
FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C. 20429

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2022

OR

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

For the transition period from _____ to _____

FDIC Certificate No. 57449

MEDALLION BANK

(Exact name of registrant as specified in its charter)

Utah
(State of
Incorporation)

32-0052486
(IRS Employer
Identification No.)

1100 East 6600 South, Suite 510, Salt Lake City, Utah 84121

(Address of principal executive offices) (Zip Code)

(866) 688-6983

(Registrant's telephone number, including area code)

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

<u>Title of each class</u>	<u>Trading Symbols</u>	<u>Name of each exchange on which registered</u>
Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series F	MBNKP	The Nasdaq Stock Market LLC

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). YES ☒ NO ☐

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input checked="" type="checkbox"/>		

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

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

The number of outstanding shares of registrant's common stock, par value \$1.00, all of which is held by Medallion Financial Corp., as of August 15, 2022 was 1,000,000.

**MEDALLION BANK
FORM 10-Q**

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning 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, as well as the effects of current economic conditions and continuing uncertainty regarding the COVID-19 pandemic on our business, operating performance, financial condition, liquidity and prospects. 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,” “would” 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 business or 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 you that any such forward-looking statements are not guarantees of future performance and are subject to risks, assumptions, estimates and uncertainties that are difficult to predict. Although we believe that the expectations reflected in these forward-looking statements are reasonable as of the date made, actual results may prove to be materially different from the results expressed or implied by the forward-looking statements.

A number of important factors could cause our actual results to differ materially from those indicated in these forward looking statements, including those more fully described under Item 1A. “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2021 or the following:

- The concentration of our business in consumer lending, which carries a risk of loss that is different from and typically higher than the risk of loss associated with commercial lending and which has been, and could in the future be, adversely affected by an economic downturn;
- The effects of inflation and economic uncertainty on loan volumes, credit performance and net interest income;
- Outbreaks of disease or similar public health threats, including the COVID-19 pandemic;
- Our dependence on the credit performance of our loans;
- Our reliance on our relationships with dealerships, contractors and financial service providers (“FSPs”);
- Our use of brokered deposit sources for our deposit-gathering activities;
- Our dependence on our senior management team for our future success;
- The sufficiency of our allowance for loan losses to cover losses on our loans;
- Competition with other lenders;
- Changes in the taxi and for-hire vehicle industries, which have resulted in increased competition, lower taxi fares and losses in our medallion loan portfolio, as well as decreases in the value of our medallion loan collateral;
- Our access to sources of liquidity and capital to address our liquidity and capital needs;
- A reduction in demand for our products and failure by us to adapt to such reduction;
- Our pursuit and implementation of new business initiatives and strategies, including our Strategic Partnership Program;
- Our determinations with respect to sales of loans we may conduct and the impact of such sales on our retained portfolios;
- Changes in laws, regulations, or policies that apply to us; and
- The incremental costs of operating as a public company.

The foregoing factors should not be considered an exhaustive list and should be read together with the other cautionary statements included in this Form 10-Q. If one or more events related to these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may differ materially from what we anticipate. Accordingly, you should not place undue reliance on any such forward-looking statements. Any forward-looking statement speaks only as of the date on which

it is made, and we do not undertake any obligation to update or review any forward-looking statement, whether as a result of new information, future developments or otherwise, except as required by applicable law.

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

MEDALLION BANK
STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(UNAUDITED)
(in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Interest income:				
Investments	\$ 528	\$ 235	\$ 760	\$ 454
Loan interest including fees	44,377	37,359	85,489	72,896
Total interest income	44,905	37,594	86,249	73,350
Interest expense	4,912	4,465	9,066	9,176
Net interest income	39,993	33,129	77,183	64,174
Provision (benefit) for loan losses	5,986	(374)	8,130	2,364
Net interest income after provision for loan losses	34,007	33,503	69,053	61,810
Other non-interest income	392	442	548	536
Write-downs of loan collateral in process of foreclosure and other assets	(54)	(1,424)	(440)	(2,552)
Total non-interest income (loss)	338	(982)	108	(2,016)
Non-interest expense:				
Loan servicing	2,787	2,704	5,456	5,352
Salaries and benefits	3,466	2,798	6,971	5,602
Collection costs	1,319	1,120	2,478	2,135
Professional fees	394	474	805	898
Regulatory fees	560	456	1,011	895
Occupancy and equipment	127	187	370	373
Other	1,251	866	2,143	1,872
Total non-interest expense	9,904	8,605	19,234	17,127
Income before income taxes	24,441	23,916	49,927	42,667
Provision for income taxes	6,581	6,397	13,283	11,376
Net income	17,860	17,519	36,644	31,291
Other comprehensive income (loss), net of tax:				
Net change in unrealized gains (losses) on investment securities	(1,418)	27	(3,135)	(577)
Total comprehensive income	<u>\$ 16,442</u>	<u>\$ 17,546</u>	<u>\$ 33,509</u>	<u>\$ 30,714</u>

The accompanying notes are an integral part of these financial statements.

MEDALLION BANK
BALANCE SHEETS
(UNAUDITED)
(dollars in thousands)

	As of June 30, 2022	As of December 31, 2021
Assets		
Cash and cash equivalents ⁽¹⁾	\$ 93,946	\$ 61,402
Investment securities, available-for-sale	50,358	44,772
Loans	1,638,426	1,415,415
Allowance for loan losses	(58,079)	(53,384)
Loans, net	1,580,347	1,362,031
Loan collateral in process of foreclosure	14,053	21,438
Fixed assets and right-of-use lease assets, net	5,766	4,230
Deferred tax assets	8,829	7,576
Accrued interest receivable and other assets	42,038	37,786
Total assets	<u>\$ 1,795,337</u>	<u>\$ 1,539,235</u>
Liabilities and shareholders' equity		
Liabilities		
Deposits and other funds borrowed ⁽²⁾	\$ 1,469,241	\$ 1,250,880
Accrued interest payable	1,303	1,228
Income tax payable	26,924	16,104
Other liabilities ⁽³⁾	14,459	7,670
Due to affiliates	478	906
Total liabilities	<u>1,512,405</u>	<u>1,276,788</u>
Commitments and contingencies (Note 10)		
Shareholders' equity		
Series E Preferred stock, \$1.00 par value, 26,303 and 26,303 shares authorized, issued, and outstanding as of June 30, 2022 and December 31, 2021, respectively	26,303	26,303
Series F Preferred stock, \$1.00 par value, 1,840,000 and 1,840,000 shares authorized, issued, and outstanding as of June 30, 2022 and December 31, 2021, respectively	42,485	42,485
Common stock, \$1.00 par value, 7,000,000 and 7,000,000 shares authorized as of June 30, 2022 and December 31, 2021, respectively; 1,000,000 and 1,000,000 shares issued and outstanding as of June 30, 2022 and December 31, 2021, respectively	1,000	1,000
Additional paid in capital	77,500	77,500
Accumulated other comprehensive (loss) income, net of tax	(2,935)	200
Retained earnings	138,579	114,959
Total shareholders' equity	<u>282,932</u>	<u>262,447</u>
Total liabilities and shareholders' equity	<u>\$ 1,795,337</u>	<u>\$ 1,539,235</u>

(1) Includes federal funds sold and interest-bearing deposits in other banks.

(2) Includes \$3,835 and \$3,158 of deferred financing costs as of June 30, 2022 and December 31, 2021, respectively.

(3) Includes \$3,550 and \$2,764 of operating lease liabilities as of June 30, 2022 and December 31, 2021, respectively.

The accompanying notes are an integral part of these financial statements.

MEDALLION BANK
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(UNAUDITED)
(dollars in thousands)

	Preferred Stock		Common Stock			Accumulated Other Comprehensive (Loss)	Retained Earnings	Total Shareholders' Equity
	Shares Outstanding	Amount	Shares Outstanding	Amount	Additional Paid-in Capital			
Balance as of March 31, 2022	1,866,303	\$ 68,788	1,000,000	\$ 1,000	\$ 77,500	\$ (1,517)	\$ 127,231	\$ 273,002
Net income	—	—	—	—	—	—	17,860	17,860
Dividends declared to common shareholder	—	—	—	—	—	—	(5,000)	(5,000)
Dividends declared on preferred stock - Series E	—	—	—	—	—	—	(592)	(592)
Dividends declared on preferred stock - Series F	—	—	—	—	—	—	(920)	(920)
Net change in unrealized losses on investment securities, net of tax	—	—	—	—	—	(1,418)	—	(1,418)
Balance as of June 30, 2022	<u>1,866,303</u>	<u>\$ 68,788</u>	<u>1,000,000</u>	<u>\$ 1,000</u>	<u>\$ 77,500</u>	<u>\$ (2,935)</u>	<u>\$ 138,579</u>	<u>\$ 282,932</u>

	Preferred Stock		Common Stock			Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Shareholders' Equity
	Shares Outstanding	Amount	Shares Outstanding	Amount	Additional Paid-in Capital			
Balance as of December 31, 2021	1,866,303	\$ 68,788	1,000,000	\$ 1,000	\$ 77,500	\$ 200	\$ 114,959	\$ 262,447
Net income	—	—	—	—	—	—	36,644	36,644
Dividends declared to common shareholder	—	—	—	—	—	—	(10,000)	(10,000)
Dividends declared on preferred stock - Series E	—	—	—	—	—	—	(1,184)	(1,184)
Dividends declared on preferred stock - Series F	—	—	—	—	—	—	(1,840)	(1,840)
Net change in unrealized losses on investment securities, net of tax	—	—	—	—	—	(3,135)	—	(3,135)
Balance as of June 30, 2022	<u>1,866,303</u>	<u>\$ 68,788</u>	<u>1,000,000</u>	<u>\$ 1,000</u>	<u>\$ 77,500</u>	<u>\$ (2,935)</u>	<u>\$ 138,579</u>	<u>\$ 282,932</u>

	Preferred Stock		Common Stock			Accumulated Other Comprehensive Income	Retained Earnings	Total Shareholders' Equity
	Shares Outstanding	Amount	Shares Outstanding	Amount	Additional Paid-in Capital			
Balance as of March 31, 2021	1,866,303	\$ 68,788	1,000,000	\$ 1,000	\$ 77,500	\$ 574	\$ 80,768	\$ 228,630
Net income	—	—	—	—	—	—	17,519	17,519
Dividends declared to common shareholder	—	—	—	—	—	—	(2,500)	(2,500)
Dividends declared on preferred stock - Series E	—	—	—	—	—	—	(592)	(592)
Dividends declared on preferred stock - Series F	—	—	—	—	—	—	(920)	(920)
Net change in unrealized losses on investment securities, net of tax	—	—	—	—	—	27	—	27
Balance as of June 30, 2021	<u>1,866,303</u>	<u>\$ 68,788</u>	<u>1,000,000</u>	<u>\$ 1,000</u>	<u>\$ 77,500</u>	<u>\$ 601</u>	<u>\$ 94,275</u>	<u>\$ 242,164</u>

	Preferred Stock		Common Stock			Accumulated Other Comprehensive Income	Retained Earnings	Total Shareholders' Equity
	Shares Outstanding	Amount	Shares Outstanding	Amount	Additional Paid-in Capital			
Balance as of December 31, 2020	1,866,303	\$ 68,788	1,000,000	\$ 1,000	\$ 77,500	\$ 1,179	\$ 70,007	\$ 218,474
Net income	—	—	—	—	—	—	31,291	31,291
Dividends declared to common shareholder	—	—	—	—	—	—	(4,000)	(4,000)
Dividends declared on preferred stock - Series E	—	—	—	—	—	—	(1,184)	(1,184)
Dividends declared on preferred stock - Series F	—	—	—	—	—	—	(1,840)	(1,840)
Net change in unrealized losses on investment securities, net of tax	—	—	—	—	—	(577)	—	(577)
Balance as of June 30, 2021	<u>1,866,303</u>	<u>68,788</u>	<u>1,000,000</u>	<u>1,000</u>	<u>77,500</u>	<u>601</u>	<u>94,275</u>	<u>242,164</u>

The accompanying notes are an integral part of these financial statements.

MEDALLION BANK
STATEMENTS OF CASH FLOWS
(UNAUDITED)
(in thousands)

	Six Months Ended June 30,	
	2022	2021
Cash Flows from Operating Activities		
Net income	\$ 36,644	\$ 31,291
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,018	4,538
Deferred tax provision (benefit)	(34)	4,127
Provision for loan losses	8,130	2,364
Write-downs of loan collateral in process of foreclosure and other assets, net	561	3,088
Unrealized loss on equity securities	154	31
Changes in operating assets and liabilities:		
(Increase) decrease in interest receivable	(958)	837
Decrease in other tax assets	10,820	5,193
Increase in other assets	(3,260)	(6,709)
Increase (decrease) in interest payable	75	(319)
Increase in other liabilities	5,914	4,479
Net cash provided by operating activities	63,064	48,920
Cash Flows from Investing Activities		
Increase in loans, net	(234,031)	(134,298)
Purchase of investments	(13,874)	(11,968)
Proceeds from maturity/sale of investments	3,890	9,570
Proceeds from sale of repossessed loan collateral	8,699	7,925
Purchase of fixed assets	(790)	(142)
All other investing activities	—	—
Net cash used in investing activities	(236,106)	(128,913)
Cash Flows from Financing Activities		
Issuance of time deposits and other borrowed funds	506,308	350,160
Repayments of funds borrowed	(287,270)	(263,368)
Change in due to affiliates	(428)	2,810
Dividends paid on common stock	(10,000)	(4,000)
Dividends paid on preferred stock - Series E	(1,184)	(1,184)
Dividends paid on preferred stock - Series F	(1,840)	(1,840)
Net cash provided by financing activities	205,586	82,578
Net change in cash and cash equivalents	32,544	2,585
Cash and cash equivalents, beginning of the period	61,402	58,977
Cash and cash equivalents, end of the period	\$ 93,946	\$ 61,562
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	\$ 8,204	\$ 8,820
Cash paid for income taxes	2,496	307
Non-cash investing activities - loans transferred to loan collateral in process of foreclosure	5,520	10,076

The accompanying notes are an integral part of these financial statements.

MEDALLION BANK
NOTES TO FINANCIAL STATEMENTS
(UNAUDITED)

1. Organization and Summary of Significant Accounting Policies

Description of Business – Medallion Bank (the "Bank") is a Federal Deposit Insurance Corporation ("FDIC") insured, limited-service industrial bank headquartered in Salt Lake City, Utah. The Bank was formed in May 2002 for the purpose of obtaining an industrial bank charter pursuant to the laws of the State of Utah and began operating in December 2003. The Bank is a wholly owned subsidiary of Medallion Financial Corp. ("MFIN"). The Bank originates consumer loans on a national basis for the purchase of recreational vehicles ("RVs"), boats and trailers (which the Bank refers to as the "Recreation Lending" segment and "Recreation" loans) and to finance home improvements such as replacement windows and roofs (which the Bank refers to as the "Home Improvement Lending" segment and "Home Improvement" loans). In the second half of 2014, the Bank ceased originating commercial loans to finance the purchase of taxi medallions (which the Bank refers to as "Medallion" loans), though loans continue to be refinanced as they mature and the Bank from time to time has provided financing to purchasers in connection with the disposition of the repossessed medallion collateral. Due to the declining significance of Medallion loans to the Bank's business, results of operations and financial condition, beginning with the fourth quarter of 2021, activities related to Medallion loans were included in the Bank's Other segment and are no longer reported in a separate segment. Prior periods have been conformed to the current presentation. All loans are financed primarily with time certificates of deposits which are originated nationally through a variety of brokered deposit relationships.

Basis of Presentation – The Bank's financial statements are prepared in accordance with accounting principles generally accepted in the United States ("U.S.") and prevailing industry practices, which require management to make estimates that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities. Actual results could differ materially from those estimates.

These financial statements are unaudited and should be read in conjunction with the audited financial statements included in the Bank's Annual Report on Form 10-K for the year ended December 31, 2021. These unaudited financial statements reflect all adjustments that are, in the opinion of management, necessary for a fair statement of the results for the interim periods presented. These adjustments are of a normal, recurring nature. Interim period operating results may not be indicative of the operating results for a full year.

Cash and cash equivalents – The Bank considers all highly liquid instruments with an original purchased maturity of three months or less, federal funds sold and interest-bearing deposits in other banks to be cash equivalents. A non-interest-bearing compensating balance of \$100,000 is maintained at a correspondent bank. Cash balances are generally held in accounts at large national or regional banking organizations in amounts that frequently exceed the federally insured limits. Cash also includes \$1.25 million of interest-bearing funds deposited in other banks, that are mainly callable, with terms of 4 to 6 years.

Investment securities, available-for-sale – FASB ASC Topic 320, "Investments – Debt Securities," requires that all applicable investments in debt securities be classified as trading securities, available-for-sale securities or held-to-maturity securities. Investment securities are purchased from time-to-time in the open market at prices that are greater or lesser than the par value of the investment. The resulting premium or discount is deferred and recognized on a level yield basis as an adjustment to the yield of the related investment. At June 30, 2022 and December 31, 2021, the net premium on investment securities totaled \$114,000 and \$269,000, respectively, and \$11,000 and \$42,000 was amortized to interest income for the three and six months ended June 30, 2022 and \$38,000 and \$81,000 for the three and six months ended June 30, 2021, respectively. The Bank had \$50.4 million and \$44.8 million of available-for-sale securities at fair value as of June 30, 2022 and December 31, 2021, respectively. The topic further requires that held-to-maturity securities be reported at amortized cost and available-for-sale securities be reported at fair value, with unrealized gains and losses excluded from earnings at the date of the financial statements, and reported in accumulated other comprehensive income (loss) as a separate component of shareholders' equity, net of the effect of income taxes, until they are sold. The Bank had \$4.1 million and \$0.3 million of pretax net unrealized loss on available-for-sale securities as of June 30, 2022 and December 31, 2021, respectively. At the time of sale, any gains or losses, calculated by the specific identification method, will be recognized as a component of operating results and any amounts previously included in shareholders' equity, which were recorded net of the income tax effect, will be reversed.

Equity securities – In the first quarter of 2021, the Bank purchased \$2.0 million of equity securities with a readily determinable fair value. Under this classification, all unrealized gains and losses are included within earnings, and the \$1.8 million fair value of these securities as of June 30, 2022 is included within other assets on the balance sheet. The Bank did not purchase any equity securities in the second quarter of 2022. See "Note 13. Fair Value of Assets and Liabilities" in these unaudited financial statements.

The table below presents the unrealized portion related to the equity securities held as of June 30, 2022:

(in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Net losses recognized during the period on equity	\$ (63)	\$ (3)	\$ (154)	\$ (31)
Less: Net gains (losses) recognized during the period on equity securities sold during the period	—	—	—	—
Unrealized losses recognized during the reporting period on equity securities still held at the reporting date	<u>\$ (63)</u>	<u>\$ (3)</u>	<u>\$ (154)</u>	<u>\$ (31)</u>

Loans – In these financial statements, unless otherwise indicated, loans are reported at the principal amount outstanding, inclusive of net deferred acquisition costs, which primarily include deferred costs paid to loan originators which are amortized into interest income over the life of the loan. Where otherwise stated, loans are reported as the principal amount outstanding ("gross").

Loan origination fees and certain direct origination costs are deferred and recognized as an adjustment to the yield of the related loans. At June 30, 2022 and December 31, 2021, net loan origination costs were \$30.9 million and \$26.1 million. Net amortization expense for the three and six months ended June 30, 2022 was \$2.4 million and \$4.5 million, and for the three and six months ended June 30, 2021 was \$2.1 million and \$3.7 million, respectively.

Interest income is recognized on an accrual basis. Medallion and other loans are placed on nonaccrual status, and all uncollected accrued interest is reversed when there is doubt as to the collectability of interest or principal, or if loans are 90 days or more past due, unless management has determined that they are both well-secured and in the process of collection. Interest income on nonaccrual loans is generally recognized when cash is received, unless a determination has been made to apply all cash receipts to principal. Medallion loans which reach 120 days past due are charged off down to their net realizable value and then the remaining balances are generally moved to repossessed loan collateral on the balance sheet. A loan is considered to be impaired, or nonperforming, when based on current information and events, it is likely the Bank will be unable to collect all amounts due according to the contractual terms of the original loan agreement. Management considers loans that are in bankruptcy status, but have not been charged off, to be impaired. Consumer loans have different characteristics than commercial loans, typified by a large number of homogeneous smaller dollar loans. Consumer loans are placed on nonaccrual when they become 90 days past due, or earlier if they enter bankruptcy, and are charged off in their entirety when deemed uncollectible, or when they become 120 days past due (Recreation loans in bankruptcy are not charged off at 120 days), whichever occurs first, at which time appropriate recovery efforts against both the borrower and the underlying collateral are initiated. Other loans are charged off when management determines that a loss has occurred. All interest accrued but not collected for loans that are charged off is reversed against interest income. For the Recreation loan portfolio, the process to repossess the collateral typically begins at 60 days past due. If the collateral is not located and the account reaches 120 days delinquent, the account is charged off. If the collateral is repossessed, a loss is recorded by writing the account down to the collateral's fair value less selling costs, and the collateral is sent to auction. When the collateral is sold, the net auction proceeds are applied to the account, and any remaining balance is written off. Proceeds collected on charged-off accounts are recorded as recoveries. Total gross loans 90 days or more past due were \$4.2 million, or 0.3%, and \$4.0 million, or 0.3%, at June 30, 2022 and December 31, 2021, respectively.

At June 30, 2022, \$5.2 million, or less than 1%, of Recreation loans, \$0.4 million, or less than 1%, of Home Improvement loans, \$11.0 million, or 100%, of Medallion loans, and \$1.8 million, or 75%, of other loans were in nonaccrual status. At December 31, 2021, \$5.1 million, or 1%, of Recreation loans, \$132,000, or less than 1%, of Home Improvement loans, \$11.3 million, or 100%, of Medallion loans and \$1.8 million, or 92%, of other loans were in nonaccrual status. The amount of interest income on nonaccrual loans that would have been recognized if the loans had been paying in accordance with their original terms was \$117,000 (\$61,000 of which has been applied to principal) and \$245,000 (\$114,000 of which has been applied to principal) for the three and six months ended June 30, 2022, and \$540,000 and \$835,000 for the three and six months ended June 30, 2021.

Nonperforming other commercial loans are reserved down to fair value and placed on nonaccrual status. Fair value is determined based upon comparable market prices for substantially similar collateral plus management's estimate of disposal costs, or through the use of a discounted cash flow model. All interest accrued but not collected for loans that are placed on nonaccrual is reversed against interest income. The interest on these loans is accounted for on a cash basis and applied to principal until the loans qualify for return to 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.

Troubled Debt Restructurings ("TDRs") – In situations where, for economic or legal reasons related to a borrower's financial difficulties, the Bank grants a concession for other than an insignificant period of time to the borrower that the Bank would not otherwise consider, the related loan is classified as a TDR. The Bank strives to identify borrowers in financial difficulty early and work with them to modify their loans to more affordable terms before they are required to be charged off. These modified terms may include rate reductions, principal forgiveness, term extensions, payment forbearance, and other actions intended to minimize the

economic loss to the Bank and to avoid foreclosure or repossession of the collateral. For modifications where the Bank forgives principal, the entire amount of such principal forgiveness is immediately charged off. Loans classified as TDRs are considered impaired loans.

When the Bank identifies a loan as impaired, the Bank measures the impairment based on the present value of expected future cash flows, discounted at the loan's effective interest rate. When collateral is the sole source of repayment for the loan, the Bank may measure impairment based on the fair value of the collateral. If foreclosure is probable, the Bank uses the current fair value of the collateral less selling costs instead of discounted cash flows.

If the Bank determines that the value of an impaired loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs and unamortized premium or discount), the Bank recognizes impairment. When the value of an impaired loan is calculated by discounting expected cash flows, interest income is recognized using the loan's effective interest rate over the remaining life of the loan.

Allowance for loan losses – The Bank uses historical delinquency and actual loss rates with a one-year look-back period in the allowance determination for consumer loans. For all Medallion loans, the Bank maintains specific reserves adjusting the loans down to net collateral value. The allowance is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and size of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, prevailing economic conditions, and excess concentration risks. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available. Credit losses are deducted from the allowance and subsequent recoveries are added back to the allowance.

Fixed assets – Fixed assets are stated at cost less accumulated depreciation and amortization. Maintenance and repairs are charged to expense while significant improvements are capitalized. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the related assets. Capitalized leasehold improvements are amortized over the lesser of the estimated useful life of the asset or the remaining lease term.

Income taxes – The Bank uses the asset and liability method in providing income taxes on all transactions that have been recognized in the financial statements. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their existing tax bases. The Bank files its tax returns on a consolidated company basis with MFIN.

Other comprehensive income (loss) – The Bank had (\$1.4) million and (\$3.1) million of net unrealized gain/(loss) due to the change in fair value of available-for-sale securities and interest-bearing funds in other banks for the three and six months ended June 30, 2022, and \$27,000 and \$(577,000) for the three and six months ended June 30, 2021, respectively.

Restrictions on dividends, loans, and advances – Banking regulations place certain restrictions on dividends paid and loans or advances made by the Bank to MFIN. The total amount of dividends that may be paid at any date is generally limited to the retained earnings of the Bank. However, dividends paid by the Bank would be prohibited if the effect thereof would cause the Bank's capital to be reduced below applicable minimum standards.

Financial instruments – FASB ASC Topic 825, "Financial Instruments," requires disclosure of fair value information about certain financial instruments, whether assets, liabilities or off-balance-sheet commitments, if practicable. See also Note 12 to the financial statements.

Fair value of assets and liabilities – The Bank follows FASB ASC Topic 820, "Fair Value Measurements and Disclosures," ("FASB ASC 820"), which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. FASB ASC 820 defines fair value as an exit price (i.e., a price that would be received to sell, as opposed to acquire, an asset or transfer a liability) and emphasizes that fair value is a market-based measurement. It establishes a fair value hierarchy that distinguishes between assumptions developed based on market data obtained from independent external sources and the reporting entity's own assumptions. Further, it specifies that fair value measurement should consider adjustment for risk, such as the risk inherent in the valuation technique or its inputs. See also Note 13 to the financial statements.

Stock compensation – Employees and officers of the Bank are eligible to participate in MFIN's restricted stock and stock option plans (the "Plans"). The Plans provide for grants of both incentive and nonqualified stock options and restricted stock to employees. The Plans are administered by the Compensation Committee of the Board of Directors of MFIN. The option price per share may not be less than the current market value of MFIN's common stock on the date the option is granted. The term and vesting periods of an option may not exceed ten years, and the terms of the restricted stock grants are determined by the Compensation Committee of the Board of Directors of MFIN. The Bank's stock-based compensation expense was \$273,000 and \$462,000 for the

three and six months ended June 30, 2022, and \$174,000 and \$334,000 for the three and six months ended June 30, 2021, respectively. This stock-based compensation expense was allocated to the Bank by MFIN, specifically relates to employees of the Bank and was included in salary and benefits cost.

Recently Issued Accounting Standards – In June 2016, the FASB issued ASU 2016-13, “Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments” and subsequent amendments to the initial guidance in November 2018, ASU 2018-19, "Codification Improvements to Topic 326, Financial Instruments – Credit Losses", in April 2019, ASU 2019-04, "Codification Improvements to Topic 326, Financial Instruments – Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments", and in May 2019, ASU 2019-05, "Financial Instruments – Credit Losses, Topic 326", all of which clarify codification of and correct unintended application of the guidance. The main objective of this new standard is to provide financial statement users with more decision-useful information about the expected credit losses on financial assets and other commitments to extend credit held by a reporting entity at each reporting date. Effective dates vary according to business entity type, and early adoption is permitted for all entities. The aftermath of the global economic crisis and the delayed recognition of credit losses associated with loans (and other financial instruments) was identified as a weakness in the application of existing accounting standards. Specifically, because the existing “incurred” loss model delays recognition until it is probable a credit loss was incurred, the FASB explored alternatives that would use more forward-looking information. Under the FASB’s new standard, the concepts used by entities to account for credit losses on financial instruments will fundamentally change. The existing “probable” and “incurred” loss recognition threshold is removed. Loss estimates are based upon lifetime “expected” credit losses. The use of past and current events must now be supplemented with “reasonable and supportable” expectations about the future to determine the amount of credit loss. The collective changes to the recognition and measurement accounting standards for financial instruments and their anticipated impact on the allowance for credit losses modeling have been universally referred to as the CECL (current expected credit loss) model. ASU 2016-13 applies to all entities and was effective for fiscal years beginning after December 15, 2019 for public entities, with early adoption permitted. In November 2019, the FASB issued ASU 2019-10 to defer implementation of the standard for smaller reporting companies to fiscal years beginning after December 15, 2022. As an emerging growth company, the Bank is permitted, and has elected, to take advantage of an extended transition period for complying with new or revised accounting standards applicable to public companies that are not “smaller reporting companies” and, as a result, the Bank will be required to comply with the CECL model for fiscal years beginning after December 15, 2022. The Bank continues to assess the impact the update will have on its financial statements, but currently anticipates an initial 6-10% overall increase in its allowance and that there will be earlier recognition of credit losses and potentially greater volatility in the allowance and provisions.

In March 2022, the FASB issued ASU 2022-02, "Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures". The main objective of this new standard is to amend ASU 2016-13 in response to feedback received from the post-implementation review process. The amendments update ASU 2016-13 to require that an entity measure and record the lifetime expected credit losses on an asset upon origination or acquisition and, as a result, credit losses from loans modified as TDRs have been incorporated into the allowance for credit losses. The amendments also require the disclosure of current period gross write-offs, by year of origination, for financing receivables. ASU 2022-02 is effective upon the adoption of ASU 2016-13. The Bank is assessing the impact the update will have on its financial statements.

2. Investment Securities

Fixed maturity securities available-for-sale consisted of the following:

June 30, 2022				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(in thousands)				
Mortgage-backed securities, principally obligations of U.S. federal agencies	\$ 44,155	\$ 4	\$ (3,680)	\$ 40,479
State and municipalities	10,280	73	(474)	9,879
Total	<u>\$ 54,435</u>	<u>\$ 77</u>	<u>\$ (4,154)</u>	<u>\$ 50,358</u>

December 31, 2021				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(in thousands)				
Mortgage-backed securities, principally obligations of U.S. federal agencies	\$ 35,469	\$ 672	\$ (403)	\$ 35,738
State and municipalities	9,025	60	(51)	9,034
Total	<u>\$ 44,494</u>	<u>\$ 732</u>	<u>\$ (454)</u>	<u>\$ 44,772</u>

The amortized cost and estimated market value of investment securities as of June 30, 2022 by contractual maturity are shown below. Actual maturities will differ from contractual maturities because underlying borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	June 30, 2022	
	Amortized Cost	Market Value
	(in thousands)	
Due in one year or less	\$ 22	\$ 22
Due after one year through five years	9,435	9,241
Due after five years through ten years	9,568	8,737
Due after ten years	35,410	32,358
Total	<u>\$ 54,435</u>	<u>\$ 50,358</u>

Information pertaining to securities with gross unrealized losses aggregated by investment category and length of time that individual securities have been in a continuous loss position consisted of the following:

	June 30, 2022			
	Less than Twelve Months		Twelve Months and Over	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
	(in thousands)			
Mortgage-backed securities, principally obligations of U.S. federal agencies	\$ (1,861)	\$ 26,941	\$ (1,819)	\$ 10,263
State and municipalities	(47)	3,543	(427)	3,246
Total	<u>\$ (1,908)</u>	<u>\$ 30,484</u>	<u>\$ (2,246)</u>	<u>\$ 13,509</u>

	December 31, 2021			
	Less than Twelve Months		Twelve Months and Over	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
	(in thousands)			
Mortgage-backed securities, principally obligations of U.S. federal agencies	\$ (403)	\$ 16,330	\$ —	\$ —
State and municipalities	(9)	2,124	(42)	1,956
Total	<u>\$ (412)</u>	<u>\$ 18,454</u>	<u>\$ (42)</u>	<u>\$ 1,956</u>

The Bank had 54 and 15 securities at June 30, 2022 and December 31, 2021, with unrealized losses that have not been recognized into income because the issuers' bonds are of high credit quality and the Bank has the intent and ability to hold the securities for the foreseeable future. The fair value is expected to recover as the bonds approach the maturity date.

As of June 30, 2022 and December 31, 2021, the Bank did not hold investments in any single issuer, other than U.S. Government agency residential mortgage-backed securities issued by the Federal National Mortgage Association, with an aggregate book value that exceeded 10% of the Bank's equity.

3. Loans and Allowance for Loan Losses

Loans are summarized as follows:

	June 30, 2022	December 31, 2021
	(in thousands)	
Recreation	\$ 1,098,663	\$ 965,279
Home Improvement	526,373	436,928
Medallion	11,031	11,323
Other	2,359	1,885
Total Loans	1,638,426	1,415,415
Deferred loan acquisition costs, net	30,893	26,108
Total gross loans	<u>\$ 1,607,533</u>	<u>\$ 1,389,307</u>

Changes in the allowance for loan losses are summarized as follows:

	Recreation	Home Improvement	Medallion	Other	Total
	(in thousands)				
Balance as of March 31, 2022	\$ 35,686	\$ 8,418	\$ 8,824	\$ 27	\$ 52,955
Provision (benefit) for loan losses	6,675	1,697	(2,386)	—	5,986
Loan charge-offs	(5,074)	(1,108)	—	—	(6,182)
Recoveries	2,571	466	2,283	—	5,320
Balance as of June 30, 2022	<u>\$ 39,858</u>	<u>\$ 9,473</u>	<u>\$ 8,721</u>	<u>\$ 27</u>	<u>\$ 58,079</u>

	Recreation	Home Improvement	Medallion	Other	Total
	(in thousands)				
Balance as of March 31, 2021	\$ 34,532	\$ 6,121	\$ 24,605	\$ 27	\$ 65,285
Provision (benefit) for loan losses	1,022	738	(2,133)	(1)	(374)
Loan charge-offs	(3,088)	(850)	(14,150)	—	(18,088)
Recoveries	3,587	558	1,830	1	5,976
Balance as of June 30, 2021	<u>\$ 36,053</u>	<u>\$ 6,567</u>	<u>\$ 10,152</u>	<u>\$ 27</u>	<u>\$ 52,799</u>

	Recreation	Home Improvement	Medallion	Other	Total
	(in thousands)				
Balance as of December 31, 2021	\$ 36,607	\$ 7,833	\$ 8,917	\$ 27	\$ 53,384
Provision (benefit) for loan losses	8,354	2,902	(3,121)	(5)	8,130
Loan charge-offs	(10,141)	(2,168)	—	—	(12,309)
Recoveries	5,038	906	2,925	5	8,874
Balance as of June 30, 2022	<u>\$ 39,858</u>	<u>\$ 9,473</u>	<u>\$ 8,721</u>	<u>\$ 27</u>	<u>\$ 58,079</u>

	Recreation	Home Improvement	Medallion	Other	Total
	(in thousands)				
Balance as of December 31, 2020	\$ 34,143	\$ 5,994	\$ 25,393	\$ 27	\$ 65,557
Provision (benefit) for loan losses	4,637	1,209	(3,480)	(1)	2,365
Loan charge-offs	(8,783)	(1,626)	(14,780)	—	(25,189)
Recoveries	6,056	990	3,019	1	10,066
Balance as of June 30, 2021	<u>\$ 36,053</u>	<u>\$ 6,567</u>	<u>\$ 10,152</u>	<u>\$ 27</u>	<u>\$ 52,799</u>

There were no loans acquired with deteriorated credit quality for the three and six months ended June 30, 2022 and 2021.

See “Note 1. Organization and summary of significant accounting policies” in these unaudited financial statements, which describes the nature of the portfolios, their collection and income recognition processes, and the methodology used to assess the adequacy of the allowance. The Bank accounts for Chapter 13 bankruptcies for Recreation loans as TDRs, which are performing or nonperforming loans.

Other commercial or construction loans are made infrequently, and on a case-by-case basis, after performing thorough borrower review plus credit and collateral checks. The risks associated with these types of loans are specific to the particular credit, and such risks are monitored and tracked closely.

The Recreation and Home Improvement loan portfolios are primarily consumer credit-driven, whereby borrowers are assessed a score based on credit history, credit performance, and related factors weighted in a credit scoring model that determines whether a borrower is qualified. Loan losses in these portfolios fluctuate with economic conditions and can range widely over time. The Recreation and Home Improvement loan portfolios reserves are calculated consistent with ASC 450, which is designed for homogeneous pools of loans. The Bank segments the portfolios by risk profile in order to reach the necessary level of homogeneity.

Allocations for the allowance for credit losses may be made for specific loans, but the allowance is general in nature and is available to absorb losses from any loan type.

The following table provides a summary of the gross loan portfolio by its performance status and by type:

	Performing		Nonperforming		Total	
	June 30, 2022	December 31, 2021	June 30, 2022	December 31, 2021	June 30, 2022	December 31, 2021
	(in thousands)					
Recreation	\$ 1,059,244	\$ 930,300	\$ 5,415	\$ 5,731	\$ 1,064,659	\$ 936,031
Home Improvement	528,428	439,275	396	133	528,824	439,408
Medallion	—	—	11,691	11,983	11,691	11,983
Other	594	90	1,765	1,795	2,359	1,885
Total	<u>\$ 1,588,266</u>	<u>\$ 1,369,665</u>	<u>\$ 19,267</u>	<u>\$ 19,642</u>	<u>\$ 1,607,533</u>	<u>\$ 1,389,307</u>

The following tables provide additional information on attributes of the gross nonperforming loan portfolio as of June 30, 2022 and June 30, 2021, all of which had an allowance recorded against the principal balance:

	June 30, 2022			Three Months Ended June 30, 2022		Six Months Ended June 30, 2022	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	(in thousands)						
With an allowance recorded							
Recreation	\$ 5,415	\$ 5,415	\$ 203	\$ 5,167	\$ 119	\$ 5,248	\$ 223
Home Improvement	396	396	7	396	—	391	—
Medallion	11,691	11,691	8,721	11,760	—	11,841	—
Other	1,765	1,765	26	1,773	—	1,780	—
Total nonperforming loans with an allowance	<u>\$ 19,267</u>	<u>\$ 19,267</u>	<u>\$ 8,957</u>	<u>\$ 19,096</u>	<u>\$ 119</u>	<u>\$ 19,260</u>	<u>\$ 223</u>

	June 30, 2021			Three Months Ended June 30, 2021		Six Months Ended June 30, 2021	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	(in thousands)						
With an allowance recorded							
Recreation	\$ 5,015	\$ 5,015	\$ 209	\$ 4,773	\$ 186	\$ 4,896	\$ 329
Home Improvement	69	69	1	74	—	75	—
Medallion	13,566	13,566	10,153	14,044	—	14,176	—
Other	1,816	1,816	27	1,817	—	1,818	—
Total nonperforming loans with an allowance	<u>\$ 20,466</u>	<u>\$ 20,466</u>	<u>\$ 10,390</u>	<u>\$ 20,708</u>	<u>\$ 186</u>	<u>\$ 20,965</u>	<u>\$ 329</u>

The tables below show the aging of all loan types (gross loans):

	June 30, 2022						
	Days Past Due						Recorded Investment 90+ Days and Accruing
	30-59	60-89	90+	Total Past Due	Current	Total	
	(in thousands)						
Recreation	\$ 19,923	\$ 7,497	\$ 3,835	\$ 31,255	\$1,033,404	\$1,064,659	\$ —
Home Improvement	1,728	546	396	2,670	526,154	528,824	—
Medallion	—	—	—	—	11,691	11,691	—
Other	—	—	—	—	2,359	2,359	—
Total	\$ 21,651	\$ 8,043	\$ 4,231	\$ 33,925	\$1,573,608	\$1,607,533	\$ —

	December 31, 2021							
	Days Past Due						Recorded Investment 90+ Days and Accruing	
	30-59	60-89	90+	Total Past Due	Current	Total		
	(in thousands)							
Recreation	\$ 20,269	\$ 6,636	\$ 3,864	\$ 30,769	\$ 905,262	\$ 936,031	\$ —	
Home Improvement	1,521	480	133	2,134	437,274	439,408	—	
Medallion	—	8,211	—	8,211	3,772	11,983	—	
Other	—	—	—	—	1,885	1,885	—	
Total	\$ 21,790	\$ 15,327	\$ 3,997	\$ 41,114	\$ 1,348,193	\$ 1,389,307	\$ —	

The following table shows the gross TDRs which the Bank entered into during the three and six months ended June 30, 2022:

	Three months ended June 30, 2022			Six months ended June 30, 2022		
	Number of Loans	Pre-Modification Investment	Post-Modification Investment	Number of Loans	Pre-Modification Investment	Post-Modification Investment
	(dollars in thousands)			(dollars in thousands)		
Recreation loans	12	\$ 147	\$ 147	22	\$ 276	\$ 276
Medallion loans	—	—	—	2	252	252

As of June 30, 2022, 20 Recreation loans modified as TDRs in the previous 12 months were in default and had an investment value of \$215,000. As of June 30, 2022 no Medallion loans modified as TDRs in the 12 months were in default.

The following table shows the gross TDRs which the Bank entered into during the three and six months ended June 30, 2021:

	Three months ended June 30, 2021			Six months ended June 30, 2021		
	Number of Loans	Pre- Modification Investment	Post- Modification Investment	Number of Loans	Pre- Modification Investment	Post- Modification Investment
	(dollars in thousands)			(dollars in thousands)		
Recreation loans	23	\$ 302	\$ 274	37	\$ 401	\$ 333
Medallion loans	—	—	—	2	1,638	1,638

A total of 39 Recreation loans modified as TDRs in the twelve months preceding the period ended June 30, 2021, having a gross investment value of \$391,000 and an allowance for loan losses of \$16,000, were in default during the three months ended June 30, 2021. A total of 17 Medallion loans modified as TDRs in the twelve months preceding the period ended June 30, 2021, having a gross investment value of \$11.5 million and an allowance for loan losses of \$8.9 million, were in default during the three months ended June 30, 2021.

4. Fixed Assets

Fixed assets and their related useful lives were as follows:

	Useful lives	As of June 30, 2022	As of December 31, 2021
		(in thousands)	
Computer software	3 years	\$ 1,937	\$ 1,168
Equipment	3-5 years	214	192
Furniture and fixtures	5-10 years	408	408
Leasehold improvements	3-5 years	127	127
		2,686	1,895
Less: accumulated depreciation and amortization		(457)	(328)
Net fixed assets		\$ 2,229	\$ 1,567

Depreciation expense was \$64,000 and \$129,000 for the three and six months ended June 30, 2022, respectively, and \$26,000 and \$50,000 for the three and six months ended June 30, 2021, respectively.

5. Deposits and Other Funds Borrowed

Deposits and other funds borrowed consisted of the following:

	As of June 30, 2022	As of December 31, 2021
	(in thousands)	
Brokered certificates of time deposit ⁽¹⁾	\$ 1,463,338	\$ 1,244,550
Listing service deposits	8,738	8,738
Strategic partner reserve deposits	1,000	750
Total	\$ 1,473,076	\$ 1,254,038

(1) Excludes \$3,835 and \$3,158 of deferred financing costs as of June 30, 2022 and December 31, 2021, respectively.

The scheduled maturities of time deposits are as follows:

	For the twelve months ending June 30, ⁽¹⁾	
	(in thousands)	
2023	\$	394,619
2024		347,548
2025		412,380
2026		131,077
2027		186,452
Total	\$	<u>1,472,076</u>

(1) Excludes \$3,835 of deferred financing costs and \$1,000 of strategic partner reserve deposits.

Substantially all deposits are raised through the use of investment brokerage firms who package deposits qualifying for FDIC insurance into pools that are sold to the Bank. The rates paid on the deposits are highly competitive with market rates paid by other financial institutions. Additionally, a brokerage fee is paid, depending on the maturity of the deposits, which averages less than 0.15% and which is capitalized and amortized to interest expense over the life of the respective pool. The total amount capitalized as of June 30, 2022 and December 31, 2021 was \$3.8 million and \$3.2 million, respectively. Brokerage fees of \$786,000 and \$408,000 were amortized to interest expense for the three and six months ended June 30, 2022, respectively, and \$341,000 and \$675,000 for the three and six months ended June 30, 2021, respectively. Interest on the deposits is accrued daily and paid monthly, quarterly, semiannually or at maturity. All time deposits are in denominations of \$250,000 or less. The Bank did not have any uninsured deposits as of June 30, 2022 and December 31, 2021. The weighted average interest rate of deposits outstanding as of June 30, 2022 and December 31, 2021 was 1.46% and 1.21%. The Bank also originates time deposits through an internet listing service. These deposits are from other financial institutions and, as of June 30, 2022, the Bank had \$8.7 million in listing services deposits.

The following table presents additional maturity information for time deposits:

	As of June 30, 2022	As of December 31, 2021
	(in thousands)	
Three months or less	\$ 83,985	\$ 119,027
Over three months through six months	85,568	\$ 168,243
Over six months through one year	225,066	\$ 118,041
Over one year	1,077,457	\$ 847,977
Total⁽¹⁾⁽²⁾	\$ 1,472,076	\$ 1,253,288

(1) Excludes \$3,835 and \$3,158 of deferred financing costs as of June 30, 2022 and December 31, 2021, respectively.

(2) Excludes \$1,000 and \$750 of strategic partner reserve deposits as of June 30, 2022 and December 31, 2021, respectively.

As of both June 30, 2022 and December 31, 2021, the Bank had unsecured and undrawn Federal Funds lines with correspondent banks of \$45.0 million.

6. Income Taxes

The components of the Bank's tax provision for the three and six months ended June 30 were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
	(dollars in thousands)			
Current				
Federal	\$ 5,229	\$ 1,858	\$ 9,803	\$ 5,296
State	1,874	717	3,514	1,953
Deferred				
Federal	(375)	2,813	(25)	3,038
State	(147)	1,009	(9)	1,089
Net provision for income taxes	\$ 6,581	\$ 6,397	\$ 13,283	\$ 11,376

The following table presents a reconciliation of statutory federal income tax provision to actual income tax provision reported for the three and six months ended June 30:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
	(dollars in thousands)			
Statutory Federal income tax provision at 21%	\$ 5,133	\$ 5,022	\$ 10,485	\$ 8,960
State and local income taxes, net of federal income tax provision	1,352	1,322	2,761	2,359
Other	96	53	37	57
Total income tax provision	\$ 6,581	\$ 6,397	\$ 13,283	\$ 11,376

The following table sets forth the significant components of the Bank's deferred and other tax assets and liabilities as of June 30, 2022 and December 31, 2021:

	As of June 30, 2022	As of December 31, 2021
	(dollars in thousands)	
Provision for loan losses	\$ 15,898	\$ 14,634
Deferred loan acquisition costs	(8,371)	(7,101)
Unrealized gains (losses) on investments	1,141	(78)
Other	161	121
Net deferred tax assets	\$ 8,829	\$ 7,576

Deferred tax assets and liabilities relate to temporary differences between the financial reporting and income tax bases of the Bank's assets and liabilities, as well as the impact of tax loss carryforwards or carrybacks, and are measured using the enacted income tax laws and rates that will be in effect when such differences are expected to reverse.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which temporary differences become deductible pursuant to ASC Topic 740, "Income Taxes." Management considers the reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Management's evaluation of the realizability of deferred tax assets must consider both positive and negative evidence. The weight given to the potential effects of positive and negative evidence is based on the extent to which it can be objectively verified. Based on these considerations, no valuation allowance was deemed necessary as of June 30, 2022 and December 31, 2021.

The Bank's U.S. federal and certain state operations are included in various MFIN consolidated tax returns, and, in such cases, MFIN makes payments to tax authorities on the Bank's behalf. The Bank and MFIN maintain a tax sharing agreement for any

operations included in a MFIN consolidated tax return, pursuant to which MFIN charges the Bank for any taxes owed and reimburses the Bank for tax attributes generated. Such charges or reimbursements are based upon the Bank's separate income tax liability calculated as if the Bank had filed a separate federal or state tax return, as the case may be.

7. Other Transactions with Affiliates

The Bank's aggregated Medallion and other loans were \$13.5 million and \$13.2 million as of June 30, 2022 and December 31, 2021, respectively. These loans were sourced and serviced by the Bank's and MFIN's affiliates. The Bank paid \$0.7 million and \$1.4 million of loan servicing fees to MFIN affiliates for the three and six months ended June 30, 2022, respectively and \$1.0 million and \$2.0 million for the three and six months ended June 30, 2021, respectively.

As of June 30, 2022 and December 31, 2021, the Bank was owed \$313,000 and owed \$82,000, respectively, from and to affiliates for Medallion loan payments. As of June 30, 2022 and December 31, 2021, the Bank owed \$691,000 and \$724,000, respectively, to affiliates for monthly servicing fees on loans, charges for corporate overhead, and legal expenses due to the affiliates, partially offset by payments due to the Bank from collection of loan payments by affiliates. As of June 30, 2022 and December 31, 2021, the Bank held a \$100,000 collateral deposit due to MFIN. The Bank reimbursed MFIN for expenses incurred on its behalf of \$88,000 and \$176,000 for corporate services for the three and six months ended June 30, 2022, respectively, and reversed accruals of \$110,000 and reimbursed MFIN for expenses incurred on its behalf of \$211,000 for the three and six months ended June 30, 2021.

8. 401(k) Plan

The Bank participates in the 401(k) Plan offered by MFIN. Effective June 1, 2022, the 401(k) Plan covers all full- and part-time employees of the Bank who have attained the age of 18 and have a minimum of thirty (30) days of service. Under the 401(k) Plan, an employee may elect to defer not less than 1% and not more than the applicable limits set forth in the Internal Revenue Code. Employee contributions are invested in various mutual funds according to the directions of the employee. Once eligible full-time employees have completed a minimum of 90 days of service and part-time employees have worked at least 1000 hours, MFIN matches employee contributions to the 401(k) Plan in an amount per employee equal to fifty percent of the first 8% of the employee's annual contributions, subject to legal limits. Prior to June 1, 2022, the 401(k) Plan covered full- and part-time employees of the Bank aged 21 and older that had completed a minimum of thirty (30) days of service, with MFIN matching one-third of the first 6% of the contributions of eligible employees that had completed at least one (1) year of service (in the case of full-time employees) or 1,000 hours (in the case of part-time employees). The Bank provided \$41,000 and \$63,000 in employer matching for the three and six months ended June 30, 2022, respectively, and \$29,000 and \$58,000 for the three and six months ended June 30, 2021, respectively.

9. Segment Reporting

The Bank has three business segments, which reflect the main types of lending performed at the Bank, which are Recreation Lending, Home Improvement Lending, and Other (as defined below). The segments are determined based on the products and services provided, or the type of customer served, and they reflect the manner in which financial information is currently evaluated by management. Due to the declining significance of Medallion loans to the Bank's business, results of operations and financial condition, beginning with the fourth quarter of 2021, activities relating to Medallion loans were included in the Bank's Other segment and those activities are no longer reported in a separate segment. As a result of this change, results for the Other segment for prior periods have been adjusted to conform to the current presentation. Results of the segments are intended to reflect each segment as if it were essentially a stand-alone business.

The Recreation Lending segment is a consumer finance business that works with third-party dealers and financial service providers ("FSPs") for the purpose of financing RVs, boats and other consumer recreational equipment. The Home Improvement Lending segment is a consumer finance business that works with contractors and FSPs to finance residential home improvements concentrated in roofing, swimming pools, and windows. The "Other" segment includes Medallion loans, activities related to the Bank's Strategic Partnership program, other loans that are not Recreation, Home Improvement or Medallion loans, and cash, investments and net non-interest earning assets.

Where segments use services provided by corporate support units or another segment, the costs of those services are allocated to the respective segments. The expense is generally allocated based on the actual cost and use of services provided.

The following tables present segment results for the periods indicated:

Three months ended June 30, 2022

<i>(Dollars in thousands)</i>	Recreation	Home Improvement	Other	Total
Total interest income	\$ 33,575	\$ 10,677	\$ 653	\$ 44,905
Total interest expense	(3,293)	(1,238)	(381)	(4,912)
Net interest income	30,282	9,439	272	39,993
Provision (benefit) for loan losses	6,674	1,697	(2,385)	5,986
Other expense	(6,097)	(2,513)	(956)	(9,566)
Net income before taxes	17,511	5,229	1,701	24,441
Income tax provision	4,720	1,408	453	6,581
Net income after tax	\$ 12,791	\$ 3,821	\$ 1,248	\$ 17,860
Balance Sheet Data				
Total loans	\$ 1,098,663	\$ 526,374	\$ 13,389	\$ 1,638,426
Total assets	1,080,069	525,505	189,765	1,795,338
Total deposits and other funds borrowed ⁽¹⁾	915,881	470,553	85,642	1,472,076
Selected Financial Ratios				
Return on average assets ⁽²⁾	5.01 %	3.10 %	2.98 %	4.20 %
Return on average equity ⁽²⁾	29.34	18.16	17.46	25.86
Interest yield ⁽²⁾	12.82	8.58	3.85	11.39
Net interest margin ⁽²⁾	11.69	7.67	8.33	9.50
Reserve coverage	3.63	1.80	65.33	3.54
Delinquency status	2.84	0.51	—	2.07
Charge-off ratio ⁽²⁾	0.96	0.52	(69.87)	0.22

(1) Excludes \$3,835 of deferred financing costs.

(2) Ratios annualized based on actual days.

Six Months Ended June 30, 2022

<i>(Dollars in thousands)</i>	Recreation	Home Improvement	Other	Total
Total interest income	\$ 64,770	\$ 20,467	\$ 1,012	\$ 86,249
Total interest expense	(6,141)	(2,226)	(699)	(9,066)
Net interest income	58,629	18,241	313	77,183
Provision (benefit) for loan losses	8,354	2,902	(3,126)	8,130
Other expense	(11,819)	(4,891)	(2,416)	(19,126)
Net income before taxes	38,456	10,448	1,023	49,927
Income tax provision	10,226	2,781	276	13,283
Net income after tax	\$ 28,230	\$ 7,667	\$ 747	\$ 36,644
Balance Sheet Data				
Total loans	\$ 1,098,663	\$ 526,374	\$ 13,389	\$ 1,638,426
Total assets	1,080,069	525,505	189,765	1,795,338
Total deposits and other funds borrowed ⁽¹⁾	915,881	470,553	85,642	1,472,076
Selected Financial Ratios				
Return on average assets ⁽²⁾	5.68 %	3.24 %	1.68 %	4.49 %
Return on average equity ⁽²⁾	34.38	19.60	10.14	27.19
Interest yield ⁽²⁾	12.83	8.65	3.84	11.43
Net interest margin ⁽²⁾	11.62	7.71	4.77	9.57
Reserve coverage	3.63	1.80	65.33	3.54
Delinquency status	2.84	0.51	—	2.07
Charge-off ratio ⁽²⁾	1.01	0.53	(44.63)	0.46

(1) Excludes \$3,835 of deferred financing costs.

(2) Ratios annualized based on actual days.

Three months ended June 30, 2021

<i>(Dollars in thousands)</i>	Recreation	Home Improvement	Other	Total
Total interest income	\$ 28,946	\$ 8,318	\$ 330	\$ 37,594
Total interest expense	(2,996)	(1,078)	(391)	(4,465)
Net interest income (loss)	25,950	7,240	(61)	33,129
Provision (benefit) for loan losses	1,022	737	(2,133)	(374)
Other expense	(5,344)	(1,907)	(2,335)	(9,586)
Net income (loss) before taxes	19,584	4,596	(264)	23,916
Income tax provision (benefit)	5,235	1,228	(66)	6,397
Net income (loss) after tax	<u>\$ 14,349</u>	<u>\$ 3,368</u>	<u>\$ (198)</u>	<u>\$ 17,519</u>
Balance Sheet Data				
Total loans	\$ 891,620	\$ 368,434	\$ 14,792	\$ 1,274,846
Total assets	874,420	368,112	167,794	1,410,327
Total deposits and other funds borrowed ⁽¹⁾	805,643	248,721	99,750	1,154,114
Selected Financial Ratios				
Return on average assets ⁽²⁾	6.89 %	3.86 %	(0.73)%	5.19 %
Return on average equity ⁽²⁾	39.73	22.22	(4.19)	29.95
Interest yield ⁽²⁾	13.49	9.43	1.57	12.10
Net interest margin ⁽²⁾	12.23	8.30	(1.05)	10.85
Reserve coverage	4.04	1.78	59.13	4.14
Delinquency status	2.10	0.24	68.24	2.33
Charge-off ratio ⁽²⁾	(0.23)	0.33	208.31	3.92

(1) Excludes \$2,796 of deferred financing costs.

(2) Ratios annualized based on actual days.

Six Months Ended June 30, 2021

<i>(Dollars in thousands)</i>	Recreation	Home Improvement	Other	Total
Total interest income	\$ 56,428	\$ 16,313	\$ 609	\$ 73,350
Total interest expense	(6,182)	(2,199)	(795)	(9,176)
Net interest income	50,246	14,114	(186)	64,174
Provision (benefit) for loan losses	4,637	1,209	(3,482)	2,364
Other expense	(10,470)	(3,814)	(4,859)	(19,143)
Net income (loss) before taxes	35,139	9,091	(1,563)	42,667
Income tax provision (benefit)	9,366	2,422	(412)	11,376
Net income (loss) after tax	<u>\$ 25,773</u>	<u>\$ 6,669</u>	<u>\$ (1,151)</u>	<u>\$ 31,291</u>
Balance Sheet Data				
Total loans	\$ 891,620	\$ 368,434	\$ 14,792	\$ 1,274,846
Total assets	874,420	368,112	167,794	1,410,327
Total deposits and other funds borrowed ⁽¹⁾	805,643	248,721	99,750	1,154,114
Selected Financial Ratios				
Return on average assets ⁽²⁾	6.37 %	3.90 %	(2.22)%	4.78 %
Return on average equity ⁽²⁾	36.73	22.50	(12.81)	27.57
Interest yield ⁽²⁾	13.62	9.50	2.18	12.15
Net interest margin ⁽²⁾	12.13	8.22	(1.34)	10.70
Reserve coverage	4.04	1.78	59.13	4.14
Delinquency status	2.10	0.24	68.24	2.33
Charge-off ratio ⁽²⁾	0.66	0.37	84.15	2.52

(1) Excludes \$2,796 of deferred financing costs.

(2) Ratios annualized based on actual days.

10. Commitments and Contingencies

Loans – As of June 30, 2022 and December 31, 2021, the Bank had no commitments to extend credit to customers for unfunded amounts.

Leases – The Bank leases office space under two non-cancelable operating leases that expire in November 2030 and November 2022. Leases with an initial term of 12 months or less are not recorded on the balance sheet. The Bank recognizes lease expense for these leases on a straight-line basis over the lease term. For leases beginning in 2019 and later, the Bank accounts for lease components including rent, real estate taxes and insurance costs separately from non-lease components like common-area maintenance fees. Leases include options to renew, with renewal terms that can extend the lease term for one or more years. The exercise of lease renewal options is at the Bank's sole discretion. The depreciable life of assets and leasehold improvements are limited by the expected lease term.

Operating lease right-of-use assets and lease liabilities are as follows:

	<u>As of June 30, 2022</u> (in thousands)
Assets	
Operating lease right-of-use assets	\$ 3,537
Liabilities	
Operating lease liabilities	\$ 3,550

Operating costs related to the leases were \$166,000 and \$344,000 for the three and six months ended June 30, 2022, respectively, and \$161,000 and \$323,000 for the three and six months ended June 30, 2021, respectively.

Supplemental cash flow information related to operating leases for the six months ended June 30, 2022 were payments of \$344,000 against amounts included in the measurement of lease liabilities.

The weighted-average remaining lease term for operating leases was 8.3 years. The weighted-average discount rate used for operating leases was 6.75% as of June 30, 2022.

There were no material operating leases that the Bank entered into and were yet to commence as of June 30, 2022.

	<u>As of June 30, 2022</u> (in thousands)
Remainder 2022	\$ 297
2023	572
2024	589
2025	607
2026	625
Thereafter	1,897
Total lease payments	4,587
Less imputed interest	(1,037)
Present value of lease liabilities	\$ 3,550

11. Capital Requirements

The Bank is subject to various regulatory capital requirements administered by the FDIC and the Utah Department of Financial Institutions. Failure to meet minimum capital requirements can initiate certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classifications are also subject to qualitative judgments by the bank regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios as defined in the regulations (set forth in the table below). Additionally, as conditions of granting the Bank's application for federal deposit insurance, the FDIC ordered that the Tier 1 leverage capital to total assets ratio, as defined, be not less than 15%, and that an adequate allowance for loan losses be maintained. As of June 30, 2022 and December 31, 2021, the Bank's Tier 1 leverage capital ratio was 17.0% and 17.5%, respectively. The Bank's actual capital amounts and ratios and the regulatory minimum ratios are presented in the following table:

	June 30, 2022		December 31, 2021		Minimum Regulatory Requirements as of June 30, 2022	Well- Capitalized Requirements
	Amount	Ratio	Amount	Ratio		
	(dollars in thousands)					
Tier 1 leverage capital	\$ 285,867	17.0%	\$ 262,247	17.5%	4.0%	5.0%
CET1 risk-based capital	\$ 217,079	12.7%	\$ 193,459	13.1%	7.0%	6.5%
Tier 1 risk-based capital	\$ 285,867	16.8%	\$ 262,247	17.7%	8.5%	8.0%
Total risk-based capital	\$ 307,653	18.0%	\$ 281,211	19.0%	10.5%	10.0%

In the table above, the minimum risk-based ratios as of June 30, 2022 and December 31, 2021 reflect the capital conservation buffer of 2.5%. As of both June 30, 2022 and December 31, 2021, the minimum regulatory requirements, inclusive of the capital conservation buffer, were the binding requirements for risk-based requirements, and the "well capitalized" requirements were the binding requirements for Tier 1 leverage capital.

12. Fair Value of Financial Instruments

FASB ASC Topic 825, "Financial Instruments," requires disclosure of fair value information about certain financial instruments, whether assets, liabilities or off-balance-sheet commitments, if practicable. The following methods and assumptions were used to estimate the fair value of each class of financial instrument. Fair value estimates that were derived from broker quotes cannot be substantiated by comparison to independent markets and, in many cases, may not be realized in immediate settlement of the instrument:

- (a) **Loans** – Current fair value most closely approximates book value.
- (b) **Investment securities** – The Bank's investments are recorded at the estimated fair value of such investments.
- (c) **Equity securities** – The Bank's equity securities are recorded at cost less any impairment plus or minus observable price changes.
- (d) **Cash and cash equivalents** – Book value equals market value.
- (e) **Accrued interest receivable** – Book value equals market value.
- (f) **Floating rate borrowings** – Due to the short-term nature of these instruments, the carrying amount approximates fair value.
- (g) **Fixed rate borrowings** – Due to the short-term nature of these instruments, the carrying amount approximates fair value.
- (h) **Accrued interest payable** – Due to the short-term nature of these instruments, the carrying amount approximates fair value.
- (i) **Commitments to extend credit** – The fair value of commitments to extend credit is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and present creditworthiness of the counterparties. For fixed rate loan commitments, fair value also includes a consideration of the difference between the current levels of interest rates and the committed rates. As of June 30, 2022 and December 31, 2021, the estimated fair value of these off-balance sheet instruments was not material.

The Bank's financial instruments consisted of the following:

	June 30, 2022		December 31, 2021	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in thousands)			
Financial Assets				
Loans, net	\$ 1,580,347	\$ 1,580,347	\$ 1,362,031	\$ 1,362,031
Investment securities, available-for-sale	50,358	50,358	44,772	44,772
Equity securities	1,796	1,796	1,950	1,950
Cash and cash equivalents ⁽¹⁾	93,946	93,946	61,402	61,402
Accrued interest receivable	11,461	11,461	10,503	10,503
Financial Liabilities				
Deposits and other funds borrowed ⁽²⁾	1,472,076	1,472,076	1,253,288	1,253,288
Accrued interest payable	1,302	1,302	1,228	1,228

(1) Includes federal funds sold and interest-bearing deposits in other banks.

(2) Excludes \$3,835 and \$3,158 of deferred financing costs for June 30, 2022 and December 31, 2021, respectively.

13. Fair Value of Assets and Liabilities

The Bank follows the provisions of FASB ASC 820, which defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value, and enhances disclosure requirements for fair value measurements.

In accordance with FASB ASC 820, the Bank has categorized its assets and liabilities measured at fair value, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3).

As required by FASB ASC 820, when the inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement in its entirety. For example, a level 3 fair value measurement may include inputs that are observable (level 1 and 2) and unobservable (level 3). Therefore, gains and losses for such assets and liabilities categorized within the level 3 table below may include changes in fair value that are attributable to both observable inputs (level 1 and 2) and unobservable inputs (level 3).

Assets and liabilities measured at fair value and recorded on the balance sheets are categorized based on the inputs to the valuation techniques as follows:

Level 1. Assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that the Bank has the ability to access (examples include active exchange-traded equity securities and mutual funds, exchange-traded derivatives, most U.S. Government and agency securities, and certain other sovereign government obligations).

Level 2. Assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability. Level 2 inputs include the following:

- A) Quoted prices for similar assets or liabilities in active markets (for example, restricted stock);
- B) Quoted prices for identical or similar assets or liabilities in non-active markets (for example, corporate and municipal bonds, which trade infrequently);
- C) Pricing models whose inputs are observable for substantially the full term of the asset or liability (examples include most over-the-counter derivatives, including interest rate and currency swaps); and
- D) Pricing models whose inputs are derived principally from or corroborated by observable market data through correlation or other means for substantially the full term of the asset or liability (examples include certain residential and commercial mortgage-related assets, including loans, securities, and derivatives).

Level 3. Assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the assets or liabilities (examples include certain private equity investments, and certain residential and commercial mortgage-related assets (including loans, securities, and derivatives)).

Changes in the observability of valuation inputs may result in a reclassification for certain assets or liabilities.

Reclassifications impacting level 3 of the fair value hierarchy are reported as transfers in/out of the level 3 category.

The following tables present the Bank's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis:

		As of June 30, 2022			
		Level 1	Level 2	Level 3	Total
		(in thousands)			
Assets					
Interest-bearing deposits in other banks ⁽¹⁾	\$	—	\$ 1,250	\$ —	\$ 1,250
Available-for-sale investment securities ⁽¹⁾		—	50,358	—	50,358
Equity securities		1,796	—	—	1,796
Total	\$	1,796	\$ 51,608	\$ —	\$ 53,404

(1) Total unrealized loss of \$1.4 million and \$3.1 million, net of tax, was included in accumulated other comprehensive income (loss) for the three and six months ended June 30, 2022, respectively related to these assets.

	As of December 31, 2021			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Assets				
Interest-bearing deposits in other banks ⁽¹⁾	\$ —	\$ 1,250	\$ —	\$ 1,250
Available-for-sale investment securities ⁽¹⁾	—	44,772	—	44,772
Equity securities	1,950	—	—	1,950
Total	\$ 1,950	\$ 46,022	\$ —	\$ 47,972

(1) Total unrealized loss of \$979 net of tax was included in accumulated other comprehensive income (loss) for the year ended December 31, 2021 related to these assets.

The following tables present the Bank's fair value hierarchy for those assets and liabilities measured at fair value on a non-recurring basis as of June 30, 2022 and December 31, 2021:

		As of June 30, 2022				
		Level 1	Level 2	Level 3	Total	
		(in thousands)				
Assets ⁽¹⁾						
Impaired loans (gross)	\$	—	\$	—	\$ 10,258	\$ 10,258
Loan collateral in process of foreclosure		—		—	14,053	14,053
Other assets		—		—	7,731	7,731
Total	\$	—	\$	—	\$ 32,042	\$ 32,042

(1) Total unrealized losses of \$9.0 million for impaired loans and \$0 for repossessed loan collateral related to these assets were included in income for the three months ended June 30, 2022.

		As of December 31, 2021				
		Level 1	Level 2	Level 3	Total	
		(in thousands)				
Assets ⁽¹⁾						
Impaired loans (gross)	\$	—	\$	—	\$ 10,414	\$ 10,414
Loan collateral in process of foreclosure		—		—	21,438	21,438
Other assets		—		—	3,818	3,818
Total	\$	—	\$	—	\$ 35,670	\$ 35,670

(1) Total unrealized losses of \$9.2 million for impaired loans and \$0 for repossessed loan collateral related to these assets were included in income for the year ended December 31, 2021.

Significant Unobservable Inputs

ASC Topic 820 requires disclosure of quantitative information about the significant unobservable inputs used in the valuation of assets and liabilities classified as level 3 within the fair value hierarchy. The table below is not intended to be all-inclusive, but rather to provide information on significant unobservable inputs and valuation techniques used by the Bank.

The valuation techniques and significant unobservable inputs used in non-recurring level 3 fair value measurements of assets and liabilities as of June 30, 2022 are as follows:

(Dollars in thousands)	Fair Value at June 30, 2022	Valuation Techniques	Unobservable Inputs	Range (Weighted Average)
Impaired loans (gross)	\$ 10,258	Market approach	Historical and actual loss experience	0.0% - 5.52%
				60% of balance
			Transfer prices ⁽¹⁾	\$0.0 - 79.5
			Collateral value	N/A
Loan collateral in process of foreclosure	14,053	Market approach	Transfer prices ⁽¹⁾	\$0.0 - 79.5
			Collateral value ⁽²⁾	\$1.8 - 34.2
Other Assets	7,731	Market approach	Transfer prices ⁽¹⁾	\$0.0 - 79.5
			Collateral value ⁽²⁾	\$1.8 - 34.2
(Dollars in thousands)	Fair Value at December 31, 2021	Valuation Techniques	Unobservable Inputs	Range (Weighted Average)
Impaired loans (gross)	\$ 10,414	Market approach	Historical and actual loss experience	1.50% - 6.00%
				60% of balance
			Transfer prices ⁽¹⁾	\$6.0 - 79.5
			Collateral value	N/A
Loan collateral in process of foreclosure	21,438	Market approach	Transfer prices ⁽¹⁾	\$6.0 - 79.5
			Collateral value ⁽²⁾	\$3.6 - 49.8
Other Assets	3,818	Market approach	Transfer prices ⁽¹⁾	\$6.0 - 79.5
			Collateral value ⁽²⁾	\$3.6 - 49.8

(1) Represents amount net of liquidation costs.

(2) Relates to the Recreation Lending segment.

14. Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series F

On December 17, 2019, the Bank closed an initial public offering of 1,840,000 shares of its Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series F, ("Series F") with a \$46.0 million aggregate liquidation amount, yielding net proceeds of \$42.5 million, which were recorded in the Bank's shareholders' equity. Dividends are payable quarterly from the date of issuance to, but excluding, April 1, 2025, at a rate of 8% per annum, and from and including April 1, 2025, at a floating rate equal to a benchmark rate (which is expected to be three-month Term SOFR, which is based on the Secured Overnight Financing Rate or SOFR) plus a spread of 6.46% per annum.

On January 27, 2022, the Board of Directors of the Bank (the "Board") declared a quarterly cash dividend of \$0.50 per share of Series F, which was paid on April 1, 2022 to shareholders of record on March 15, 2022. On April 28, 2022, the Board declared a quarterly cash dividend of \$0.50 per share of Series F, which was paid on July 1, 2022 to shareholders of record on June 15, 2022. On July 26, 2022, the Board declared a quarterly cash dividend of \$0.50 per share of Series F, which is payable on October 3, 2022 to shareholders of record on September 15, 2022.

15. Troubled Assets Relief Program ("TARP") and Small Business Lending Fund Program ("SBLF")

On February 27, 2009 and December 22, 2009, the Bank issued, and the U.S. Treasury purchased under the TARP Capital Purchase Program (the "CPP"), the Bank's fixed rate non-cumulative Perpetual Preferred Stock, Series A, B, C, and D for an aggregate purchase price of \$21.5 million in cash. On July 21, 2011, the Bank issued and the U.S. Treasury purchased 26,303 shares of Senior Non-Cumulative Perpetual Preferred Stock, Series E ("Series E"), for an aggregate purchase price of \$26.3 million under the SBLF, with a liquidation amount of \$1,000 per share. The SBLF is a voluntary program intended to encourage small business lending by providing capital to qualified smaller banks at favorable rates. In connection with the issuance of the Series E, the Bank exited the CPP by redeeming the Series A, B, C, and D; and received approximately \$4.0 million, net of dividends due, on the repaid securities. The Bank previously paid a dividend rate of 1% on the Series E, which increased to 9% in first quarter of 2016.

On March 29, 2022, the Board declared a quarterly cash dividend of \$22.50 per share of Series E, which was paid on March 31, 2022 to the shareholder of record on March 15, 2022. On June 23, 2022, the Board declared a quarterly cash dividend of \$22.50 per share of Series E, which was paid on June 29, 2022 to the shareholder of record on June 15, 2022.

16. Subsequent Events

The Bank has evaluated subsequent events from the balance sheet date through the date at which the financial statements were available to be issued, and determined that there are no other items to disclose.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Objective

The following is a discussion of our financial condition as of June 2022, as compared to December 2021, and our results of operations for the three and six months ended June 2022 and 2021. This section is intended to provide management's perspective of its results of operations. This discussion and analysis should be read in conjunction with our unaudited financial statements and related notes thereto presented elsewhere, as well as our Annual Report on Form 10-K for the year ended December 31, 2021. In addition to historical information, this discussion includes certain forward-looking statements regarding events and trends that may affect our future results. Such statements are subject to risks and uncertainties that could cause our actual results to differ materially. See "Cautionary Note Regarding Forward-Looking Statements." For a more complete discussion of the factors that could affect our future results, see Item 1A. "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2021.

General

We are a Utah-chartered, Federal Deposit Insurance Corporation ("FDIC") insured industrial bank headquartered in Salt Lake City, Utah. We specialize in providing consumer loans for the purchase of recreational vehicles ("RVs"), boats, and trailers, and to finance home improvements, such as swimming pools and replacement windows and roofs, as well as offering loan origination services to fintech partners. Formed in 2002 and opened in December 2003, we are a wholly owned subsidiary of Medallion Financial Corp. ("MFN"), a finance company. As a consolidated subsidiary of MFN, the Bank's assets, liabilities, results of operations and cash flows are reflected in MFN's consolidated financial statements. Financial information relating to the Bank in the Bank's disclosures, including this Form 10-Q, may not be comparable to financial information about the Bank in MFN's Securities and Exchange Commission ("SEC") filings because of intercompany assets, liabilities, revenues and expenses between the Bank, on the one hand, and MFN and MFN's other consolidated subsidiaries, on the other hand, that are eliminated in consolidation, as well as

methodological differences in segment disclosures. The methodological differences in segment disclosures reflect differences in the assets, liabilities, revenues, expenses, and activities of the Bank, on a standalone basis, and MFIN, on a consolidated basis.

In 2004, our first full year of operation, we acquired a consumer loan portfolio and hired the related employees from a company exiting the banking business. Following this acquisition, we began originating consumer loans used to purchase RVs, boats and trailers (which we refer to as our “Recreation Lending” segment and our “Recreation” loans). Over the next decade, we developed a foothold in this niche RV/marine finance business, which is now our primary business segment and our largest loan portfolio. In 2012, we diversified the Bank by adding a quality-oriented, home improvement consumer finance business (which we refer to as our “Home Improvement Lending” segment and our “Home Improvement” loans). The team of employees we hired in connection with this expansion brought substantial prime credit underwriting experience into the Bank. Today, our two consumer lending segments constitute the majority of the activity at the Bank.

In the second half of 2014, we ceased originating loans to finance the purchase of taxi medallions (which we refer to as our “Medallion” loans), though we have continued to refinance those loans as they mature and the Bank from time to time has provided financing to purchasers in connection with the disposition of repossessed medallion collateral. Our portfolio of Medallion loans has steadily declined in size since we ceased new originations and, as of June 2022, represented less than 1 percent of our loan portfolio. Due to the declining significance of the Medallion loans to our business, results of operations and financial condition, beginning with the fourth quarter of 2021, we include our activities relating to Medallion loans in our Other segment and ceased reporting those activities in a separate segment. As a result of this change, results for the Other segment prior periods have been adjusted to conform to the current presentation.

As of June 2022, we had total assets of \$1.8 billion, including a loan portfolio, net of the allowance for loan losses, of \$1.6 billion, and equity capital of \$282.9 million. For the three and six months ended June 2022, we had pre-tax income of \$24.4 million and \$49.9 million, respectively. We seek to maintain capital ratios in excess of those required for well-capitalized status under the FDIC’s regulatory framework, including a 15% Tier 1 leverage ratio as required by the 2003 Capital Maintenance Agreement (Tier 1 capital to average assets), which is well in excess of the 5% threshold for well-capitalized status.

As used throughout this Form 10-Q, all references to “Medallion Bank,” the “Bank,” “we,” “us,” and “our” mean Medallion Bank, an industrial bank organized and existing under the laws of the State of Utah, unless the context otherwise requires. References to this “Form 10-Q” are to our Quarterly Report on Form 10-Q for the three and six months ended June 30, 2022. All references to June 2022 and 2021 refer to our three or six months ended, or the dates, as the context requires, June 30, 2022 and June 30, 2021, respectively. All references to December 2021 refer to our year ended, or the date, as the context requires, December 31, 2021.

Any discrepancies included in this Form 10-Q between totals and the sums of the percentages and dollar amounts presented are due to rounding.

Unless otherwise specified, loan portfolios and loan balances are presented inclusive of net deferred loan acquisition costs. References to “gross” loans are to the face amounts of the loans, i.e., loan balances presented exclusive of net deferred loan acquisition costs.

Our Business

Our primary business is consumer lending, all of which is conducted through third-party sellers of consumer goods and services in our Recreation Lending and Home Improvement Lending segments. As of June 2022, our Recreation and Home Improvement loan portfolios together were \$1.6 billion, representing 90.5% of our total assets, with a weighted average yield (which is equal to gross interest income minus amortization of loan origination costs) of 11.5% and 11.5% for the three and six months ended June 2022. We work directly with dealerships, contractors and financial service providers (“FSPs”) largely via digital tools and Application Programming Interfaces (“APIs”) to offer financing for consumers, including those with past credit challenges. Business in the consumer lending segments is moderately seasonal, with the spring and summer quarters (the second and third quarters) being more active both for the purchase of recreation products and home improvements, which correspondingly results in higher origination volumes during those quarters. The degree to which our consumer loan businesses are seasonal also depends upon weather, with heavy winters making the business more seasonal as winters typically result in consumers making fewer purchases of recreation products and home improvements during the fall and winter quarters (the fourth and first quarters, respectively).

We make consumer loans to borrowers in all 50 U.S. states, plus the District of Columbia, and work with dealerships in 45 states in connection with our Recreation Lending segment and with contractors in 45 states in connection with our Home Improvement Lending segment. We serve our dealers and contractors primarily using digital tools like lending websites and mobile applications for phone or tablet, or via APIs designed to facilitate system to system credit transactions. We have dedicated teams of business development, relationship management and customer service employees that provide dealers and contractors with the support and services they require to meet the needs of their customers.

Recreation Lending. Our Recreation Lending segment has typically been a high-growth business focused on originating Recreation loans via dealers and FSPs. In addition to offering prime credit financing, we specialize in helping recreation product dealerships finance customers with past credit challenges, including bankruptcy, tax liens, collections and other credit issues. All of our Recreation loans are serviced by a third-party loan servicer, and we have used the same loan servicer since the business's inception.

Recreation loans represented \$1.1 billion, or 67.0%, of our loan portfolio, as of June 2022. The loans are secured primarily by RVs, boats and trailers with a small proportion of loans secured by other collateral such as collector cars, powersport vehicles and boat motors. The weighted average yield of our Recreation loan portfolio was 12.82% and 12.83% for the three and six months ended June 2022. During the three and six months ended June 2022, we originated \$170.2 million and \$284.6 million of Recreation loans, an increase of \$35.7 million and \$56.3 million over the three and six months ended June 2021.

Recreation Lending operates like a traditional indirect auto finance business including the use of technology at the point of sale to facilitate the transaction. We maintain relationships with approximately 3,200 dealers and FSPs, not all of which are active at any one time. FSPs are entities that provide finance and insurance ("F&I") services to small dealers that do not have the desire or ability to provide F&I services themselves. The ability of FSPs to aggregate the financing and relationship management for many small dealers makes them valuable to the Bank. We receive approximately half of our loan volume from dealers and the other half from FSPs. Management monitors the number of dealers and FSPs and their relative contributions as a means of assessing market share and segment growth. Over time, changes in these metrics will provide investors with information about origination concentration and growth trends in the segment. Approximately 48% and 48% of Recreation Lending's new loan originations in the three and six months ended June 2022 were from our top ten dealer and FSP relationships. The percentage of new loan originations by the top ten dealer and FSP relationships is a measure of concentration within the segment's loan originations, which management uses to determine whether to undertake diversification efforts, and which provides investors with information about origination concentration.

Home Improvement Lending. We work directly with contractors and FSPs to offer flexible customer financing for window, siding and roof replacement, swimming pool installation and other home improvement projects. Our core product is a standard installment loan, which features affordable monthly payments and competitive interest rates for prime credit customers at no cost to the contractor. We also offer a variety of promotional loan options to help contractors close a challenging sale. Promotional loan options include same-as-cash, no interest and deferred payment features, which allow borrowers to reduce the total cost of financing or start repayments when it is most convenient. Most credit transactions are submitted to the Bank electronically, with the majority delivered via API or custom mobile application designed for the contractor's phone or tablet.

Home Improvement loans represented \$526.4 million, or 32.1%, of our loan portfolio as of June 2022. The loans are secured by the personal property installed on the borrower's home, and the security interest for some of these loans is perfected with a Uniform Commercial Code ("UCC") fixture filing. The weighted average yield of the Home Improvement loan portfolio was 8.58% and 8.65% for the three and six months ended June 2022. During the three and six months ended June 2022, we originated \$105.2 million and \$195.0 million of Home Improvement loans, an increase of \$42.2 and \$83.9 million over the three and six months ended June 2021.

Home Improvement Lending operates in a manner similar to Recreation Lending, with a few key differences. We maintain a smaller number of relationships; the Bank currently has relationships with approximately 950 contractors and FSPs. Management monitors the number of contractors and FSPs and their relative contributions as a means of assessing market share and segment growth. Over time, changes in these metrics will provide investors with information about origination concentration and growth trends in the segment. Most of our home improvement-financed sales take place in the borrower's home instead of a store, with the contractor presenting the borrower with a bid that includes a financing option. A large proportion of our home improvement-financed sales are facilitated by contractor salespeople with limited financing background rather than by contractor employees that provide F&I services. The result is contractor demand for financing services that facilitate an in-home transaction (e.g., information technology and extended operating hours) and additional support for the salesperson throughout the financing process. Approximately, 65% and 64% of Home Improvement Lending's new loan originations in the three and six months ended June 2022, respectively, were from our top ten contractor and FSP relationships. The percentage of new loan originations by the top ten contractor and FSP relationships is a measure of concentration within the segment's loan originations, which management uses to determine whether to undertake diversification efforts, and which provides investors with information about origination concentration.

Other. Our remaining operations, which are reported in our "Other" segment in the financial statements contained elsewhere in this report, include our legacy portfolio of Medallion loans and related operations, our Strategic Partnership Program (described further below), and other loans that are not Recreation, Home Improvement or Medallion loans, as well as cash, investments and net non-interest earning assets. Medallion loans represented \$11.0 million, or 0.67%, of the Bank's loan portfolios as of June 2022.

Through our Strategic Partnership Program, we partner with non-banks offering loans and other financial services to their customers. As of June 2022, we have signed agreements with three Strategic Partnership Program clients. The associated activities are currently limited to originating loans or other receivables facilitated by our Strategic Partners and selling those loans or receivables to

our Strategic Partners or other third parties without recourse within a specified time after origination, such as three business days. Revenues are currently derived primarily from contracted program fees paid to us by our Strategic Partners and interest income earned while the loans or receivables remain on our books, offset by any transaction fees paid by us to our Strategic Partners for their role in processing loan applications. We have incurred expenses associated with the development of the Strategic Partnership Program, and we have incurred and expect to continue to incur increased compliance and other costs associated with the Strategic Partnership Program including as a result of new hires in program management and compliance roles. The scope of our activities may change over time as we further develop this line of business.

Business Environment

The spread of COVID-19 beginning in early 2020 led to disruptions in the U.S. financial markets and the economy generally. Although jurisdictions in the U.S. have eased certain travel restrictions, business closures and social-distancing measures, the U.S. economy continues to experience economic uncertainty. The continuing impact of the COVID-19 pandemic and its duration is unclear, particularly due to recurring COVID-19 outbreaks, the emergence of new COVID-19 variants, disparities in vaccination rates, vaccine hesitancy and the potential re-imposition of certain restrictions or lockdowns. The resulting economic uncertainties in the past have negatively affected, and may in the future negatively affect, the Bank's financial position, results of operations and cash flows. We expect this to remain the case until the economic uncertainty resulting from the COVID-19 pandemic subsides. Disruptions to the Bank's borrowers have negatively affected their ability to fulfill their obligations to the Bank. This has resulted, and may continue to result, in increased risk of delinquency, default, foreclosure, declining collateral values, loan losses and other adverse financial impacts. In addition, we have experienced, and may continue to experience, changes in loan origination credit quality mix, particularly for Recreation loans, which has in the past increased, and may in the future increase credit quality but at the expense of loan interest income yield. For additional information on the effects of the COVID-19 pandemic and the risks it poses for us, see Part I, Item 1A "Risk Factors" of our Annual Report on Form 10-K for the fiscal year ended December 31, 2021.

Russia's invasion of Ukraine starting in February 2022 and the resulting ongoing and evolving geopolitical response have had and are expected to continue to have a significant impact on gasoline and certain commodity prices and supply chains, which could negatively affect demand for our Recreation loans, in particular. Price inflation in the U.S. economy has caused rates to increase generally, and the demand for our products and creditworthiness of our borrowers may eventually be adversely affected. For additional information on the impact on our business of macroeconomic conditions that affect the U.S. economy, consumer spending and consumer credit, see Part I, Item 1A "Risk Factors" of our Annual Report on Form 10-K for the fiscal year ended December 31, 2021.

Critical Accounting Estimates

We follow financial accounting and reporting policies that are in accordance with U.S. generally accepted accounting principles ("GAAP"). Some of these significant accounting policies require management to make difficult, subjective or complex judgments. The policies noted below, however, are deemed to be our "critical accounting policies" under the definition given to this term by the SEC: those made in accordance with GAAP that involve a significant level of estimation uncertainty and have had or are reasonably likely to have a material impact on our financial condition or results of operations. These estimates are most important to the presentation of a company's financial condition and results of operations, and require management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

The judgments used by management in applying the critical accounting policies may be affected by deterioration in the economic environment, which may result in changes to future financial results. Specifically, subsequent evaluations of the loan portfolio, in light of the factors then prevailing, may result in significant changes to the allowance for loan losses in future periods, and the inability to collect on outstanding loans could result in increased loan losses.

Allowance for Loan Losses

In analyzing the adequacy of the allowance for loan losses for Recreation and Home Improvement loans, we use a one-year look-back period. For all Medallion loans, the Bank maintains specific reserves adjusting the loans down to net collateral value. The allowance is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and size of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, prevailing economic conditions, and excess concentration risks. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available.

Our methodology to calculate the general reserve portion of the allowance includes the use of quantitative and qualitative factors. We initially determine an allowance based on quantitative loss factors for loans evaluated collectively for impairment. The quantitative loss factors are based primarily on historical loss rates, after considering loan type, historical loss and delinquency experience. The quantitative loss factors applied in the methodology are periodically re-evaluated and adjusted to reflect changes in historical loss levels or other risks. Our quantitative loss factor rates decreased by 54 basis points and 7 basis points for Recreation and

Home Improvements loans, respectively, as of June 2022 compared to June 2021, as a result of lower trailing twelve-month loss rates in 2022. Qualitative loss factors are used to modify the reserve determined by the quantitative factors and are designed to account for losses that may not be included in the quantitative calculation according to management's best judgment. Our qualitative loss factor rates increased 12 basis points and 9 basis points for Recreation and Home Improvement loans, respectively, as of June 2022 compared to June 2021, as a result of changes in macro-economic conditions, including interest rate increases related to inflation and concerns about the effect of that inflation on our borrowers. If our qualitative loss factor rates were to further increase or decrease 50 basis points, our Recreation and Home Improvement general reserve would correspondingly increase or decrease by \$5.3 million and \$2.6 million, respectively. Performing loans are recorded at book value and the general reserve maintained to absorb expected losses consistent with GAAP.

The Recreation and Home Improvement loan portfolio reserves are calculated consistent with ASC 450, which is designed for homogeneous pools of loans. We segment the portfolios by risk profile in order to reach the necessary level of homogeneity. Our Medallion loans are analyzed on a more granular level, are segmented by jurisdiction, and are subject to specific reserves as required by ASC 310. Due to the current nonaccrual status of the portfolio, all Medallion loans are assigned the same credit grade of 6, or substandard, using the Bank's 8-point grading system. The credit grading process is subjective and administered by our loan servicer, MFIN, under the oversight of our Chief Lending Officer and related Loan Portfolio Review Committee.

Medallion loans are considered impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement, including scheduled principal and interest payments. We consider all nonaccrual loans and loans restructured under modified terms, including, for example, rate reductions, principal forgiveness, term extensions, payment forbearance, and other actions that are worse than market to be impaired loans, and the related specific allowances for losses are determined on an individual basis. Impairment testing is done using the collateral method or a discounted cash flow model and, if a value deficiency is found, a specific reserve is booked to the allowance for loan losses. Due to the current nonaccrual status of the portfolio, we are testing all the Medallion loans for impairment using the collateral method and booking specific reserves as needed.

We charge off Home Improvement and Medallion loans in the period that such loans are deemed uncollectible or when they reach 120 days delinquent. Recreation loans that are not subject to an active bankruptcy proceeding are also charged off when deemed uncollectible or when they reach 120 days delinquent. Recreation loans that are subject to an active bankruptcy proceeding are charged down to 60% of the outstanding loan balance until the bankruptcy is discharged.

The methodology used in the periodic review of reserve adequacy, which is performed at least quarterly, is designed to be responsive to changes in portfolio credit quality and inherent credit losses. The changes are reflected in both the pooled formula reserve and in specific reserves as the collectability of larger classified loans is regularly recalculated with new information as it becomes available. Management is primarily responsible for the overall adequacy of the allowance. Allowance adequacy is also approved by the Board of Directors and assessed by the Bank's internal audit function, which performs independent credit reviews and a validation of the allowance model.

In addition, bank regulators, as an integral part of their supervisory functions, periodically review our loan portfolio and related allowance for loan losses. These regulatory agencies may require us to increase our allowance for loan and lease losses or to recognize further loan charge-offs based upon their judgments, which may be different from ours. An increase in the allowance for loan losses required by these regulatory agencies could materially adversely affect our financial condition and results of operations.

Medallion Loan Collateral Valuation

For Medallion loans, delinquent nonperforming loans are valued at collateral value for the most recent quarter. Collateral value for the Medallion loans is generally determined utilizing factors deemed relevant under the circumstances of the market including but not limited to: actual and pending transfers (excluding transfers determined by management not to be arms-length based on available information), median and average sales prices, discounted cash flows, market direction and sentiment, and general economic trends for the industry and economy. For the current period, transfer activity was the primary consideration utilized in our valuation process. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available.

Deferred Taxes

Deferred taxes reflect the impact of temporary differences between the carrying amount of assets and liabilities and their tax basis and are stated at tax rates expected to be in effect when taxes are actually paid or recovered. Deferred tax assets are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their existing tax bases. In addition, a valuation allowance is recorded when it is deemed that some or all of the deferred tax assets will not be realized due to temporary differences.

Key Elements for Three Months Ended June 2022 compared to Three Months Ended June 2021

Below are key elements of our performance for the three months ended June 2022 compared to the three months ended June 2021.

- Net income was \$17.9 million for the three months ended June 2022 compared to \$17.5 million for the three months ended June 2021. The increase in net income was driven by an increase in net interest income, a decrease in fair value adjustments to Medallion loan collateral, and partly offset by an increase in our provision for loan losses.
- Loan origination volumes increased 39.0% to \$275.4 million during the three months ended June 2022 compared to the three months ended June 2021, with both our Recreation and Home Improvement loan portfolios experiencing growth due to elevated demand for our financing products.
- Net interest income increased to \$40.0 million for the three months ended June 2022, a 20.7% increase over the three months ended June 2021, primarily due to higher average balances in our Recreation and Home Improvement loan portfolios.
- Our efficiency ratio was 24.56% for the three months ended June 2022, an improvement of 220 basis points over the efficiency ratio for the three months ended June 2021, primarily driven by loan portfolio growth resulting in increased interest income.
- Our net charge-off rate decreased 370 basis points to 0.22% for the three months ended June 2022 compared to the three months ended June 2021 due primarily to reduced net charge-offs in the Medallion loan portfolio, partially offset by an increase in charge-offs in the Recreation and Home Improvement loan portfolios. Our provision for loan losses increased by \$6.4 million for the three months ended June 2022 compared to 2021, primarily due to loan portfolio growth and loan loss rates stabilizing instead of falling.

Key Elements for Six Months Ended June 2022 compared Six Months Ended June 2021

Below are key elements of our performance for the six months ended June 2022 compared to the six months ended June 2021.

- Net income was \$36.6 million for the six months ended June 2022 compared to net income of \$31.3 million for the six months ended June 2021. The increase in net income was driven by an increase in net interest income, a decrease in fair value adjustments to Medallion loan collateral, and partially offset by an increase in our provision for loan losses.
- Loan origination volumes increased 41.0% to \$479.6 million during the six months ended June 2022 compared to the six months ended June 2021, with both our Recreation and Home Improvement loan portfolios experiencing growth.
- Net interest income increased 20.3% to \$77.2 million for the six months ended June 2022 compared to the six months ended June 2021, primarily due to higher average balances in our Recreation and Home Improvement loan portfolios.
- Our efficiency ratio was 24.89% for the six months ended June 2022, an improvement of 263 basis points over the efficiency ratio for the six months ended June 2021, primarily driven by loan portfolio growth resulting in increased interest income.
- Medallion loans declined 2.6% to \$11.0 million at June 2022 compared to December 2021 primarily due to loan charge-offs and payment amortization.
- Gross loan delinquencies 30 days or greater decreased by 26 basis points to 2.07% of period-end loan portfolio balances at June 2022 compared to December 2021, largely due to improved credit performance by our borrowers.
- Our net charge-off rate decreased 206 basis points to 0.46% for the six months ended June 2022 compared to the six months ended June 2021 due primarily to decreased charge-offs and increased recoveries in the Medallion loan portfolio partially offset by an increase in charge-offs in the Recreation and Home Improvement loan portfolios. Our provision for loan losses increased by \$5.8 million, or 243%, for the six months ended June 2022 compared to 2021, primarily due to loan portfolio growth.

- Our Tier 1 capital increased by \$285.9 million from December 2021 and our Tier 1 leverage ratio decreased to 17.0% compared to 17.5% at December 2021, driven by balance sheet growth and dividends paid, but partly offset by increased net income during the six months ended June 2022.

Results of Operations

Net Income

Net income was \$17.9 million and \$36.6 million for the three and six months ended June 2022 compared to net income of \$17.5 million and \$31.3 million for the three and six months ended June 2021, respectively. The increase in net income for the three and six months ended June 2022 was driven by an increase in net interest income, a decrease in fair value adjustments to Medallion loan collateral, and offset by an increase in our provision for loan losses.

The returns on average shareholders' equity and average total assets for the three and six months ended June 2022 were 25.86% and 4.20% and 27.19% and 4.49% respectively, compared to 29.95% and 5.19% and 27.57% and 4.78%, respectively, for the three and six months ended June 2021, driven by balance sheet growth and decreasing net interest margin associated with changes in portfolio and credit mix.

	Three Months Ended June 30,	
	2022	2021
	(in thousands)	
Interest income	\$ 44,905	\$ 37,594
Interest expense	4,912	4,465
Net interest income	39,993	33,129
Provision (benefit) for loan losses	5,986	(374)
Net interest income after provision for loan losses	34,007	33,503
Non-interest income (loss)	338	(982)
Non-interest expense	9,904	8,605
Earnings before provision for income taxes	24,441	23,916
Provision for income taxes	6,581	6,397
Net income	<u>\$ 17,860</u>	<u>\$ 17,519</u>

	Six Months Ended June 30,	
	2022	2021
	(in thousands)	
Interest income	\$ 86,249	\$ 73,350
Interest expense	9,066	9,176
Net interest income	77,183	64,174
Provision for loan losses	8,130	2,364
Net interest income after provision for loan losses	69,053	61,810
Non-interest income (loss)	108	(2,016)
Non-interest expense	19,234	17,127
Earnings before provision for income taxes	49,927	42,667
Provision for income taxes	13,283	11,376
Net income	<u>\$ 36,644</u>	<u>\$ 31,291</u>

Other Financial and Statistical Data

The following table sets forth certain other financial and statistical data for the periods indicated:

	As of and For the Three Months Ended June 30,			
	2022		2021	
	\$	%	\$	%
	(dollars in thousands)			
Return on average assets ⁽¹⁾		4.20%		5.19%
Return on average equity ⁽¹⁾		25.86%		29.95%
Equity to assets		15.76%		17.18%
Non-interest expense as a % of average loan receivables ⁽¹⁾		2.54%		2.79%
Efficiency ratio ⁽²⁾		24.56%		26.77%
Effective income tax rate		26.93%		26.75%
Total loan receivables	1,638,427		1,274,846	
Average balances				
Recreation	1,050,657		860,613	
Home Improvement	499,365		353,833	
Medallion	11,100		22,107	
Other	2,145		1,877	
Interest-earning cash and equivalents	1,250		49,915	
Federal Funds Sold	74,318		—	
Securities available for sale	47,705		44,119	
Equity securities	1,844		1,971	
Net charge-offs				
Recreation ⁽¹⁾	2,503	0.96%	(499)	0.23%
Home Improvement ⁽¹⁾	642	0.52%	292	0.33%
Medallion ⁽¹⁾	(2,282)	(82.46%)	12,320	223.53%
Other ⁽¹⁾	—	—%	(1)	(0.21%)
Allowance for loan losses as a % of period-end loan receivables				
Recreation	(39,858)	3.63%	(36,053)	4.04%
Home Improvement	(9,473)	1.80%	(6,566)	1.78%
Medallion	(8,721)	79.06%	(10,153)	78.67%
Other	(26)	1.10%	(27)	1.43%
30+ days past due as a % of period-end loan receivables				
Recreation	31,255	2.84%	18,699	2.51%
Home Improvement	2,670	0.51%	897	0.25%
Medallion	—	—%	10,094	64.77%
Other	—	—%	—	—%
Asset Quality Ratios				
Gross nonperforming loans to total gross loans		1.20%		1.64%
Allowance for loan losses to gross nonperforming loans		301.44%		257.99%

(1) Ratios annualized based on actual days.

(2) Efficiency ratio is the ratio of non-interest expense to the sum of net interest income and non-interest income.

As of and For the Six Months Ended June 30,				
	2022		2021	
	\$	%	\$	%
(dollars in thousands)				
Return on average assets ⁽¹⁾		4.49%		4.78%
Return on average equity ⁽¹⁾		27.19%		27.57%
Equity to assets		15.76%		17.18%
Non-interest expense as a % of average loan receivables ⁽¹⁾		2.57%		2.85%
Efficiency ratio ⁽²⁾		24.89%		27.55%
Effective income tax rate		26.60%		26.66%
Total loan receivables	1,638,427		1,274,846	
Average balances				
Recreation	1,017,649		835,440	
Home Improvement	477,370		346,254	
Medallion	11,180		26,319	
Other	2,063		1,860	
Interest-earning cash and equivalents	1,250		44,713	
Federal Funds Sold	67,138		—	
Securities available for sale	45,926		43,797	
Equity securities	1,899		1,698	
Net charge-offs				
Recreation ⁽¹⁾	5,103	1.01%	2,727	0.66%
Home Improvement ⁽¹⁾	1,263	0.53%	636	0.37%
Medallion ⁽¹⁾	(2,926)	(52.78%)	11,760	90.11%
Other ⁽¹⁾	(5)	(0.49%)	(1)	(0.11%)
Allowance for loan losses as a % of period-end loan receivables				
Recreation	(39,858)	3.63%	(36,053)	4.04%
Home Improvement	(9,473)	1.80%	(6,566)	1.78%
Medallion	(8,721)	79.06%	(10,153)	78.67%
Other	(26)	1.10%	(27)	1.43%
30+ days past due as a % of period-end loan receivables				
Recreation	31,255	2.84%	18,699	2.10%
Home Improvement	2,670	0.51%	897	0.24%
Medallion	—	—%	10,094	78.21%
Other	—	—%	—	—%
Asset Quality Ratios				
Gross nonperforming loans to total gross loans		1.20%		3.32%
Allowance for loan losses to gross nonperforming loans		301.44%		166.52%

(1) Ratios annualized based on actual days.

(2) Efficiency ratio is the ratio of non-interest expense to the sum of net interest income and non-interest income.

Average Balance Sheet

The following table provides average balance sheet details for the periods indicated, which are used in the discussion of interest income, interest expense and net interest income that follows:

As of and For the Three Months Ended June 30						
2022			2021			
Average Balance	Interest Income/Expense	Average Yield/Rate ⁽¹⁾	Average Balance	Interest Income/Expense	Average Yield/Rate ⁽¹⁾	
(dollars in thousands)						
Assets						
Interest-earning assets:						
Interest-earning cash and cash equivalents	\$ 1,250	\$ 5	1.60%	\$ 1,313	\$ 5	1.53%
Federal-Funds Sold	74,318	81	0.44%	48,602	4	0.03%
Securities available for sale	47,705	435	3.66%	44,119	220	2.00%
Equity securities	1,844	6	1.31%	1,971	6	1.22%
Loan receivables:						
Recreation	1,050,657	33,574	12.82%	860,613	28,947	13.49%
Home Improvement	499,365	10,677	8.58%	353,833	8,318	9.43%
Medallion	11,100	217	7.84%	22,107	20	0.36%
Other	2,145	(90)	(16.83%)	1,877	74	15.81%
Total loan receivables	1,563,267	44,378	11.39%	1,238,430	37,359	12.10%
Allowance for loan losses	(55,440)			(59,053)		
Net loan receivables	1,507,827			1,179,377		
Total interest-earning assets	\$ 1,688,384	\$ 44,905	10.67%	\$ 1,334,435	\$ 37,594	11.30%
Non-interest-earning assets:						
Cash and due from banks	137			115		
Accrued interest receivable	10,984			9,296		
Repossessed inventory – recreation	1,093			989		
Repossessed inventory – taxi medallion	25,159			37,229		
Other assets held in bankruptcy	1,800			1,800		
Deferred and other tax assets, net	8,050			5,681		
Other assets	26,645			22,675		
Total assets	\$ 1,706,811			\$ 1,353,167		
Interest-bearing liabilities:						
Interest-bearing deposit accounts	\$ 1,387,904	\$ 4,912	1.42%	\$ 1,104,935	\$ 4,465	1.62%
Borrowings	—	—	—%	—	—	—%
Total interest-bearing liabilities	\$ 1,387,904	\$ 4,912	1.42%	\$ 1,104,935	\$ 4,465	1.62%
Non-interest-bearing liabilities:						
Accrued interest payable	1,405			1,511		
Other liabilities	13,688			10,645		
Due to affiliates	122			398		
Dividends payable	1,710			1,085		
Taxes payable	25,010			—		
Shareholders' Equity	276,973			234,592		
Total liabilities and Equity	\$ 1,706,812			\$ 1,353,167		
Interest rate spread			9.25%			9.68%
Net interest income		\$ 39,993			\$ 33,129	
Net interest margin			9.50%			9.96%

(1) Ratios annualized based on actual days.

As of and For the Six Months Ended June 30,						
2022			2021			
Average Balance	Interest Income/Expense	Average Yield/Rate ⁽¹⁾	Average Balance	Interest Income/Expense	Average Yield/Rate ⁽¹⁾	
(dollars in thousands)						
Assets						
Interest-earning assets:						
Interest-earning cash and cash equivalents	\$ 1,250	\$ 10	1.61%	\$ 1,393	\$ 11	1.59%
Federal-Funds Sold	67,138	95	0.57%	43,320	9	0.08%
Securities available for sale	45,926	644	2.83%	43,797	422	1.94%
Equity securities	1,889	11	1.17%	1,698	13	1.54%
Loan receivables:						
Recreation	1,017,649	64,769	12.83%	835,440	56,429	13.62%
Home Improvement	477,370	20,468	8.65%	346,254	16,313	9.50%
Medallion	11,180	217	3.91%	26,319	38	0.29%
Other	2,063	35	3.42%	1,860	115	12.47%
Total loan receivables	1,508,262	85,489	11.43%	1,209,873	72,895	12.15%
Allowance for loan losses	(54,459)			(61,548)		
Net loan receivables	1,453,803			1,148,325		
Total interest-earning assets	\$ 1,624,465	\$ 86,249	10.71%	\$ 1,300,081	\$ 73,350	11.38%
Non-interest-earning assets:						
Cash and due from banks	139			118		
Accrued interest receivable	10,692			9,493		
Reposessed inventory – recreation	1,267			1,053		
Reposessed inventory – taxi medallion	26,371			38,065		
Other assets held in bankruptcy	1,800			1,800		
Deferred and other tax assets, net	7,766			7,879		
Other assets	25,765			22,311		
Total assets	\$ 1,643,808			\$ 1,319,252		
Interest-bearing liabilities:						
Interest-bearing deposit accounts	\$ 1,333,828	\$ 9,066	1.37%	\$ 1,077,260	\$ 9,176	1.72%
Borrowings	—	—	—%	—	—	—%
Total interest-bearing liabilities	\$ 1,333,828	\$ 9,066	1.37%	\$ 1,077,260	\$ 9,176	1.72%
Non-interest-bearing liabilities:						
Accrued interest payable	1,364			1,575		
Other liabilities	12,441			9,561		
Due to affiliates	380			(2)		
Dividends payable	1,954			1,097		
Taxes payable	22,088			—		
Shareholders' Equity	271,753			228,905		
Total liabilities and Equity	\$ 1,643,808			\$ 1,318,397		
Interest rate spread			9.33%			9.66%
Net interest income		\$ 77,183			\$ 64,174	
Net interest margin			9.57%			9.95%

(1) Ratios annualized based on actual days.

Net Interest Income

Net interest income is the difference between interest earned on assets and interest incurred on liabilities, and typically constitutes a substantial majority of our total revenue. For the three and six months ended June 2022, net interest income was \$40.0 million and \$77.2 million, respectively, compared to \$33.1 million and \$64.2 million, respectively, for the three and six months ended June 2021. The following sections provide a description of the component parts of net interest income.

Interest Income

Interest income is comprised of interest and fees on loans, which includes discounts paid by dealers, contractors and FSPs to compensate us for all or part of the promotional financing provided to their customers, and interest on cash and cash equivalents and investment securities. We include interest and fees on loans and any past due interest and fees deemed to be collectible in interest income. Fees on loans and certain direct loan origination costs are deferred and amortized over the expected life of the loan to better match income and expense in accordance with GAAP. Both fees and costs are captured in interest and fees on loans, with fees increasing yield and costs decreasing yield. See “Note 1. Organization and summary of significant accounting policies” in the unaudited financial statements included elsewhere in this Form 10-Q for additional information on our revenue recognition policy for interest income.

Interest income increased by \$7.3 million, or 19.45%, for the three months ended June 2022 compared to the three months ended June 2021 and \$12.9 million, or 17.59%, for the six months ended June 2022 compared to the six months ended June 2021, due primarily to higher average balances in our Recreation and Home Improvement loan portfolios.

The yield on our average loans outstanding decreased to 11.39% for the three months ended June 2022 compared to 12.10% for the three months ended June 2021, and decreased to 11.43% for the six months ended June 2022 compared to 12.15% for the six months ended June 2021. The yield decrease was primarily due to decreases in the interest rates on new loans originated for both Recreation and Home Improvement loans, plus an increase in the percentage of interest-earning assets attributable to Home Improvement loans, which have a lower yield.

Interest Expense

Interest expense increased by \$0.4 million, or 10.01%, for the three months ended June 2022 compared to the three months ended June 2021, driven by growth in our deposit liabilities partially offset by a decrease in our overall cost of funds. Our cost of funds decreased to 1.42% for the three months ended June 2022 compared to 1.62% for the three months ended June 2021, mostly due to the aggregate effect of the long period of market interest rate declines prior to increases experienced in the three months ended June 2022.

Interest expense decreased by \$0.1 million, or 1.20%, for the six months ended June 2022 compared to the six months ended June 2021, driven by a decrease in our overall cost of funds partially offset by growth in our deposit liabilities. Our cost of funds decreased to 1.37% for the six months ended June 2022 compared to 1.72% for the six months ended June 2021, mostly due to the aggregate effect of the long period of market interest rate declines prior to increases experienced in the six months ended June 2022.

Provision for Loan Losses

Our provision for loan losses was \$6.0 million for the three months ended June 2022, compared to a benefit of \$0.4 million for the three months ended June 2021, an increase of \$6.4 million. The increase was primarily due to growth in our Recreation and Home Improvement loan portfolios, loan loss rates for Recreation and Home Improvement loan portfolios stabilizing instead of falling, and partly offset by an increase in Medallion loan recoveries.

Our provision for loan losses was \$8.1 million for the six months ended June 2022, compared to \$2.4 million for the six months ended June 2021, an increase of \$5.8 million. The increase was primarily due to growth in our Recreation and Home Improvement loan portfolios, loan loss rates for Recreation and Home Improvement loans stabilizing instead of falling, and partially offset by an increase in Medallion loan recoveries.

Recreation and Home Improvement Loan Provisions

Provisions for the three months and six months ended June 2022 increased primarily due to the growth in our Recreation and Home Improvement loan portfolios, loan loss rates stabilizing instead of falling and partly offset by an increase in Medallion loan recoveries. Our quantitative loss factor rates decreased by 54 basis points and 7 basis points to 3.74% and 1.79% for Recreation and Home Improvements loans, respectively, as of June 2022 compared to June 2021, as a result of lower trailing twelve-month loss rates in 2022. Our qualitative loss factor rates increased by 12 basis points and 9 basis points for Recreation and Home Improvements loans,

respectively, as of June 2022 compared to June 2021 as a result of changes to economic conditions and management's assessment of the adequacy of current reserves.

The provision for Recreation loans for the three months ended June 2022 was \$6.7 million compared to \$1.0 million for the three months ended June 2021. The provision for Home Improvement loans for the three months ended June 2022 was \$1.7 million compared to \$0.7 million for the three months ended June 2021. The increases were due to loan portfolio growth and loan loss rates stabilizing instead of falling.

The provision for Recreation loans for the six months ended June 2022 was \$8.4 million compared to \$4.6 million for the six months ended June 2021. The provision for Home Improvement loans for the six months ended June 2022 was \$2.9 million compared to \$1.2 million for the six months ended June 2021. The increases were due to loan portfolio growth and loan loss rates stabilizing instead of falling.

For additional information about the provision for loan losses and the allowance, see the discussion of asset quality and the allowance for loan losses below, as well as in "Note 3. Loans and allowance for loan losses" in the unaudited financial statements included elsewhere in this Form 10-Q.

Medallion Valuation Methodology and Loan Provisions

The determination of taxi medallion collateral fair value is derived quarterly for each jurisdiction. Management uses different reserve methodologies for performing and nonperforming Medallion loans. Performing Medallion loans are carried at book value and are offset by a general reserve, consistent with GAAP. Nonperforming Medallion loans, which, as of June 2022, included all Medallion loans, are valued at collateral value for the most recent quarter. Collateral value for Medallion loans is generally determined using factors deemed relevant under the circumstances of the market including but not limited to: actual and pending transfers (excluding transfers determined by management not to be arms-length based on available information), median and average sales prices, discounted cash flows, market direction and sentiment, and general economic trends for the industry and economy. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available.

The benefit for loan losses for Medallion loans for the three and six months ended June 2022 was \$2.4 million and \$3.1 million, respectively, compared to a benefit of \$2.1 million and \$3.5 million for the three and six months ended June 2021. The increase in benefit for the three months ended June 2022 was driven in part by higher recoveries and a decline in the size of the allowance for loan losses due to shrinking outstanding loan balances compared to the period ended June 2021. The decrease in the benefit for loan losses in the six months ended June 2022 was driven in part by lower recoveries and partly offset by a decline in the size of the allowance for loan losses due to shrinking outstanding loan balances compared to the period ended June 2021.

Non-Interest Income

For the three months ended June 2022, non-interest income was \$0.3 million, compared to a loss of \$1.0 million for the three months ended June 2021. The increase in non-interest income for the three months ended June 2022 was the result of lower write downs of the estimated value of our repossessed loan collateral compared to the three months ended June 2021.

For the six months ended June 2022, non-interest income was \$0.1 million, compared to a loss of \$2.0 million for the six months ended June 2021. The increase in non-interest income for the six months ended June 2022 was the result of lower write downs of the estimated value of our repossessed loan collateral compared to the six months ended June 2021. Write downs of repossessed loan collateral occur as we mark to market value the repossessed taxi medallion collateral, the remaining value of which appears in the unaudited financial statements of this Form 10-Q as \$13.2 million of the \$14.1 million in "Loan collateral in process of foreclosure" at June 2022.

Non-Interest Expense

Non-interest expense was \$9.9 million for the three months ended June 2022 compared to \$8.6 million for the three months ended June 2021. The increase was due primarily to higher salaries and benefits driven by rising compensation costs and an increase in the number of our employees, and servicing fees and regulatory fees.

Non-interest expense was \$19.2 million for the six months ended June 2022 compared to \$17.1 million for the six months ended June 2021. The increase was due primarily to higher salaries and benefits driven by rising compensation costs and an increase in the number of our employees, and servicing fees and regulatory fees, most of which is associated with the increased size of our loan portfolios.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
	(in thousands)			
Salary and benefits	\$ 3,466	\$ 2,798	\$ 6,971	\$ 5,602
Loan servicing	2,787	2,704	5,456	5,352
Collection costs	1,319	1,120	2,478	2,135
Professional fees	394	474	805	898
Regulatory fees	560	456	1,011	895
Occupancy and equipment	127	187	370	373
Other	1,251	866	2,143	1,872
Total	<u>\$ 9,904</u>	<u>\$ 8,605</u>	<u>\$ 19,234</u>	<u>\$ 17,127</u>

Transactions with Affiliates

We benefit from services we receive from MFIN and certain other affiliates. In 2010, MFIN formed MSC to provide loan servicing, collection and other borrower services to the Bank pursuant to a loan servicing agreement. The services provided by MSC to the Bank include services in connection with the liquidation of our Medallion loan portfolio. We also receive certain corporate services, including support for human resources and legal, from MFIN pursuant to a corporate services agreement. We no longer pay MFIN for business development and investor relations services, the latter of which we receive under a contract with a third party. We expect servicing and collection costs to remain relatively high as a result of ongoing servicing and workouts associated with the Medallion loan portfolio. Costs related to human resources services will depend on the number of employees at the Bank, and costs for legal support will vary from period to period depending on the projects active at the time. As of June 2022 and December 2021, the Bank held a \$100,000 collateral deposit due to MFIN.

In the three months ended June 2022, we compensated MFIN for loan servicing in the amount of \$659,000, which was a decrease of \$305,000 from the three months ended June 2021. This was due to a decrease in servicing and collection activity associated with Medallion loans as the portfolio decreased in size. We compensated MFIN in the amount of \$88,000 for corporate services provided by MFIN in the three months ended June 2022, a net increase of \$198,000 over a reimbursement we received in the three months ended June 2021. The increase was largely due to a nonrecurring reversal of accruals as a result of the cessation of business development and investor relations services provided under the corporate services agreement.

In the six months ended June 2022, we compensated MFIN for loan servicing in the amount of \$1,366,000, which was a decrease of \$590,000 over the related compensation in the six months ended June 2021. This was due to a decrease in servicing and collection activity associated with Medallion loans as the portfolio decreased in size. We compensated MFIN in the amount of \$176,000 for corporate services in the six months ended June 2022, a decrease of 16.7% over the related compensation in the six months ended June 2021. The decrease was largely due to the cessation of business development and investor relations services provided under the corporate services agreement.

Provision for Income Taxes

Our income tax expense reflects management's best estimate of current and future taxes to be paid. In projecting future taxable income, we begin with historical results and incorporate assumptions about the amount of future state and federal operating income. These assumptions about future taxable income require judgment and are consistent with the plans we use to manage our segments.

As a consolidated entity with MFIN for tax purposes, the Bank makes its estimated tax payments to MFIN instead of directly to the Internal Revenue Service. The Bank makes some of its state tax payments directly to states to which it has an obligation and some on a consolidated basis with MFIN.

In the three months ended June 2022, we recognized income tax expense of \$6.6 million, reflecting an effective tax rate of 26.93%. In the six months ended June 2022, we recognized income tax expense of \$13.3 million, reflecting an effective tax rate of 26.60%.

Segment Results

Based on our internal operating structure, we determined our operations are organized into three reportable segments representing our two core businesses, the "Recreation Lending" and "Home Improvement Lending" segments, plus an "Other" segment. As we grow and develop our Strategic Partnership Program, which is currently included within our Other segment, we will

monitor our segment composition. Due to the declining significance of Medallion loans to our business, results of operations and financial condition, beginning with the quarter ended December 31, 2021, we included our activities relating to Medallion loans in our Other segment and ceased reporting those activities in a separate segment. Prior periods have been conformed to the current presentation.

Our Recreation Lending segment is a consumer finance business that works with third-party dealers and FSPs for the purpose of financing RVs, boats and other consumer recreational equipment. The Home Improvement Lending segment is a consumer finance business that works with contractors and FSPs in order to finance residential home improvements. The Other segment consists of our remaining operations, including Medallion loans, activities related to our Strategic Partnership Program and other loans that are not Recreation, Home Improvement or Medallion loans. The primary factors considered in determining the reportable segments for our core businesses include the nature of the underlying collateral financed, the resources used to provide the products and services to our dealers, contractors and FSPs, and our internal operating structure.

The segment information reported is based on the “management approach” as described in ASC 280. The Bank’s segment results are intended to reflect each segment as if it were a stand-alone business. Management’s accounting process uses various estimates and allocation methodologies to measure the performance of each segment. To establish the financial performance for each segment, the Bank allocates funding costs and certain non-interest expenses to each segment, as applicable.

As a consolidated subsidiary of MFIN, the Bank’s assets, liabilities, results of operations and cash flows are reflected in MFIN’s consolidated financial statements. Financial information relating to the Bank in the Bank’s disclosures, including this Form 10-Q, may not be comparable to financial information about the Bank in MFIN’s SEC filings because of intercompany assets, liabilities, revenues and expenses between the Bank, on the one hand, and MFIN and MFIN’s other consolidated subsidiaries, on the other hand, that are eliminated in consolidation, as well as methodological differences in segment disclosures. The methodological differences in segment disclosures reflect differences in the assets, liabilities, revenues, expenses and activities of the Bank, on a standalone basis, and MFIN, on a consolidated basis.

Recreation Lending

The Recreation Lending segment has typically been a high-growth prime and non-prime consumer finance business which is a significant source of income for the Bank, accounting for 74.8% and 75.1% of our interest income for the three and six months ended June 2022 and 2021, respectively. The loans are secured primarily by RVs, boats and trailers.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
	(dollars in thousands)		(dollars in thousands)	
Gross interest income	\$ 36,304	\$ 31,424	\$ 69,938	\$ 61,068
Amortization of loan origination costs	(2,730)	(2,477)	(5,169)	(4,639)
Other income	—	—	—	—
Interest expense	3,292	2,996	6,141	6,182
Provision for loan losses	6,674	1,022	8,354	4,637
Servicing fees	2,321	2,067	4,495	4,031
Salaries	1,942	1,653	3,922	3,271
Direct	475	422	804	686
Overhead	1,359	1,202	2,599	2,482
Net income before taxes	\$ 17,510	\$ 19,585	\$ 38,455	\$ 35,140
Average loans outstanding	\$1,050,657	\$ 860,613	\$1,017,649	\$ 835,440
(as a % of average loans outstanding)⁽¹⁾				
Gross interest income	14.01%	14.69%	13.86%	14.70%
Amortization of loan origination costs	(1.05)	(1.16)	(1.02)	(1.12)
Interest expense	(1.27)	(1.40)	(1.22)	(1.49)
Provision for loan losses	(2.58)	(0.48)	(1.66)	(1.12)
Servicing fees	(0.90)	(0.97)	(0.89)	(0.97)
Salaries	(0.75)	(0.77)	(0.78)	(0.79)
Direct	(0.18)	(0.20)	(0.16)	(0.17)
Overhead	(0.52)	(0.56)	(0.52)	(0.60)
Net income before taxes	6.76	9.15	7.62	8.46

(1) Ratios annualized based on actual days.

Net income before taxes decreased \$2.1 million to \$17.5 million in the three months ended June 2022 compared to the three months ended June 2021, primarily due to an increase in provision for loan losses as a result of loan portfolio growth and loan loss rates stabilizing after a downward trend that encompassed the period ended June 2021, and partly offset by net interest income growth.

Net income before taxes increased \$3.3 million to \$38.5 million in the six months ended June 2022 over the six months ended June 2021, primarily due to an increase in gross interest income as a result of portfolio growth and partly offset by an increase in provision for loan losses as a result of portfolio growth and loan loss rates stabilizing after a downward trend that encompassed the period ended June 2021.

During the three and six months ended June 2022, we originated \$170.2 million and \$284.6 million in Recreation loans, an increase of \$35.7 million and \$56.3 million from the three and six months ended June 2021.

In addition to offering prime credit financing, we specialize in helping recreation product dealerships finance customers with past credit challenges, which include bankruptcy, tax liens, collections and other credit issues. The proportion of Recreation loans funded that are prime credit increased substantially in 2009 as a result of financial crisis-related market disruptions, then declined somewhat in subsequent years as competition increased for prime credit loans, before rebounding in the second half of 2021 as a result of tightening our underwriting standards. As of June 2022 and 2021, the weighted average origination FICO scores of our loans outstanding were 670 and 664 for this portfolio, respectively. The weighted average FICO scores at the time of origination for the loans funded in the three months ended June 2022 and 2021 were 677 and 684, respectively.

Recreation loans represented \$1.1 billion, or 67.0%, of the Bank's loan portfolio as of June 2022, up from \$965.3 million, or 68.2%, of the Bank's loan portfolio as of December 2021. The gross interest income yield of our Recreation loan portfolio was 14.01% and 13.86% for the three and six months ended June 2022, compared to 14.69% and 14.70% for the three and six months ended June 2021, respectively.

The Bank maintains relationships with approximately 3,200 dealers and FSPs, not all of which are active at any one time. The ability of FSPs to aggregate the financing and relationship management for many small dealers makes them valuable to the Bank. Management monitors the number of dealers and FSPs and their relative contributions as a means of assessing market share and segment growth. Over time, changes in these metrics will provide investors with information about loan origination concentration and growth trends in the segment. Approximately 48% and 48% of Recreation Lending's new loan originations in the three and six months ended June 2022, respectively, were from our top ten dealer and FSP relationships. The percentage of new loan originations by the top ten dealer and FSP relationships is a measure of concentration within the segment's loan originations, which management uses to monitor concentrations and determine whether to undertake diversification efforts, and which provides investors with information about loan origination concentration.

The Recreation loan portfolio consists of thousands of geographically distributed loans with an average loan size of approximately \$17,900. The loans are fixed rate loans with an average loan term at origination of approximately 11.4 years. The weighted average maturity of our loans outstanding is 9.6 years. See "Loan Portfolios." The loan terms and weighted average maturities aid management in making appropriate funding type and maturity decisions and provide investors with information about the characteristics of our loan portfolio and asset-liability management activities. Recreation loans are made to borrowers residing in all fifty states, with the highest concentrations in Texas and Florida at 16% and 10% at June 2022, respectively, compared to concentrations in Texas and California at 16% and 10% of loans outstanding at December 2021, respectively, and with no other states over 10%. Recreation loans are secured primarily by RVs and boats, with RV loans making up 54% of the portfolio and boat loans making up 18% of the portfolio at June 2022, compared to 55% and 18% at December 2021. The percentage of new loan originations by state and by collateral type provide management and investors with information about concentration exposures, which management uses to monitor concentrations and determine whether to undertake diversification efforts.

Our Recreation Lending net charge-offs for the three and six months ended June 2022 were 0.96% and 1.01% of average loans outstanding, respectively, and 0.23% and 0.66% for the three and six months ended June 2021. The increase in net charge-offs in Recreation Lending in the three and six months ended June 2022 was due to declining credit performance and a lower rate of recovery.

Our Recreation Lending provision for loan losses for the three and six months ended June 2022 was 2.58% and 1.66% of average loans outstanding, respectively, compared to a provision for loan losses of 0.48% and 1.12% for the three and six months ended June 2021, respectively. The increase from June 2021 to June 2022 was largely due to portfolio growth and the stabilization of loan loss rates after a downward trend that encompassed the periods ended June 2021.

We maintain an allowance for Recreation loan losses that was \$39.9 million, or 3.63%, of the Recreation loan portfolio as of June 2022. If the allowance for loan losses increases as a result of changes in macroeconomic conditions, our provision for loan losses will also increase. The recovery rates and typical time periods for repossessing and liquidating the collateral underlying our Recreation loans mitigates our exposure to loan losses in this portfolio. Our practice is to perfect security interests in the underlying collateral, when possible, except when it is impractical given the small size of the loan or collateral perfection requirements in particular states. If state law permits titling of collateral, we typically perfect our interest via the titling process, which designates the Bank as a lien holder on the title for the collateral and thus facilitates the process for repossession under applicable state law. If a UCC filing is the only mechanism to perfect our interest in collateral, we record that UCC filing in state records.

Home Improvement Lending

The Home Improvement Lending segment originates loans secured primarily by window, siding and roof replacements; and swimming pool installations.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
	(dollars in thousands)		(dollars in thousands)	
Gross interest income	\$ 10,297	\$ 7,908	\$ 19,768	\$ 15,406
Amortization of loan origination costs	380	410	700	907
Other income	3	16	11	42
Interest expense	1,239	1,078	2,226	2,199
Provision for loan losses	1,697	738	2,902	1,209
Servicing fees	542	436	1,050	859
Salaries	1,280	966	2,577	1,931
Direct	196	155	380	293
Overhead	499	368	895	775
Net income before taxes	\$ 5,228	\$ 4,593	\$ 10,448	\$ 9,089
Average loans outstanding	\$ 499,365	\$ 353,833	\$ 477,370	\$ 346,254
(as a % of average loans outstanding)⁽¹⁾				
Gross interest income	8.29 %	8.99 %	8.37 %	8.95 %
Amortization of loan origination costs	0.31	0.47	0.30	0.53
Other income	—	0.02	—	0.02
Interest expense	(1.00)	(1.23)	(0.94)	(1.28)
Provision for loan losses	(1.37)	(0.84)	(1.23)	(0.70)
Servicing fees	(0.44)	(0.50)	(0.44)	(0.50)
Salaries	(1.03)	(1.10)	(1.09)	(1.12)
Direct	(0.16)	(0.18)	(0.16)	(0.17)
Overhead	(0.40)	(0.42)	(0.38)	(0.45)
Net income before taxes	4.21	5.22	4.43	5.28

(1) Ratios annualized based on actual days.

Net income before taxes increased to \$5.2 million for the three months ended June 2022 compared to \$4.6 million in 2021, mostly due to an increase in gross interest income, partly offset by increases in provision for loan losses and interest expense. Net income before taxes increased to \$10.4 million for the six months ended June 2022 compared to \$9.1 million in 2021, mostly due to an increase in gross interest income, partly offset by increases in provision for loan losses and interest expense.

Home Improvement loans represented \$526.4 million, or 32.1%, of the Bank's loan portfolios as of June 2022, up from \$436.9 million, or 30.9%, of the Bank's loan portfolios as of December 2021. Home Improvement Lending provides us with high-quality assets; as of June 2022 and 2021 the weighted average origination FICO scores of our loans outstanding in this portfolio were 753 and 755, respectively. The weighted average FICO scores at the time of origination for the loans funded in the three months ended June 2022 and 2021 were 758 and 759, respectively. The gross interest income yield of the Home Improvement Lending portfolio was 8.29% and 8.37% for the three and six months ended June 2022, respectively, compared to 8.99% and 8.95% for the three and six months ended June 2021.

The Bank currently has relationships with approximately 950 contractors and FSPs. Management monitors the number of contractors and FSPs and their relative contributions as a means of assessing market share and segment growth. Over time, changes in these metrics will provide investors with information about loan origination concentration and growth trends in the segment. Approximately 65% and 64% of Home Improvement Lending's new loan originations in the three and six months ended June 2022 were from our top ten contractor and FSP relationships. The Home Improvement loan portfolio is concentrated in roofs, swimming pools, and windows at 36%, 25%, and 12% at June 2022, respectively, compared to concentrations in roofs, swimming pools, and windows at 30%, 26%, and 13% at December 2021, respectively, with no other collateral types over 10%. Home Improvement loans are made to borrowers residing in all fifty states, with the highest concentrations in Texas and Florida at 11% and 10%, respectively, at June 2022, compared to concentrations in Texas and Florida at 11% and 10% at December 2021, respectively, and with no other states over 10%. The percentage of new loan originations by the top ten relationships, by collateral type and by state provides management

and investors with information about concentration exposures that management uses to monitor concentrations and determine whether to undertake diversification efforts.

The weighted average maturity of our loans outstanding was 12.3 years as of June 2022 and the average loan size was approximately \$18,700. The average loan term at origination was approximately 14.0 years. See "Loan Portfolios." The loan terms and weighted average maturities aid management in making appropriate funding type and maturity decisions and provide investors with information about the characteristics of our loan portfolio and asset-liability management activities.

Our Home Improvement Lending net charge-offs for the three and six months ended June 2022 were 0.52% and 0.53% of average loans outstanding, respectively, and 0.33% and 0.37% for the three and six months ended June 2021. Since we commenced Home Improvement Lending in early 2012, annual net charge-offs have not exceeded 1.12%. Geographic dispersion of the Home Improvement loan portfolio supplements credit quality in reducing risk.

Our Home Improvement Lending provisions for loan losses for the three and six months ended June 2022 were 1.37% and 1.23% of average loans outstanding, respectively, and 0.84% and 0.70% for the three and six months ended June 2021. The increases in the three and six months ended June 2022 were largely due to increased loan delinquency and loss and portfolio growth.

Losses in the Home Improvement loan portfolio are initially gross losses because recoveries are relatively slow, sometimes taking years to realize. This is due to the nature of the UCC fixture filing, which is our means of perfecting the security interest for Home Improvement loans. Recovery is generally realized upon the sale or refinance of the underlying real property. We obtain the right to file a UCC fixture filing in county records for all loans in the security agreement of our loan, but our practice is to record UCC fixture filings at origination for only those loans which finance swimming pools installations, for home improvement projects with large loan amounts, or for borrowers who have relatively low credit scores. We often record UCC fixture filings after origination for loans without perfected collateral that become delinquent. The UCC fixture filing does not give us the right to foreclose and we do not repossess collateral. Instead, the UCC filing appears in real property records to notify lienholders of our interest in the personal property affixed to that real property.

Other

The Other segment includes Medallion loans, activities related to our Strategic Partnership Program, and other loans that are not Recreation, Home Improvement or Medallion loans, as well as cash, investments and net non-interest earning assets. Due to the declining significance of the Medallion loans to our business, results of operations and financial condition, beginning with the fourth quarter of 2021, we included our activities relating to Medallion loans in our Other segment and ceased reporting those activities in a separate segment. As a result of this change, results for our Other segment for 2021 have been adjusted to conform to the current presentation.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
	(dollars in thousands)		(dollars in thousands)	
Gross interest income	\$ 653	\$ 334	\$ 1,013	\$ 617
Amortization of loan origination costs	—	—	—	—
Other costs	335	(2,125)	98	155
Interest expense	381	392	700	796
Benefit for loan losses	(2,385)	(2,134)	(3,126)	(3,481)
Servicing fees	1,012	1,117	1,983	2,262
Salaries	244	165	459	386
Direct	15	16	32	30
Overhead	20	35	39	88
Net Income (loss) before taxes	\$ 1,702	\$ (258)	\$ 1,024	\$ (1,553)
Average loans outstanding	\$ 13,245	\$ 23,984	\$ 13,243	\$ 28,179
(as a % of average loans outstanding)⁽¹⁾				
Gross interest income	19.79%	15.42%	15.42%	4.42%
Amortization of loan origination costs	—	—	—	—
Other costs	(10.15)	(1.48)	1.48	1.11
Interest expense	(11.55)	(10.65)	10.65	5.69
Benefit for loan losses	72.24	47.61	(47.61)	(24.91)
Servicing fees	(30.65)	(30.20)	30.20	16.19
Salaries	(7.39)	(6.99)	6.99	2.76
Direct	(0.45)	(0.48)	0.48	0.21
Overhead	(0.59)	(0.60)	0.60	0.63
Net income (loss) before taxes	51.55	15.59	15.59	(11.12)

(1) Ratios annualized based on actual days.

Net income for the Other segment was \$1.7 million in the three months ended June 2022 compared to net loss of \$0.3 million for the three months ended June 2021. Net income for the Other segment was \$1.0 million in the six months ended June 2022 compared to net loss of \$1.5 million for the six months ended June 2021. The increase in net income for the Other segment in the three and six months ended June 2022 was due to increased recoveries of our Medallion loans and an increase in interest income.

Other loans represented \$13.4 million, or 0.82%, and \$13.2 million, or 0.93%, of the Bank's loan portfolios as of June 2022 and December 2021.

The Medallion loan portfolio that is included in Other loans is declining as a result of charge-offs and amortization payments. Until September 2014, we originated Medallion loans, which finance the purchase of taxi medallions, in connection with MFIN's business. However, due to the dramatic impact of ride-sharing companies like Uber and Lyft on taxi fare volumes and taxi medallion values, we transitioned away from this aspect of our business. We continue to refinance Medallion loans as they mature and offer financing in connection with the dispositions of existing medallion assets given the scarcity of alternative financing for such borrowers. All loans associated with our Medallion loan portfolio are secured by taxi medallions and guaranteed by the taxi medallion owners. Our remaining Medallion loans are concentrated in New York City. Our Medallion loan portfolio declined from \$393.9 million at its peak in July 2014 to \$11.0 million and \$11.3 million as of June 2022 and December 2021, respectively. Loan loss reserves are currently 79.1% of the outstanding Medallion loan portfolio as of June 2022 and the Medallion loan portfolio has

decreased to 0.6% of our total assets as of June 2022, down from a high of 46.9% as of December 2011. See “Critical Accounting Estimates” elsewhere in this document for a discussion of our allowance methodology

The following table presents the total exposure of our Medallion loans and related activities:

	As of June 30, 2022	As of December 31, 2021
	(in thousands)	
Loans	\$ 11,691	\$ 11,983
Net deferred loan acquisition costs	(660)	(660)
Allowance for loan losses	(8,721)	(8,916)
Loans, net	2,310	2,407
Reposessed inventory- taxi medallion	13,175	19,719
Remarketed assets, net	7,731	7,430
Total	<u>\$ 23,216</u>	<u>\$ 29,556</u>

Loan Portfolios

Total loans increased by \$223.0 million to \$1.6 billion as of June 2022, from \$1.4 billion as of December 2021, as a result of Recreation and Home Improvement loan growth. Our total loan-to-deposit ratio increased to 111.3% as of June 2022 from 110.5% as of December 2021.

	As of June 30, 2022		As of December 31, 2021	
	Amount	%	Amount	%
	(dollars in thousands)			
Loan receivables				
Recreation	\$1,098,663	67.05%	\$ 965,279	68.19%
Home Improvement	526,373	32.13%	436,928	30.87%
Medallion	11,031	0.67%	11,323	0.80%
Other	2,359	0.14%	1,885	0.13%
Total	<u>\$1,638,426</u>	<u>100.00%</u>	<u>\$1,415,415</u>	<u>100.00%</u>

As of June 2022 and December 2021, the Recreation loan portfolio represented 67.0% and 68.2% of outstanding loan balances, while our Home Improvement loan portfolio represented 32.1% and 30.9%, and Medallion loan portfolio represented 0.7% and 0.8% of outstanding loan balances, respectively.

Because of high prepayment speeds due both to early pay-downs and payoffs, the average life associated with our consumer loan portfolios is significantly shorter than the average maturity. The average life of our Recreation loans is projected to be approximately 40 months while the average life of our Home Improvement loans is projected to be approximately 31 months. The average life of our loans aids management in making appropriate funding type and maturity decisions and provides investors with information about the characteristics of our loan portfolios and asset-liability management activities. Our maturity calculations use the contractual amortization amount plus projected loan losses and monthly prepayment speeds consistent with our experience over the prior 12 months for both portfolios. In the case of Recreation loans, the projected loss assumption is 137 basis points and the prepayment speed assumption is 1.80% per month. For Home Improvement loans, the projected loss assumption is 35 basis points and the prepayment speed assumption is 2.67% per month. For comparison, the average maturity is based on the contractual terms of the loans in each portfolio.

As of June 30, 2022						
Months to Maturity						
	Within 1 year	1-5 years	5-15 years	15+ years	Total Gross Loans	
	(in thousands)					
Fixed rate						
Recreation	\$ 2,447	\$ 103,318	\$ 926,096	\$ 28,242	\$ 1,060,103	
Home Improvement	17,243	26,295	336,977	148,309	528,824	
Medallion	1,964	8,421	—	—	10,385	
Other	535	1,824	—	—	2,359	
Adjustable rate						
Recreation	\$ 3,525	\$ 1,031	\$ —	\$ —	\$ 4,556	
Home Improvement	—	—	—	—	—	
Medallion	1,306	—	—	—	1,306	
Other	—	—	—	—	—	
Total gross loans	\$ 27,020	\$ 140,889	\$ 1,263,073	\$ 176,551	\$ 1,607,533	

Credit Quality

For consumer loans, we consider the borrower's payment history and current payment performance as leading indicators of credit quality. Recreation, Home Improvement and Medallion loans are considered nonperforming generally when they become 90 days delinquent based on contractual terms, at which time the accrual of interest income is discontinued, when classified as a Troubled Debt Restructuring ("TDR"), or when otherwise impaired.

	Gross Performing	Gross Nonperforming	Total
	(in thousands)		
As of June 30, 2022			
Recreation	\$ 1,059,244	\$ 5,415	\$ 1,064,659
Home Improvement	528,428	396	528,824
Medallion	1	11,690	11,691
Other	594	1,765	2,359
Total	<u>\$ 1,588,267</u>	<u>\$ 19,266</u>	<u>\$ 1,607,533</u>
As of December 31, 2021			
Recreation	\$ 930,300	\$ 5,731	\$ 936,031
Home Improvement	439,275	133	439,408
Medallion	—	11,983	11,983
Other	90	1,795	1,885
Total	<u>\$ 1,369,665</u>	<u>\$ 19,642</u>	<u>\$ 1,389,307</u>

The decrease in the value of gross nonperforming loans as of June 2022 was driven by an improvement in delinquency for Recreation and Home Improvement loans.

Impaired Loans and TDRs

Our loss mitigation strategies sometimes result in rate reductions, principal forgiveness, extensions or other actions, which may cause a related loan to be classified as a TDR and also be impaired. Loans classified as TDRs are recorded at their present value with impairment measured as the difference between the loan balance and the present value of cash flows expected to be collected, discounted at the original effective interest rate of the loan.

Medallion loan TDRs are placed on nonaccrual status until the Bank believes repayment under the revised terms is reasonably assured and a sustained period of repayment performance has been achieved (typically six months for a monthly amortizing loan). For TDRs that are accruing interest, interest income is accounted for in the same manner as other accruing loans. The TDR classification remains on the loan until it is paid in full or liquidated. As TDRs, they are subject to analysis for specific reserves and are individually evaluated. If determined to be impaired, one of the following standard three impairment measurement methods as of the evaluation date is used: (1) the present value of expected future cash flows discounted at the loan's effective interest rate, (2) the loan's observable market price, or (3) the fair value of the collateral less selling costs if the loan is collateral-dependent.

Nonperforming Assets

Nonperforming assets include nonperforming loans as well as other repossessed assets. Loans are generally placed on nonaccrual status upon becoming 90 days past due. At the time a loan is placed on nonaccrual status, the accrued but uncollected interest receivable is reversed and accounted for on a cash basis or cost recovery basis, until qualifying for return to accrual status.

	As of June 30, 2022	As of December 31, 2021
	(dollars in thousands)	
Gross loans on nonaccrual:		
Recreation	\$ 3,677	\$ 3,526
Home Improvement	396	133
Medallion	—	260
Other	1,765	1,795
Total	<u>\$ 5,838</u>	<u>\$ 5,714</u>
Troubled debt restructured loans:		
Recreation	\$ 1,738	\$ 2,205
Home Improvement	—	—
Medallion	11,690	11,723
Other	—	—
Total	<u>\$ 13,428</u>	<u>\$ 13,928</u>
Other repossessed inventory - Recreation	878	1,720
Other repossessed inventory - Medallion	13,175	19,719
Other assets held in bankruptcy	1,800	1,800
Total nonperforming assets	<u>\$ 35,119</u>	<u>\$ 42,881</u>
Asset Quality Ratios:		
Total gross nonaccrual loans to total gross loans	1.15%	1.35%
Total nonperforming assets to total assets	1.96%	2.79%
Allowance for loan losses to gross nonaccrual loans	307.13%	278.81%
Allowance for loan losses to total gross loans	3.54%	3.77%

Significant gross nonaccrual loans as of June 2022 and December 2021 included 24 and 27 Medallion loans totaling \$11.7 million and \$12.0 million, respectively. Each nonaccrual Medallion loan is actively managed by the Bank, and each Medallion loan is tested for impairment each month. If the loan balance exceeds the value of the collateral less selling costs on a nonaccrual loan, a specific allocation is recorded to the allowance for loan losses for each such Medallion loan. The allowances for loan losses for the Recreation and Home Improvement loan portfolios do not include specific allocations for nonaccrual loans.

As of June 2022 and December 2021, no Medallion loans were past due 90 days or more for which we were engaged in workout negotiations.

Our repossessed assets as of June 2022 and December 2021 were \$14.1 million and \$21.4 million, respectively. The decrease was driven by the liquidation and resale of repossessed Medallion and Recreation assets.

Delinquencies

Loan delinquencies of 30 days or more as a percentage of period-end loan balances outstanding decreased to 2.07% as of June 2022, as compared to 3.03% as of December 2021. The 96 basis point decrease in the period ended June 2022 was driven by a decrease in delinquencies for the Recreation and Medallion loan portfolios.

	Current	30-59	60-89	90+	Total Gross Loans
	(in thousands)				
As of June 30, 2022					
Recreation	\$ 1,033,404	\$ 19,923	\$ 7,497	\$ 3,835	\$ 1,064,659
Home Improvement	526,154	1,728	546	396	528,824
Medallion	11,691	—	—	—	11,691
Other	2,359	—	—	—	2,359
Total	<u>\$ 1,573,608</u>	<u>\$ 21,651</u>	<u>\$ 8,043</u>	<u>\$ 4,231</u>	<u>\$ 1,607,533</u>
As of December 31, 2021					
Recreation	\$ 905,262	\$ 20,269	\$ 6,636	\$ 3,864	\$ 936,031
Home Improvement	437,274	1,521	480	133	439,408
Medallion	3,772	—	8,211	—	11,983
Other	1,885	—	—	—	1,885
Total	<u>\$ 1,348,193</u>	<u>\$ 21,790</u>	<u>\$ 15,327</u>	<u>\$ 3,997</u>	<u>\$ 1,389,307</u>

Net Charge-Offs

Net charge-offs consist of the unpaid principal balance of loans that we determine are uncollectible, net of recovered amounts. For loans with tangible collateral that we repossess with intent to sell, charge-offs are also net of the estimated fair value of that collateral minus disposition costs. We exclude accrued and unpaid finance charges and fees from recorded charge-off amounts. Instead, charged-off and recovered finance charges and fees are included in interest and fees on loans.

Charge-offs are recorded as a reduction to the allowance for loan losses, and subsequent recoveries of previously charged-off amounts are credited to the allowance for loan losses. Costs incurred to recover charged-off loans are recorded as collection expense and included in other expense in our statements of comprehensive income.

	Three months ended June 30,		Six Months Ended June 30,	
	2022 ⁽¹⁾	2021 ⁽¹⁾	2022 ⁽¹⁾	2021 ⁽¹⁾
Recreation	0.96%	(0.23%)	1.01%	0.66%
Home Improvement	0.52%	0.33%	0.53%	0.37%
Medallion	(82.46%)	223.53%	(52.78%)	90.11%
Other	—%	(0.21%)	(0.49%)	(0.11%)

(1) Ratios annualized based on actual days.

Our net charge-offs during the three months ended June 2022 decreased to \$0.9 million compared to \$12.1 million in the three months ended June 2021. The decrease in net charge-offs was due primarily to decreases in charge-offs in the Medallion loan portfolio. We recorded \$(2.3) million in total net Medallion loan charge-offs for the three months ended June 2022.

Our net charge-offs during the six months ended June 2022 decreased to \$3.4 million compared to \$15.1 million in the six months ended June 2021. The decrease in net charge-offs was largely due to a decrease in charge-offs in the Medallion loan portfolio. We recorded \$(2.9) million in total net Medallion loan charge-offs for the six months ended June 2022.

Allowance for Loan Losses

The allowance is maintained at a level estimated by management to absorb probable losses inherent in the loan portfolios and is based on management's continuing evaluation of the portfolio, the related risk characteristics, and the overall economic and environmental conditions affecting the portfolios. The estimation is inherently subjective as it requires measurements that are susceptible to significant revision as more information becomes available. As of June 2022 and December 2021, our allowance totaled \$58.1 million and \$53.4 million, which represented 3.54% and 3.77% of total loans, respectively. The increase in the allowance for loan losses as of June 2022 was primarily driven by Recreation and Home Improvement loan portfolio growth, a reduction in the size of the Medallion loan portfolio where all loans were reserved to collateral value, and partly offset by decreased delinquency and loss in the Recreation and Home Improvement loan portfolios over the previous twelve months.

For a summary of our accounting methodologies relating to the allowance for loan losses, see the Allowance for Loan Losses section of our significant accounting policies in "Note 1. Organization and summary of significant accounting policies" in the unaudited financial statements included elsewhere in this Form 10-Q.

Annually, we analyze our allowance methodology to assess whether updates are necessary based on various considerations including current market conditions, portfolio trends and industry information. Historically, proxy loss factors based on current industry studies were utilized in the Medallion loan portfolio's general reserve calculation.

	As of June 30, 2022				As of December 31, 2021			
	Loan Amount	%	Allowance Amount	Allowance as a % of Loan Amount	Loan Amount	%	Allowance Amount	Allowance as a % of Loan Amount
	(dollars in thousands)							
Loan receivables:								
Recreation	\$1,098,663	67.06%	\$ 39,857	3.63%	\$ 965,279	68.20%	\$ 36,607	3.79%
Home Improvement	526,373	32.13%	9,473	1.80%	436,927	30.87%	7,833	1.79%
Medallion	11,031	0.67%	8,721	79.06%	11,323	0.80%	8,917	78.74%
Other	2,359	0.14%	26	1.10%	1,885	0.13%	27	1.43%
Total	<u>\$1,638,426</u>	<u>100.00%</u>	<u>\$ 58,078</u>	<u>3.54%</u>	<u>\$1,415,414</u>	<u>100.00%</u>	<u>\$ 53,384</u>	<u>3.77%</u>

	Three months ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
	(dollars in thousands)		(dollars in thousands)	
Beginning balance - ALLL	\$ 52,955	\$ 65,284	\$ 53,383	\$ 65,557
Charge-offs:				
Recreation	5,074	3,088	10,141	8,783
Home Improvement	1,108	850	2,168	1,626
Medallion	—	14,150	—	14,780
Other	—	—	—	—
Total charge-offs	<u>\$ 6,182</u>	<u>\$ 18,088</u>	<u>\$ 12,309</u>	<u>\$ 25,189</u>
Recoveries:				
Recreation	\$ 2,571	\$ 3,587	\$ 5,038	\$ 6,056
Home Improvement	466	558	905	990
Medallion	2,282	1,830	2,926	3,019
Other	—	1	5	1
Total recoveries	<u>\$ 5,319</u>	<u>\$ 5,976</u>	<u>\$ 8,874</u>	<u>\$ 10,066</u>
Net charge-offs	<u>\$ 863</u>	<u>\$ 12,112</u>	<u>\$ 3,435</u>	<u>\$ 15,123</u>
Provision (benefit)	<u>\$ 5,986</u>	<u>\$ (374)</u>	<u>\$ 8,130</u>	<u>\$ 2,364</u>
Ending balance - ALLL	<u>\$ 58,078</u>	<u>\$ 52,799</u>	<u>\$ 58,078</u>	<u>\$ 52,799</u>
Ratios:				
ALLL to total loans	3.54%	4.14%	3.54%	4.14%
Net charge-offs to average loans ⁽¹⁾	0.22%	3.93%	0.46%	2.52%

(1) Ratios annualized based on actual days.

Funding, Liquidity and Capital Resources

Our funding, liquidity and capital policies are designed to ensure that the Bank has the liquidity and capital resources to support our daily operations, our expected business growth, potential risks associated with our lending activities, and our regulatory and policy requirements in a cost-effective and prudent manner through expected and unexpected market environments. The table below presents the components of our debt:

	As of June 30, 2022			As of December 31, 2021		
	Average Balance	%	Average Rate	Average Balance	%	Average Rate
	(dollars in thousands)			(dollars in thousands)		
Interest-bearing deposit accounts	\$ 1,333,828	100.00%	1.37%	\$ 1,134,523	100.00%	1.55%
Borrowings	—	—%	—%	—	—%	—%
Total interest-bearing liabilities	\$ 1,333,828	100.00%	1.37%	\$ 1,134,523	100.00%	6.22%

The decrease in the average interest rate on interest-bearing deposits from 1.55% as of December 2021 to 1.37% as of June 2022 was primarily due to the aggregate effect of the long period of low market interest rates prior to the rate increases experienced in the three months ended June 2022. Overall average interest rate changes occur more slowly than market interest rate changes since the effects of the latter are experienced by the Bank as deposits mature and we acquire replacements or additional deposits due to asset growth.

Deposits

We obtain substantially all of the funding for our business through time certificates of deposit in amounts less than or equal to \$250,000, originated nationally through a variety of deposit broker relationships. Brokered deposits offer a low-cost source of funding compared to credit facilities and other funding sources utilized by non-bank lending businesses. We monitor the term, maturity schedule and concentrations of our brokered deposits to manage our funding risk, and we regularly assess the Bank's liquidity position through stress tests. As of June 2022 and December 2021, the weighted average maturity of our time certificates of deposit was 778 days and 731 days, respectively. We maintain a minimum of ten active deposit broker relationships, which is intended to ensure that our funding is stable and consistent. We do not originate deposits directly from retail customers and we have no branch operations.

Our ability to use brokered deposits to fund our business is subject to the capitalization requirements set forth in the FDIC's regulatory framework. A bank may not accept or renew brokered deposits unless it is "well-capitalized," or it is "adequately capitalized" and receives a waiver from the FDIC. A bank that is "adequately capitalized" and accepts or renews brokered deposits is subject to additional restrictions on the interest rates it may offer. See "Supervision and Regulation—Brokered Deposits" in our Annual Report on Form 10-K for the year ended December 31, 2021. As described below, we seek to maintain our capital ratios well above the quantitative thresholds for well-capitalized status.

In October 2020, we began to originate time deposits through an internet listing service. These deposits are offered by other financial institutions. As of June 30, 2022, the Bank had \$8.7 million in listing service deposits. We believe that listing service deposits will aid in managing our liquidity position.

Short-Term Borrowings

Our short-term borrowings consist of lines of credit offered by our correspondent banks to address temporary funding needs when it is not feasible to acquire time certificates of deposit through our network of brokers. As of June 2022 and December 2021, we had two active lines of credit with credit limits of \$25.0 million and \$20.0 million, giving us a total of \$45.0 million in short-term borrowing capacity.

As of June 2022 and December 2021, there were no drawn amounts on these lines of credit. One of the unused facilities operates as an overdraft sweep with our main operating account. Although we tested this facility in the quarter ended June 2022, we did not use it in the quarter ended June 2022 or in the quarter ended June 2021.

Liquidity

We seek to ensure that we have adequate liquidity to sustain business operations, fund asset growth and to meet regulatory expectations under normal and stress conditions. We maintain policies outlining the overall framework and general principles for managing liquidity risk, which is the responsibility of our Asset and Liability Management Committee. Those policies include a strategy of matching maturities of deposits and loans, maintaining cash and securities at a minimum of 5% of total assets, limiting net loans to 115% of total borrowings, and ensuring consistent access to a variety of funding sources. On a regular basis we perform liquidity stress testing and contingency planning as part of our liquidity management process. During such tests, we evaluate a range of stress scenarios including bank-specific and systemic events that could impact funding sources and our ability to meet liquidity needs.

We maintain a portfolio of cash and investment securities for liquidity purposes, which as of June 2022 and December 2021 had \$144.3 million and \$106.2 million, respectively, of cash and cash equivalents and agency residential mortgage-backed securities. The increase in cash and investments as of June 2022 compared to December 2021 was due to growth in the balance sheet and the acquisition of deposits which we expect to use to fund growth in our Recreation and Home Improvement loan portfolios. As additional sources of liquidity, as of June 2022 and December 2021, we had an aggregate of \$45.0 million of undrawn capacity in credit facilities from private lenders. See "Short-Term Borrowings" for details about these credit facilities.

As a general matter, our investments are highly liquid, giving us the ability to readily convert them to cash. The level and composition of our liquidity portfolio may fluctuate based upon the level of expected maturities of our funding sources as well as operational requirements and market conditions.

Capital and Payment of Dividends

As a Utah state-chartered industrial bank, we are required to maintain minimum levels of regulatory capital. These standards generally are as stringent as the comparable capital requirements imposed on national banks. We are also subject to FDIC regulations that apply to every FDIC-insured depository institution, a system of mandatory and discretionary supervisory actions that generally become more severe as the capital levels of an individual institution decline. The regulations establish five capital categories for purposes of determining our treatment under these prompt corrective action (“PCA”) provisions: “well-capitalized,” “adequately capitalized,” “undercapitalized,” “significantly undercapitalized,” or “critically undercapitalized.”

In connection with the formation of the Bank, we agreed with the FDIC that we will maintain a Tier 1 leverage ratio of at least 15%, which is well in excess of the 5% threshold for well-capitalized status.

We are currently and have historically been capitalized in excess of minimum regulatory requirements. As of June 2022, our common equity Tier 1, Tier 1 and Total risk-based capital ratios were 12.7%, 16.8% and 18.0%, respectively, and we had a Tier 1 capital to total assets leverage ratio of 17.0%. As of December 2021, our common equity Tier 1, Tier 1 and Total risk-based capital ratios were 13.1%, 17.7% and 19.0%, respectively, and we had a Tier 1 capital to total assets leverage ratio of 17.5%.

	As of June 30, 2022		As of December 31, 2021		Minimum Regulatory Requirements ⁽¹⁾	Well- Capitalized Requirements
	Amount	Ratio	Amount	Ratio		
	(dollars in thousands)					
Tier 1 leverage capital	\$ 285,867	17.0%	\$ 262,247	17.5%	4.0%	5.0%
CET 1 risk-based capital	\$ 217,079	12.7%	\$ 193,459	13.1%	7.0%	6.5%
Tier 1 risk-based capital	\$ 285,867	16.8%	\$ 262,247	17.7%	8.5%	8.0%
Total risk-based capital	\$ 307,653	18.0%	\$ 281,211	19.0%	10.5%	10.0%

- (1) As a condition to receipt of FDIC insurance, we entered into the 2003 Capital Maintenance Agreement requiring us to maintain a 15% Tier 1 leverage ratio. This level of capital far exceeds the minimum requirement for capital adequacy purposes and is above the threshold for well-capitalized status under the FDIC’s regulatory framework.

Failure to meet minimum capital requirements can result in the initiation of certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could limit our business activities and have a material adverse effect on our business, results of operations and financial condition. In addition, because we obtain substantially all of the funding for our businesses from brokered certificates of deposit, failure to maintain “well-capitalized” status would have a material adverse effect on our business, results of operations and financial condition.

In May 2022, we paid a dividend of \$5.0 million to MFIN, the sole shareholder of the Bank’s common stock. On July 28, 2022, the Bank’s Board of Directors declared a dividend of \$5.0 million to MFIN, that will be paid August 15, 2022.

On April 28, 2022, the Bank’s Board of Directors declared a \$0.50 per share cash dividend on the Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series F, to shareholders of record at the close of business on June 15, 2022. The dividend aggregated \$920,000 and was paid on July 1, 2022. On July 26, 2022, the Bank’s Board of Directors declared a \$0.50 per share cash dividend on the Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series F, to shareholders of record at the close of business on September 15, 2022, that will be paid on October 3, 2022.

We paid dividends on our Series E Preferred Stock issued to the U.S. Treasury under the Small Business Lending Fund Program of \$591,000 in each of the three months and six months ended June 2022 and 2021, respectively. The dividend rate of 9% will remain stable for so long as our Series E Preferred Stock remains outstanding. In addition, if the Bank is not “publicly traded” within the meaning of our Articles, then so long as any share of the Series E Preferred Stock remains outstanding, no dividend or distribution may be declared or paid on our common equity, any other shares of junior stock or parity stock. So long as our shares of Series F Preferred Stock are listed on The Nasdaq Capital Market or another securities exchange, we will not be negatively impacted by that restriction.

Regulatory Capital Requirements

We are subject to risk-based and leverage-based capital ratio requirements under the U.S. Basel III capital rules adopted by the federal banking regulators.

The rules establish minimum risk-based capital ratios and prompt corrective action thresholds that require banking organizations to maintain a minimum common equity Tier 1 (“CET1”) capital ratio of 4.5%, a Tier 1 capital ratio of 6.0%, a total

capital ratio of 8.0% and a minimum leverage ratio of 4.0%, calculated as the ratio of Tier 1 capital to average consolidated assets for the quarter.

A capital conservation buffer of 2.5% above the risk-based capital ratios is required for banking institutions to avoid restrictions on their ability to make capital distributions, including paying dividends. As of June 2022, our risk-based capital ratios were above the regulatory minimums that incorporated the 2.5% capital conservation buffer.

Recently Issued Accounting Standards

For discussion of accounting standards recently issued but not yet effective, refer to “Note 1. Organization and summary of significant accounting policies” in the unaudited financial statements included elsewhere in this Form 10-Q.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is defined as the sensitivity of income, fair values and capital to changes in interest rates, foreign currency exchange rates, commodity prices and other relevant market prices and rates. The primary risk to which we are exposed is interest rate movement inherent in our lending and deposit-taking activities.

The principal objective of asset/liability management is to manage the sensitivity of net income to changes in interest rates. Asset/liability management is governed by policies approved by our Board. Day-to-day oversight of this function is performed by our Asset and Liability Management Committee. Management and our Board, on an ongoing basis, review our overall interest rate risk position and strategies.

Interest Rate Risk Management

Our Asset and Liability Management Committee seeks to manage our interest rate risk by structuring our balance sheet to maximize net interest income while maintaining an acceptable level of risk exposure to changes in market interest rates. We analyze interest rate risk using a combination of net interest income and balance sheet valuation simulations, shocks to those simulations, and scenario and market value analyses. We actively monitor the level of exposure with the goal that movements in interest rates would not adversely and unexpectedly negatively affect future earnings. We use net interest income sensitivity analysis as our primary metric to measure and manage the interest rate sensitivities of our loan and investment securities portfolios.

We prepare forward-looking forecasts of net interest income, which take into consideration anticipated future business growth, asset/liability positioning and interest rates based on the implied forward curve. Simulations are used to assess changes in net interest income in multiple interest rate scenarios relative to the baseline forecast. The changes in net interest income relative to the baseline are defined as the sensitivity. Our simulation incorporates contractual cash flows and repricing characteristics for all assets and liabilities and incorporates the effects of changing interest rates on the prepayment and attrition rates of certain assets and liabilities. The analysis is highly dependent upon a variety of assumptions including assumptions about new business volumes, loan and investment prepayment rates, deposit rate floors, interest rate curves and economic conditions. These scenarios include both parallel and non-parallel rate shocks. Our simulation does not assume any specific future actions are taken to mitigate the impacts of changing interest rates.

If interest rates changed in parallel by the amounts below at June 30, 2022	The following estimated percentage increase/(decrease) to net interest income would result
Down 100 basis points	(1.53)%
Up 100 basis points	1.59%
Down 200 basis points	(3.04)%
Up 200 basis points	3.24%
Down 300 basis points	(4.30)%
Up 300 basis points	4.92%
Down 400 basis points	(7.09)%
Up 400 basis points	6.59%

We also evaluate the impact of interest rate risk by utilizing Economic Value of Equity (“EVE”) modeling. This analysis measures the present value of all estimated future cash flows of the Bank over the estimated remaining life of the balance sheet. EVE is calculated as the difference between the market value of assets and liabilities. The EVE calculation utilizes only the current balance sheet, and therefore does not factor in any future changes in balance sheet size, balance sheet mix, yield curve relationships or product spreads, which may mitigate the impact of any interest rate changes.

Management examines the effect of interest rate changes on EVE. The sensitivity of EVE to changes in interest rates is a measure of longer-term interest rate risk and highlights the potential capital at risk due to adverse changes in market interest rates.

If interest rates changed in parallel by:	The following estimated percentage increase/(decrease) to EVE would result
	June 30, 2022
Down 100 basis points	1.16%
Up 100 basis points	(0.88)%
Down 200 basis points	2.25%
Up 200 basis points	(1.54)%
Down 300 basis points	7.01%
Up 300 basis points	(1.97)%
Down 400 basis points	17.10%
Up 400 basis points	(2.28)%

Since the assumptions used are inherently uncertain, we cannot predict precisely the effect of higher or lower interest rates on net interest income or EVE. Actual results will differ from simulated results due to the timing, magnitude and frequency of interest rate changes, the difference between actual experience and the assumed volume, characteristics of new business, behavior of existing positions and changes in market conditions and management strategies, among other factors.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of our disclosure controls and procedures pursuant to Rules 13a – 15(e) and 15d – 15(e) under the Securities Exchange Act of 1934, and have concluded that they are effective as of June 2022 to provide reasonable assurance that information required to be disclosed by the Bank in reports that it files or submits under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms and (ii) accumulated and communicated to the Bank’s management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures.

Changes in Internal Control

As required by Rule 13a – 15(d) under the Exchange Act, our management, including our Chief Executive Officer and Chief Financial Officer, have evaluated our internal control over financial reporting to determine whether any changes occurred during the quarter ended June 2022 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting, and have concluded that there have been no changes that occurred during the quarter ended June 2022 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are currently involved in various legal proceedings incidental to the ordinary course of our business, including collection matters with respect to certain loans. We intend to vigorously defend any outstanding claims and pursue our legal rights. In the opinion of our management and based upon the advice of legal counsel, there is no proceeding pending or, to the knowledge of management, threatened which in the event of an adverse decision could result in a material adverse effect on our results of operations or financial condition.

ITEM 1A. RISK FACTORS

There have been no material changes in our risk factors from those disclosed in Part I, Item 1A “Risk Factors” of our Annual Report on Form 10-K for the fiscal year ended December 31, 2021.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 6. EXHIBITS

EXHIBITS

Exhibit Number	Description
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

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

MEDALLION BANK

Date: August 15, 2022

By: /s/ Donald S. Poulton

Donald S. Poulton

President and Chief Executive Officer
(Principal Executive Officer)

By: /s/ D. Justin Haley

D. Justin Haley

Executive Vice President and Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

CERTIFICATIONS
Certification of Donald S. Poulton

I, Donald S. Poulton, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Medallion Bank;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 15, 2022

By: /s/ Donald S. Poulton

Donald S. Poulton
President and Chief Executive Officer

CERTIFICATIONS
Certification of D. Justin Haley

I, D. Justin Haley, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Medallion Bank;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 15, 2022

By: /s/ D. Justin Haley

D. Justin Haley
Executive Vice President and
Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 USC SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Medallion Bank (the “Bank”) for the quarter ended June 30, 2022 as filed with the Federal Deposit Insurance Corporation on the date hereof (the “Report”), the undersigned hereby certifies, pursuant to 18 USC Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Bank

Date: August 15, 2022

By: /s/ Donald S. Poulton

Donald S. Poulton
President and Chief Executive Officer

**CERTIFICATION PURSUANT TO
18 USC SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Medallion Bank (the “Bank”) for the quarter ended June 30, 2022 as filed with the Federal Deposit Insurance Corporation on the date hereof (the “Report”), the undersigned hereby certifies, pursuant to 18 USC Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Bank.

Date: August 15, 2022

By: /s/ D. Justin Haley

D. Justin Haley
Executive Vice President and
Chief Financial Officer