these investments of \$61.4 million and \$36.8 million at December 31, 2023 and 2022, respectively. Additionally, the Company had an unfunded liability to invest in debt fund joint ventures for \$4.0 million and \$5.2 million at December 31, 2023 and 2022, respectively. Both liability accounts are recorded in other liabilities on balance sheet. See *Note 11: Other Assets and Receivables* for additional information on these investments and joint ventures.

Other

The Company and its subsidiaries can be parties to various claims and proceedings arising in the normal course of business. Management, after consultation with legal counsel, believes that the liabilities, if any, arising from such proceedings and claims will not be material to the Company's consolidated financial position or results of operations.

Note 26: 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

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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 or LLCs and certain debt funds. All operations are domestic.

The tables below present selected business segment financial information for the years ended December 31, 2023, 2022, and 2021.

	Multi-family Mortgage Banking	Mortgage Warehousing	Banking	Other	Total
	(In thousands)				
Year Ended December 31, 2023					
Interest income	\$ 5,718	\$ 276,366	\$ 789,399	\$ 6,315	\$ 1,077,798
Interest expense	52	184,486	451,952	(6,763)	629,727
Net interest income	5,666	91,880	337,447	13,078	448,071
Provision for credit losses	—	2,782	37,449	—	40,231
Net interest income after provision for credit losses	5,666	89,098	299,998	13,078	407,840
Noninterest income	123,980	14,315	(12,527)	(11,100)	114,668
Noninterest expense	83,862	14,003	42,811	33,925	174,601
Income (loss) before income taxes	45,784	89,410	244,660	(31,947)	347,907
Income taxes	9,311	15,885	50,262	(6,785)	68,673
Net income (loss)	\$ 36,473	\$ 73,525	\$ 194,398	\$ (25,162)	\$ 279,234
Total assets	\$ 411,097	\$ 4,522,175	\$ 11,760,943	\$ 258,301	\$ 16,952,516

	Multi-family Mortgage Banking	Mortgage Warehousing	Banking	Other	Total
	(In thousands)				
Year Ended December 31, 2022					
Interest income	\$ 2,239	\$ 115,870	\$ 354,482	\$ 8,242	\$ 480,833
Interest expense	—	48,079	117,284	(3,081)	162,282
Net interest income	2,239	67,791	237,198	11,323	318,551
Provision for credit losses	1,153	37	16,105	—	17,295
Net interest income after provision for credit losses	1,086	67,754	221,093	11,323	301,256
Noninterest income	155,883	5,400	(26,177)	(9,170)	125,936
Noninterest expense	82,213	10,420	18,303	25,114	136,050
Income (loss) before income taxes	74,756	62,734	176,613	(22,961)	291,142
Income taxes	20,114	14,130	42,392	(5,215)	71,421
Net income (loss)	\$ 54,642	\$ 48,604	\$ 134,221	\$ (17,746)	\$ 219,721
Total assets	\$ 351,274	\$ 2,519,810	\$ 9,587,544	\$ 156,599	\$ 12,615,227

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	<u>Multi-family Mortgage Banking</u>	<u>Mortgage Warehousing</u>	<u>Banking</u>	<u>Other</u>	<u>Total</u>
	(In thousands)				
Year Ended December 31, 2021					
Interest income	\$ 957	\$ 134,120	\$ 171,465	\$ 5,344	\$ 311,886
Interest expense	—	8,930	28,076	(3,114)	33,892
Net interest income	<u>957</u>	<u>125,190</u>	<u>143,389</u>	<u>8,458</u>	<u>277,994</u>
Provision for credit losses	—	(1,022)	6,034	—	5,012
Net interest income after provision for credit losses	957	126,212	137,355	8,458	272,982
Noninterest income	141,605	12,399	7,755	(4,426)	157,333
Noninterest expense	71,486	11,949	24,137	17,813	125,385
Income (loss) before income taxes	<u>71,076</u>	<u>126,662</u>	<u>120,973</u>	<u>(13,781)</u>	<u>304,930</u>
Income taxes	19,572	31,503	30,115	(3,364)	77,826
Net income (loss)	<u>\$ 51,504</u>	<u>\$ 95,159</u>	<u>\$ 90,858</u>	<u>\$ (10,417)</u>	<u>\$ 227,104</u>
Total assets	<u>\$ 296,129</u>	<u>\$ 3,977,537</u>	<u>\$ 6,929,565</u>	<u>\$ 75,407</u>	<u>\$ 11,278,638</u>

Note 27: Condensed Financial Information (Parent Company Only)

Presented below is condensed financial information of the Company as to financial position as of December 31, 2023 and 2022, and results of operations and cash flows for the years ended December 31, 2023, 2022, and 2021:

Condensed Balance Sheets

	<u>December 31,</u>	
	<u>2023</u>	<u>2022</u>
	(In thousands)	
Assets		
Cash and cash equivalents	\$ 42,810	\$ 41,725
Investment in joint ventures	30,225	27,490
Investment in subsidiaries	1,696,000	1,415,173
Other assets	197	217
Total assets	<u>\$ 1,769,232</u>	<u>\$ 1,484,605</u>
Liabilities		
Short-term subordinated debt	\$ 64,922	\$ 21,000
Unfunded commitments to joint ventures	2,752	3,521
Other liabilities	474	345
Total liabilities	<u>68,148</u>	<u>24,866</u>
Shareholders' Equity	<u>1,701,084</u>	<u>1,459,739</u>
Total liabilities and shareholders' equity	<u>\$ 1,769,232</u>	<u>\$ 1,484,605</u>

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Condensed Statements of Income and Comprehensive Income

	Year Ended December 31,		
	2023	2022	2021
	(In thousands)		
Income			
Dividends and return of capital from subsidiaries	\$ 53,006	\$ 39,775	\$ 33,447
Other Income	3,488	2,523	509
Total income	<u>56,494</u>	<u>42,298</u>	<u>33,956</u>
Expenses			
Interest expense	4,323	4,333	3,797
Salaries and employee benefits	1,012	690	493
Professional fees	481	423	236
Other	898	829	627
Total expense	<u>6,714</u>	<u>6,275</u>	<u>5,153</u>
Income Before Income Tax and Equity in Undistributed Income of Subsidiaries	49,780	36,023	28,803
Income Tax Benefit	(582)	(698)	(1,174)
Income Before Equity in Undistributed Income of Subsidiaries	50,362	36,721	29,977
Equity in Undistributed Income of Subsidiaries	228,872	183,000	197,127
Net Income	<u>\$ 279,234</u>	<u>\$ 219,721</u>	<u>\$ 227,104</u>
Comprehensive Income	<u>\$ 287,267</u>	<u>\$ 210,654</u>	<u>\$ 225,276</u>

Condensed Statements of Cash Flows

	Year Ended December 31,		
	2023	2022	2021
	(In thousands)		
Operating Activities			
Net income	\$ 279,234	\$ 219,721	\$ 227,104
Adjustments to reconcile net income to net cash used in operating activities	(229,428)	(181,263)	(195,530)
Net cash provided by operating activities	<u>49,806</u>	<u>38,458</u>	<u>31,574</u>
Investing Activities			
Contributed capital to subsidiaries	(43,922)	(110,000)	(116,176)
Purchase of limited partnership interests or LLC's	(769)	(8,746)	(15,223)
Other investing activity	554	—	—
Net cash used in investing activities	<u>(44,137)</u>	<u>(118,746)</u>	<u>(131,399)</u>
Financing Activities			
Net change in lines of credit and subordinated debt	43,922	4,000	2,040
Dividends paid	(48,506)	(38,067)	(31,235)
Proceeds from issuance of preferred stock	—	137,459	191,084
Redemption of preferred stock	—	—	(41,625)
Repurchase of common stock	—	(3,935)	—
Net cash provided by (used in) financing activities	<u>(4,584)</u>	<u>99,457</u>	<u>120,264</u>
Net Change in Cash and Due From Banks	1,085	19,169	20,439
Cash and Due From Banks at Beginning of Year	41,725	22,556	2,117
Cash and Due From Banks at End of Year	<u>\$ 42,810</u>	<u>\$ 41,725</u>	<u>\$ 22,556</u>
Additional Cash Flows Information:			
Payable for limited partnership interest or LLC's	\$ 2,752	\$ 3,521	\$ 10,350

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Note 28: Recent Accounting Pronouncements

The Company continually monitors potential accounting pronouncement and SEC release changes. The following pronouncements and releases have been deemed to have the most applicability to the Company's financial statements:

FASB ASU 2023-07 - Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures

In November 2023, the FASB issued an ASU update that will require public entities' disclosures, on an annual and interim basis, to include additional details on reportable segments so financial statement users may better understand an entity's overall performance and assist in assessing potential future cash flows. The new guidance will require public entities to present information regarding significant segment expenses that are regularly provided to the chief operating decision maker (CODM) as well as details regarding segment's profit and loss.

The updates in ASU 2023-07 are effective for annual periods beginning after December 15, 2023 and interim periods for years beginning after December 15, 2024. An entity shall apply the ASU retrospectively to financial statements for periods beginning after the effective date. The Company is continuing to evaluate the impact of adopting this new guidance but does not expect it to have a material impact on the Company's financial position or results of operations.

FASB ASU 2023-09 - Income Taxes (Topic 740): Improvements to Income Tax Disclosures

In December 2023, the FASB issued an ASU update that will require public business entity's disclosures to include a tabular tax rate reconciliation. The update will also require all public entities disclose income tax expense and taxes paid broken down by federal, state, and foreign with a disaggregation for jurisdictions that exceed 5% of income for taxes paid.

The updates in ASU 2023-09 are effective for annual periods beginning after December 15, 2024. An entity shall apply the ASU on a prospective basis to financial statements for annual periods beginning after the effective date. The Company is continuing to evaluate the impact of adopting this new guidance but does not expect it to have a material impact on the Company's financial position or results of operations.

Note 29: Quarterly Condensed Financial Information (Unaudited)

The following tables present the unaudited quarterly condensed financial information for the years ended December 31, 2023 and 2022:

(Dollars in thousands, except per share data)	2023 Quarter Ended			
	March 31	June 30	September 30	December 31
Interest income	\$ 211,294	\$ 258,069	\$ 296,676	\$ 311,759
Interest expense	110,601	152,452	179,240	187,434
Net interest income	100,693	105,617	117,436	124,325
Provision for credit losses	6,867	22,603	4,014	6,747
Net interest income after provision for credit losses	93,826	83,014	113,422	117,578
Noninterest income	14,264	29,882	36,068	34,454
Noninterest expense	34,772	44,320	42,930	52,579
Income before income taxes	73,318	68,576	106,560	99,453
Income taxes	18,363	3,274	25,056	21,980
Net income	54,955	65,302	81,504	77,473
Less: preferred stock dividends	8,667	8,668	8,668	8,667
Net income allocated to common shareholders	\$ 46,288	\$ 56,634	\$ 72,836	\$ 68,806
Per common share data:				
Basic earnings per common share	\$ 1.07	\$ 1.31	\$ 1.68	\$ 1.59
Diluted earnings per common share	\$ 1.07	\$ 1.31	\$ 1.68	\$ 1.58

Merchants Bancorp

Notes to Consolidated Financial Statements

(Dollars in thousands, except per share data)	2022 Quarter Ended			
	March 31	June 30	September 30	December 31
Interest income	\$ 76,012	\$ 89,270	\$ 134,112	\$ 181,439
Interest expense	10,287	17,239	48,727	86,029
Net interest income	65,725	72,031	85,385	95,410
Provision for credit losses	2,451	6,212	2,225	6,407
Net interest income after provision for credit losses	63,274	65,819	83,160	89,003
Noninterest income	34,597	39,171	29,186	22,982
Noninterest expense	31,033	32,957	34,951	37,109
Income before income taxes	66,838	72,033	77,395	74,876
Income taxes	16,696	18,098	18,907	17,720
Net income	50,142	53,935	58,488	57,156
Less: preferred stock dividends	5,728	5,729	5,729	8,797
Net income allocated to common shareholders	\$ 44,414	\$ 48,206	\$ 52,759	\$ 48,359
Per common share data:				
Basic earnings per common share	\$ 1.03	\$ 1.12	\$ 1.22	\$ 1.12
Diluted earnings per common share	\$ 1.02	\$ 1.11	\$ 1.22	\$ 1.12

Note 30: Subsequent Events

On January 26, 2024, the Company sold its Farmers-Merchants Bank of Illinois branches to Bank of Pontiac and CBI Bank & Trust and merged its banking charter into Merchants Bank. See *Note 1: Nature of Operations and Summary of Significant Accounting Policies* for additional information about this sale.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures designed to ensure that it is able to collect the information it is required to disclose in the reports it files with the SEC, and to record, process, summarize and disclose this information within the time periods specified in the rules of the SEC. Based on their evaluation of the Company's disclosure controls and procedures which took place as of December 31, 2023, the Chairman/CEO and CFO believe that these controls and procedures are effective to ensure that the Company is able to collect, process and disclose the information it is required to disclose in the reports it files with the SEC within the required time periods.

Based on the evaluation of the Company's disclosure controls and procedures by the Chairman/CEO and CFO; no changes occurred during the fiscal quarter ended December 31, 2023 in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Management's Report on Internal Control over Financial Reporting

The management of Merchants Bancorp (the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is a process designed under the supervision of the Company's Chairman/CEO and CFO, and effected by the Company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. This process includes those policies and procedures that:

- Pertain to the maintenance of records, that in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- Provide reasonable assurance that the transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that transactions of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

All internal control systems, no matter how well designed, have inherent limitations, including the possibility of human error and the circumvention of overriding controls. Accordingly, even effective internal control can provide reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, the effectiveness of internal control may vary over time.

Because of the inherent limitations, any system of internal control over financial reporting, no matter how well designed, may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.

Management has evaluated the effectiveness of its internal control over financial reporting as of December 31, 2023, based on the control criteria established in a report entitled *Internal Control – Integrated Framework (2013)*, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on such evaluation, we have concluded that the Company's internal control over financial reporting is effective as of December 31, 2023.

FORVIS, LLP, the independent registered public accounting firm that audited the consolidated financial statements of the Company included in this Annual Report on Form 10-K, has also audited the Company's internal

control over financial reporting as of December 31, 2023. Their report expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting as of December 31, 2023.

Report of Independent Registered Public Accounting Firm

To the Shareholders, Board of Directors and Audit Committee
Merchants Bancorp
Carmel, Indiana

Opinion on the Internal Control Over Financial Reporting

We have audited Merchants Bancorp's (the "Company") internal control over financial reporting as of December 31, 2023, based on criteria established in Internal Control – Integrated Framework: (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2023, based on criteria established in Internal Control – Integrated Framework: (2013) issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheets of the Company as of December 31, 2023 and 2022, and statements of income, comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2023, and our report dated March 12, 2024, expressed an unqualified opinion on those financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definitions and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of reliable financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

/s/ FORVIS, LLP
FORVIS, LLP

Indianapolis, Indiana
March 12, 2024

Item 9B. Other Information.

None.

Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections.

Not Applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The information required by Item 10 will be in the proxy statement for the 2024 annual meeting of shareholders (the “2024 Proxy Statement”) that will be filed within 120 days after December 31, 2023, which is incorporated by reference.

We have adopted a Code of Conduct that applies to directors, officers, and all other employees including our principal executive officer, principal financial officer and principal accounting officer. The text of the Code of Conduct is available on our website at www.merchantsbancorp.com, under the “Corporate Profile” section, or in print to any shareholder who requests it. We intend to post information regarding any amendments to, or waivers from, our Code of Conduct on our website.

Item 11. Executive Compensation.

The information required by Item 11 will be in the 2024 Proxy Statement, which is incorporated by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management.

The information required by Item 12 will be in the 2024 Proxy Statement, which is incorporated by reference.

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

The information required by Item 13 will be in the 2024 Proxy Statement, which is incorporated by reference.

Item 14. Principal Accounting Fees and Services.

The information required by Item 14 will be in the 2024 Proxy Statement, which is incorporated by reference.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

- (a) (1) and (2) Financial Statements and Financial Statement Schedules.

The consolidated financial statements and financial statement schedules required to be filed in this Form 10-K are included in Part II, Item 8.

- (a) (3) Exhibits Required by Item 601 of Regulation S-K.

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).
10.1*	Description of Incentive Plans for Michael F. Petrie, Chairman and CEO of Merchants Bancorp, Michael Dury, CEO of Merchants Capital Corp., and Michael J. Dunlap, Director, President and Chief Operating Officer of Merchants Bancorp and CEO of Merchants Bank (incorporated by reference Item 5.02 of Form 8-K, filed on January 23, 2020).
10.2*	Description of Incentive Plan for Scott A. Evans, Director of Merchants Bancorp, and President and Co-Chief Operating Officer of Merchants Bank (incorporated by reference to Exhibit 10.2 of Form 10-K, filed on March 16, 2020).
10.3*	First Amended and Restated Employment Agreement by and between Merchants Capital Corp. and Michael R. Dury dated as of January 1, 2021 (incorporated by reference to Exhibit 10.1 of Form 8-K filed on January 22, 2021).
10.4*	Merchants Bancorp 2017 Equity Incentive Plan (incorporated by reference to Exhibit 10.16 of Form S-1, filed on September 25, 2017). (a) Form of Award Agreement for Non-Qualified Stock Options under the 2017 Equity Incentive Plan (incorporated by reference to Exhibit 10.1 of Form 8-K, filed on February 22, 2018). (b) Form of Award Agreement for Incentive Stock Options under the 2017 Equity Incentive Plan (incorporated by reference to Exhibit 10.2 of Form 8-K, filed on February 22, 2018). (c) Form of Award Agreement for Restricted Stock Unit Awards under the 2017 Equity Incentive Plan (incorporated by reference to Exhibit 10.3 of Form 8-K, filed on February 22, 2018). (d) Form of Award Agreement for Restricted Stock Awards under the 2017 Equity Incentive Plan (incorporated by reference to Exhibit 10.4 of Form 8-K, filed on February 22, 2018).
10.5*	Form of Change of Control Agreement entered into by Merchants Bancorp and each of Michael J. Dunlap, Scott A. Evans, Michael R. Dury, and John F. Macke (incorporated by reference to Exhibit 10.1 of Form 8-K filed on January 23, 2020).
21.1	Subsidiaries of Merchants Bancorp.
23.1	Consent of FORVIS, LLP.
31.1	Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
97	Merchants Bancorp Clawback Policy.

- 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

* Management contract or compensatory plan or arrangement.

Item 16. Form 10-K Summary

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MERCHANTS BANCORP

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

Date: March 12, 2024

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

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Michael F. Petrie</u> Michael F. Petrie	Director (Chairman); Chief Executive Officer (Principal Executive Officer)	March 12, 2024
<u>/s/ John F. Macke</u> John F. Macke	Chief Financial Officer (Principal Financial and Accounting Officer)	March 12, 2024
<u>/s/ Randall D. Rogers</u> Randall D. Rogers	Director	March 12, 2024
<u>/s/ Michael J. Dunlap</u> Michael J. Dunlap	Director	March 12, 2024
<u>/s/ Scott A. Evans</u> Scott A. Evans	Director	March 12, 2024
<u>/s/ Sue Anne Gilroy</u> Sue Anne Gilroy	Director	March 12, 2024
<u>/s/ Andrew A. Juster</u> Andrew A. Juster	Director	March 12, 2024
<u>/s/ Patrick D. O'Brien</u> Patrick D. O'Brien	Director	March 12, 2024
<u>/s/ Anne E. Sellers</u> Anne E. Sellers	Director	March 12, 2024
<u>/s/ David N. Shane</u> David N. Shane	Director	March 12, 2024
<u>/s/ Tamika D. Catchings</u> Tamika D. Catchings	Director	March 12, 2024
<u>/s/ Thomas W. Dinwiddie</u> Thomas W. Dinwiddie	Director	March 12, 2024