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

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2019

Commission file number 001-38258

MERCHANTS BANCORP
(Exact name of Registrant as specified in its charter)

INDIANA	**20-5747400**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
410 Monon Blvd. Carmel, Indiana	**46032**
(Address of principal executive offices)	(Zip Code)

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

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

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

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

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

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

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

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

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

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

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 ☒

At June 28, 2019, the aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant (assuming solely for the purposes of this calculation that all Directors and executive officers of the registrant are "affiliates") was $276.8 million.

As of March 5, 2020, the Registrant had 28,735,466 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's proxy statement, for its 2020 annual meeting of shareholders to be held May 21, 2020, to be filed within 120 days after December 31, 2019, are incorporated by reference into Part III of this Form 10-K.

MERCHANTS BANCORP
Annual Report on Form 10-K
For Year Ended December 31, 2019
Table of Contents

PART I		
Item 1.	Business	3
Item 1A.	Risk Factors	16
Item 1B.	Unresolved Staff Comments	30
Item 2.	Properties	30
Item 3.	Legal Proceedings	30
Item 4.	Mine Safety Disclosures	30
PART II		
Item 5.	Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	30
Item 6.	Selected Financial Data	32
Item 7.	Management’s Discussion and Analysis of Financial Condition and Results of Operations	34
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	55
Item 8.	Financial Statements and Supplementary Data	58
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	109
Item 9A.	Controls and Procedures	109
Item 9B.	Other Information	109
PART III		
Item 10.	Directors, Executive Officers, and Corporate Governance	110
Item 11.	Executive Compensation	110
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	110
Item 13.	Certain Relationships and Related Transactions, and Director Independence	110
Item 14.	Principal Accounting Fees and Services	110
PART IV		
Item 15.	Exhibits, Financial Statement Schedules	110
Item 16.	Form 10-K Summary	112
SIGNATURES		113

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

PART I

Item 1. Business.

Company Overview

Merchants Bancorp (the "Company," "Merchants," "we," "our," or "us"), an Indiana corporation formed in 2006, is a diversified bank holding company headquartered in Carmel, Indiana and registered under the Bank Holding Company Act of 1956, as amended. We currently operate in and service multiple lines of business, including multi-family housing, mortgage warehouse financing, retail and correspondent residential mortgage banking, agricultural lending, and traditional community banking. As of December 31, 2019, we had $6.4 billion in assets, $5.5 billion of deposits and $653.7 million of shareholders' equity.

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

Merchants Bank of Indiana ("Merchants Bank"), one of our wholly owned banking subsidiaries, operates under an Indiana charter and provides traditional community banking services, as well as retail and correspondent residential mortgage banking and agricultural lending. Merchants Bank has six depository branches located in Carmel, Indianapolis, Lynn, Spartanburg, and Richmond, Indiana. Farmers-Merchants Bank of Illinois ("FMBI", formerly named Joy State Bank), another wholly-owned banking subsidiary, acquired on January 2, 2018, operates under an Illinois charter and provides traditional community banking services and agricultural lending. FMBI has five depository branches located in Joy, New Boston, Paxton, Melvin, and Piper City, Illinois.

Our business consists primarily of funding low risk loans that sell within 90 days of origination. The sale of loans and servicing fees generated primarily from the multi-family rental real estate loans servicing portfolio contribute to noninterest income. The funding source is primarily from mortgage custodial, municipal, retail, commercial, and brokered deposits. We believe that the combination of net interest income and noninterest income from the sale of low risk profile assets results in lower than industry charge offs and a lower expense base, which serves to maximize net income and shareholder return.

Our Business Segments

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

Multi-Family Mortgage Banking

Merchants Capital Corp. ("MCC") and Merchants Capital Servicing, LLC ("MCS"), subsidiaries of Merchants Bank, are primarily engaged in mortgage banking, specializing in originating and servicing loans for multi-family rental housing and healthcare facility financing. In August 2017, MCC acquired MCS, a national multi-family housing mortgage lender, to complement and expand the products and services offered by MCC. The servicing portfolio was primarily Government National Mortgage Association ("Ginnie Mae") loans, but through the MCS acquisition, MCC gained the ability to originate and service Federal National Mortgage Association ("Fannie Mae") and Federal Home

Loan Mortgage Corporation ("Freddie Mac") Affordable multi-family products. Our servicing portfolio is a significant source of our noninterest income and deposits.

Through the Multi-Family Mortgage Banking segment, we primarily originate Federal Housing Authority ("FHA") loans that are sold as Ginnie Mae mortgage backed securities within approximately 30 days. We believe that the combination of MCC and MCS makes the Company one of the largest FHA lenders and Ginnie Mae servicers in the country based on aggregate loan principal balance. The Company also originates loans sold to Freddie Mac and Fannie Mae as mortgage backed securities. The loans are sold and servicing rights are retained. In addition to the loans originated directly through Multi-Family Mortgage Banking, we also fund loans brought to us by non-affiliated entities and service or sub-service loans for a fee. Other originations include bridge and permanent financing that are referred to the Banking segment.

The segment's primary source of funding is the national secondary mortgage market. Investors in the market are primarily large financial institutions, brokerage companies, insurance companies and real estate investment trusts. MCC is an approved FHA lender and a Ginnie Mae issuer of mortgage backed securities. It is also an approved Multi-family Accelerated Processing and Housing and Urban Development ("HUD") section 232 LEAN lender and a Rural Housing Service ("RHS") approved lender for their Section 538 program. MCC is an approved Freddie Mac Targeted Affordable Lender and Fannie Mae Affordable Lender. These programs facilitate secondary market activities in order to provide funding for the multi-family mortgage market.

Multi-Family Mortgage Banking funds loans through the sale of participation interests to Merchants Bank, where they accrue interest for approximately 30 days before delivery to the end investor. Generally, these loans have 35-year fixed rates with 10-year call protection. The loans are predominantly insured by the FHA and RHS are rate locked as forward delivery Ginnie Mae, Fannie Mae and Freddie Mac securities, who guarantee the timely payment of principal and interest to investors.

Mortgage Warehousing

We started the warehouse lending business in 2009 as a result of dislocation in the market. Merchants Bank currently has warehouse lines of credit and loan participations with some of the largest non-depository financial institutions and mortgage bankers in the country.

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

Mortgage Warehousing has grown to fund over $20 billion of loan principal annually since 2015 and funded over $46 billion in 2019. Mortgage Warehousing also provides deposits related to the mortgage escrow accounts of its customers.

Through Natty Mac Funding, Inc. ("NMF"), a wholly-owned subsidiary of Merchants Bank, we engaged in loan participations and warehouse financing with Home Point Financial Corporation ("Home Point") and its subsidiaries and correspondent customers during 2018. We entered into a Revolving Loan and Subordinated Loan Agreement whereby Home Point invested $30 million in our subordinated debt. In turn, we invested the proceeds into Merchants Bank and then to NMF. NMF provided $300 million of lending capacity to Home Point and its subsidiaries and correspondent customers. We earned net interest income and used Home Point custodial deposits to fund the loans. However, on December 31, 2018 the Company acquired the assets of NattyMac, LLC ("NattyMac") from Home Point and terminated their warehouse funding arrangement and ceased operating NMF. Additionally, the $30 million subordinated debt and related interest was repaid by the Company.

In 2018, we entered into an arrangement similar to that between NMF and Home Point with another warehouse customer and may do so with additional mortgage warehouse customers in the future.

Banking

The Banking segment includes retail banking, commercial lending, agricultural lending, and retail and correspondent residential mortgage banking, and SBA lending. Banking operates primarily in the Indianapolis metropolitan and Randolph County Indiana markets, as well as Ford County in Central Illinois. Our correspondent mortgage banking business, like Multi‑family Mortgage Banking and Mortgage Warehousing, is a national business. The Banking segment has a well‑diversified customer and borrower base and has experienced significant growth over the past three years.

Commercial Lending and Retail Banking

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

Agricultural Lending

Merchants Bank's Lynn and Richmond, Indiana offices primarily offer agricultural loans within its designated Community Reinvestment Act ("CRA") assessment area of Randolph and Wayne counties in Eastern Indiana and nearby Darke County, Ohio. FMBI primarily provides agricultural loans within its designated CRA assessment area of Mercer County in Western Illinois and with its acquisition of Farmers-Merchants National Bank of Paxton ("FMNBP") in October 2018, in Ford County in East Central Illinois. Merchants Bank and FMBI offer operating lines of credit for crop and livestock production, intermediate term financing to purchase agricultural equipment and breeding livestock and long‑term financing to purchase agricultural real estate. Merchants Bank is approved to sell agricultural loans in the secondary market through Farmer Mac and uses this relationship to manage interest rate risk within the agricultural loan portfolio. Merchants Bank is also a Certified Lender with the Farm Service Agency and FMBI is a Standard Eligible Lender with the Farm Service Agency in the 90% guarantee program, to offset credit risk inherent in the Agriculture loan portfolio.

Single-Family Mortgage Lending, Correspondent Lending and Servicing

Merchants Mortgage is the branded arm and division of Merchants Bank that is a full service single‑family mortgage origination and servicing platform that we launched in February 2013. Merchants Mortgage is both a retail and correspondent mortgage lender. Merchants Mortgage offers agency eligible, jumbo fixed and hybrid adjustable rate mortgages for purchase or refinancing of single‑family residences. Other products include construction, bridge and lot financing, and first-lien home equity lines of credit ("HELOC"). Merchants Mortgage generates revenues from fees charged to borrowers, interest income during the warehouse period, and gain on sale of loans to investors. There are multiple investor outlets, including direct sale capability to Fannie Mae, Freddie Mac, Federal Home Loan Bank ("FHLB") of Indianapolis and Chicago, and other third-party investors to allow Merchants Mortgage a best execution at sale. Merchants Mortgage also originates loans held for investment and earns interest income over the life of the loan.

SBA Lending

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

Strategy for Complementary Segments

Our segments diversify the net income of Merchants Bank and provide synergies across the segments. Strategic opportunities come from MCC and MCS, where loans are funded by the Banking segment and the Banking segment

provides Ginnie Mae custodial services to MCC and MCS. The securities available for sale funded by MCC custodial deposits are pledged to FHLB to provide advance capacity during periods of high residential loan volume for Mortgage Warehousing. Mortgage Warehousing provides leads to correspondent residential lending in the banking segment. Retail and commercial customers provide cross selling opportunities within the banking segment. Merchants Mortgage is a risk mitigant to Mortgage Warehousing because it provides us with a ready platform to dispose of collateral should the need arise. These and other synergies form a part of our strategic plan.

See "Operating Segment Analysis for the Years Ended December 31, 2019 and 2018" in Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 24, "Segment Information," in the notes to our Consolidated Financial Statements for further information about our segments.

Competition

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

Employees

As of December 31, 2019, we had approximately 329 full-time equivalent employees. The Company has been named to the list of "Best Places to Work in Indiana" by the Indiana Chamber of Commerce every year since 2016. None of our employees are represented by any collective bargaining unit or are parties to a collective bargaining agreement. We believe that our relations with employees are positive.

Corporate Information

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

SUPERVISION AND REGULATION

General

Insured banks, their holding companies and their affiliates are extensively regulated under federal and state law. As a result, our growth and earnings performance may be affected not only by management decisions and general economic conditions, but also by the requirements of federal and state statutes and by the regulations and policies of various bank regulatory agencies, including the Indiana Department of Financial Institutions ("IDFI"), Illinois Department of Financial and Professional Regulation ("IDFPR"), Board of Governors of the Federal Reserve System ("Federal Reserve"), Federal Deposit Insurance Corporation ("FDIC"), and Consumer Financial Protection Bureau ("CFPB"). Furthermore, tax laws administered by the Internal Revenue Service and state taxing authorities, accounting rules developed by the Financial Accounting Standards Board ("FASB"), anti-money laundering laws enforced by the

U.S. Department of the Treasury (the “Treasury”) and mortgage related rules, including with respect to loan securitization and servicing by HUD and agencies such as Ginnie Mae, Fannie Mae, and Freddie Mac, have an impact on our business. The effect of these statutes, regulations, regulatory policies and rules are significant to our operations and results, and the nature and extent of future legislative, regulatory or other changes affecting financial institutions are impossible to predict with any certainty.

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

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

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

Merchants Bancorp

Bank Holding Company Act of 1956, as amended

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

Acquisition of Banks

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

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

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

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

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

Permitted Activities

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

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

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

Support of Subsidiary Institutions

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

Repurchase or Redemption of Shares

A BHC is generally required to give the Federal Reserve prior written notice of any purchase or redemption of its own then outstanding equity securities if the gross consideration for the purchase or redemption, when combined with the net consideration paid for all such purchases or redemptions during the preceding 12 months, is equal to 10% or more of the Company's consolidated net worth. The Federal Reserve may disapprove such a purchase or redemption if it determines that the proposal would constitute an unsafe and unsound practice, or would violate any law, regulation,

Federal Reserve order or directive, or any condition imposed by, or written agreement with, the Federal Reserve. The Federal Reserve has adopted an exception to this approval requirement for well-capitalized BHCs that meet certain conditions.

Merchants Bank and FMBI

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

Bank Secrecy Act and USA Patriot Act

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

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

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

Merchants Bank and FMBI established an anti-money laundering program pursuant to the BSA and a customer identification program pursuant to the Patriot Act. Merchants Bank and FMBI also maintain records of cash purchases of negotiable instruments, file reports of certain cash transactions exceeding $10,000 (daily aggregate amount), and report suspicious activity that might signify money laundering, tax evasion, or other criminal activities pursuant to the BSA. Merchants Bank and FMBI otherwise have implemented policies and procedures to comply with the foregoing requirements.

FDIC Improvement Act of 1991

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

"Undercapitalized" banks are subject to growth limitations and are required to submit a capital restoration plan. The bank's BHC is required to guarantee that the bank will comply with the plan and provide appropriate assurances of performance. If an "undercapitalized" bank fails to submit an acceptable plan, it is treated as if it is significantly undercapitalized. "Significantly undercapitalized" banks are subject to one or more restrictions, including an order by the FDIC to sell sufficient voting stock to become adequately capitalized, requirements to reduce total assets and cease receipt of deposits from correspondent banks, and restrictions on compensation of executive officers. "Critically

undercapitalized" institutions may not, beginning 60 days after becoming "critically undercapitalized," make any payment of principal or interest on certain subordinated debt or extend credit for a highly leveraged transaction or enter into any transaction outside the ordinary course of business. In addition, "critically undercapitalized" institutions are subject to appointment of a receiver or conservator. Any bank that is not "well capitalized" is subject to limitations, and a prohibition in the case of any bank that is "undercapitalized," on the acceptance, renewal, or roll over of any brokered deposit.

Currently, a "well capitalized" institution is one that has a total risk-based capital ratio of at least 10%, a Tier 1 risk-based capital ratio of at least 8%, a Tier 1 leverage ratio of at least 5%, a common equity Tier 1 risk-based capital ratio of at least 6.5%, and is not subject to regulatory direction to maintain a specific level for any capital measure. Beginning January 1, 2020, an institution that has elected to use the community bank leverage ratio will be considered to be "well capitalized" if it has a leverage ratio of at least 9% (as described further under the caption *Capital Requirements and Basel III* below). An "adequately capitalized" institution is one that has ratios of at least 8%, 6%, 4% and 4.5%, respectively. An institution is "undercapitalized" if any of its respective ratios is less than 8%, 6%, 4% and 4.5%, as applicable. "Significantly undercapitalized" institutions have ratios of less than 6%, 4%, 3% and 3%, respectively. An institution is deemed to be "critically undercapitalized" if it has a ratio of tangible equity to total assets that is 2% or less.

At December 31, 2019, Merchants Bank and FMBI were well capitalized, as defined by the FDICIA and applicable FDIC regulations.

Deposit Insurance Fund and Financing Corporation Assessments

The Deposit Insurance Fund ("DIF") of the FDIC insures the deposits of Merchants Bank and FMBI up to $250,000 per depositor, qualifying joint accounts, and certain other accounts. The FDIC maintains the DIF by assessing depository institutions an insurance premium. The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") required the FDIC to set a DIF reserve ratio of 1.35% of estimated insured deposits, which the FDIC achieved on September 30, 2018 and as a result, we received assessment credits totaling approximately $828,000 for the portion of our assessments that contributed to the growth in the reserve ratio.

The FDIC's risk-based assessment system requires insured institutions to pay deposit insurance premiums based on the risk that each institution poses to the DIF. The FDIC recently changed the methodology for determining assessment rates. Through the second quarter of 2016, the FDIC assigned each insured depository institution to one of four risk categories based on the institution's regulatory capital levels, supervisory evaluations, and certain other factors. The institution's risk category determines its assessment rate. Certain factors, such as brokered deposits in excess of a certain ceiling, could result in adjustments to an assessment rate. The rate is applied to the institution's total average consolidated assets during the assessment period less average tangible equity (i.e., Tier 1 capital).

Beginning in the third quarter of 2016, which was the first quarter after the quarter the DIF reserve ratio exceeded 1.15%, a new assessment regulation took effect for banks with less than $10.0 billion in assets and that have been FDIC-insured for at least five years, such as Merchants Bank and FMBI. The rule replaced the four risk categories with a financial ratios method based on a statistical model estimating the insured depository institution's probability of failure over three years. The rule eliminates the adjustment factor for brokered deposits; lowered the range of assessment rates authorized to 0.015% per annum for an institution posing the least risk, to 0.40% per annum for an institution posing the most risk; and furthered lower the range of assessment rates if the reserve ratio of the Deposit Insurance Fund increases to 2% or more.

In addition to its risk-based insurance assessments, the FDIC also imposes assessments to help make $780 million in annual interest payments on approximately $8 billion of bonds issued in the late 1980s by a government corporation, the Financing Corporation ("FICO"), to help finance the recovery of the thrift industry from the savings and loan crisis. Merchants Bank and FMBI's FICO assessment for the first quarter of 2019 was equal to .0030% per $100 of assessment base. However, all outstanding bonds matured in 2019, resulting in no additional FICO assessments for 2019 and no additional assessments are expected.

Dividends

We are a legal entity separate and distinct from Merchants Bank and FMBI. There are various legal limitations on the extent to which Merchants Bank or FMBI can supply funds to us. Our principal source of funds consists of

dividends from Merchants Bank. State and federal law restrict the amount of dividends that banks may pay to its shareholders or BHC. The specific limits depend on a number of factors, including the bank's type of charter, recent earnings, recent dividends, level of capital and regulatory status. The regulators are authorized, and under certain circumstances are required, to prohibit the payment of dividends or other distributions if the regulators determine that making such payments would be an unsafe or unsound practice. For example, the FDICIA generally prohibits an insured depository institution from making any capital distribution (including payment of a dividend) or paying any management fee to its BHC if the distribution would cause the bank to become undercapitalized.

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

As of 2016, the capital regulations began to limit a depository institution's ability to make capital distributions if it does not hold a specified capital conservation buffer above the required minimum risk-based capital ratios. There is a phase-in period that began in 2016 and concluded in 2019 with a buffer requirement of 2.5%. Regulators also review and limit proposed dividend payments as part of the supervisory process and review of an institution's capital planning. In addition to dividend limitations, Merchants Bank and FMBI are subject to certain restrictions on extensions of credit to us, on investments in our shares or other securities and in taking such shares or securities as collateral for loans.

Community Reinvestment Act

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

Capital Requirements and Basel III

Apart from the capital levels for insured depository institutions that were established by the FDICIA for the prompt corrective action regime discussed above, the federal regulators have issued rules that impose minimum capital requirements on both insured depository institutions and their holding companies (with the exception of BHCs with less than $1 billion in pro forma consolidated assets and that meet other prerequisites). Although the rules contain certain standards applicable only to large, internationally active banks, many of them apply to all banking organizations, including us, Merchants Bank, and FMBI. The institutions and companies subject to the rules are referred to collectively herein as "covered" banking organizations. By virtue of a provision in the Dodd-Frank Act known as the Collins Amendment, the requirements must be the same at both the institution level and the holding company level. The minimum capital rules have undergone several revisions over the years. The current requirements, which began to take effect in 2015, are based on the international Basel III capital framework. These requirements apply to all covered banking organizations (including us) with some requirements phasing in over time.

However, on November 21, 2017, the Federal Reserve, Office of the Comptroller of the Currency ("OCC"), and FDIC finalized a joint proposal and adopted a final rule (the "Transitions Rule") pursuant to which the current regulatory capital treatment then in place for mortgage servicing rights ("MSRs"), certain temporary difference deferred tax assets, and significant investments in the capital of unconsolidated financial institutions was indefinitely extended in anticipation of a subsequent notice of proposed rulemaking by such regulators to simplify the regulatory capital treatment of such items (the "Simplification Rule"). The extension of the capital rules with respect to MSRs was the only portion of the Transitions Rule that was material to the Company.

If the Transitions Rule had not been enacted, beginning January 1, 2018, we would have been required to make certain additional deductions and increases to our risk-weighting for the purposes of our capital calculations, which would have resulted in us reporting a lower amount of capital. As a result of the Transitions Rule, there were no such adjustments to our capital in 2018 or 2019.

On July 9, 2019, the federal regulators finalized and adopted the final Simplification Rule. Under the existing rules, including the Transitions Rule, mortgage servicing rights, net of related deferred tax liabilities, that are in excess of 10% of common equity or when combined with certain other deduction items are in excess of 15% of common equity

are deducted from Common Equity Tier 1 capital. Under the Simplification Rule, beginning January 1, 2020, this threshold will be raised to 25% of common equity, which we expect to benefit the Company because it will reduce the deductions to capital that have traditionally been required. However, the Company will be required to risk-weight the non-deducted portion of its MSRs at 250%.

On November 13, 2019, the federal regulators finalized and adopted a regulatory capital rule establishing a new community bank leverage ratio ("CBLR"). The intent of CBLR is to provide a simple alternative measure of capital adequacy for electing qualifying depository institutions and depository institution holding companies, as directed under the Economic Growth, Regulatory Relief, and Consumer Protection Act. Under CBLR, if a qualifying depository institution or depository institution holding company elects to use such measure, such institution or holding company will be considered well capitalized if its ratio of Tier 1 capital to average total consolidated assets (i.e., leverage ratio) exceeds 9% and will not be required to calculate and report risk-based capital ratios. The Company, Merchants Bank, and FMBI expect to elect to begin using CBLR in the first quarter of 2020.

The Dodd-Frank Wall Street Reform and Consumer Protection Act

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

Numerous provisions of the Dodd-Frank Act were required to be implemented through rulemaking by the appropriate federal regulatory agencies. Many of the required regulations have been issued and others have been released for public comment, but are not final. Although the reforms primarily targeted systemically important financial service providers, their influence is expected to filter down in varying degrees to smaller institutions over time.

Privacy and Cybersecurity

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

Consumer Financial Services

The structure of federal consumer protection regulation applicable to all providers of consumer financial products and services changed significantly on July 21, 2011, when the CFPB commenced operations to oversee and enforce consumer protection laws. The CFPB has broad rulemaking authority for a wide range of consumer protection laws that apply to all providers of consumer products and services, including Merchants Bank, as well as the authority to prohibit "unfair, deceptive or abusive" acts and practices. The CFPB has examination and enforcement authority over insured depository institutions and their holding companies with more than $10 billion in assets. (The CFPB has similar authority over certain nonbanking organizations.) Banks and savings institutions with $10 billion or less in assets, like Merchants Bank and FMBI, will continue to be examined by their primary federal regulators, which can be expected to nonetheless look to the rulings and enforcements actions of the CFPB as they carry out their supervision of larger institutions.

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

S.A.F.E. Act

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

Mortgage Origination

The CFPB's "ability to repay" rule, issued pursuant to the Dodd-Frank Act, among other things, requires lenders to consider a consumer's ability to repay a mortgage loan before extending credit to the consumer, and limits prepayment penalties. The rule also establishes certain protections from liability for mortgage lenders with regard to the "qualified mortgages" they originate. This rule includes within the definition of a "qualified mortgage" a loan with a borrower debt-to-income ratio of less than or equal to 43% or, alternatively, a loan eligible for purchase by Fannie Mae or Freddie Mac while they operate under federal conservatorship or receivership, and loans eligible for insurance or guarantee by the FHA, VA or USDA. Additionally, a qualified mortgage may not: (i) contain excess upfront points and fees; (ii) have a term greater than 30 years; or (iii) include interest−only or negative amortization payments. This rule became effective January 10, 2014, and it has not had a significant impact on our mortgage production operations since most of the loans Merchants Bank currently originates would constitute "qualified mortgages" under the rule.

Mortgage Servicing

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

becoming effective in 2014, these rules have increased the costs to service loans across the mortgage industry, including our mortgage servicing operations.

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

Consumer Laws

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

- the Gramm-Leach-Bliley Act, which requires a bank to maintain privacy with respect to certain consumer data in its possession and to periodically communicate with consumers on privacy matters;
- the Right to Financial Privacy Act, which imposed a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records;
- the Fair Debt Collection Practices Act, which regulates the timing and content of debt collection communications;
- the Truth in Lending Act and Regulation Z thereunder, which requires certain disclosures to consumer borrowers regarding the terms of their loans;
- the Fair Credit Reporting Act, which regulates the use and reporting of information related to the credit history of consumers;
- the Equal Credit Opportunity Act and Regulation B thereunder, which prohibits discrimination on the basis of age, race and certain other characteristics, in the extension of credit;
- the Homeowners Equity Protection Act, which requires, among other things, the cancellation of mortgage insurance once certain equity levels are reached;
- the Home Mortgage Disclosure Act and Regulation C thereunder, which require mortgage lenders to report certain public loan data;
- the Fair Housing Act, which prohibits discrimination in housing on the basis of race, sex, national origin, and certain other characteristics;
- the Real Estate Settlement Procedures Act and Regulation X thereunder, which imposes conditions on the consummation and servicing of mortgage loans;
- the Truth in Savings Act and Regulation DD thereunder, which requires certain disclosures to depositors concerning the terms of their deposit accounts; and
- the Electronic Funds Transfer Act and Regulation E thereunder, which governs various forms of electronic banking. This statute and regulation often interact with Regulation CC of the Federal Reserve Board, which governs the settlement of checks and other payment system issues.

Future Legislation

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

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains certain "forward-looking statements" within the meaning of and are intended to be covered by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements reflect our current views with respect to, among other things, future events and our financial performance. These statements are often, but not always, made through the use of words or phrases such as "may," "might," "should," "could," "predict," "potential," "believe," "expect," "continue," "will," "anticipate," "seek," "estimate," "intend," "plan," "projection," "goal," "target," "outlook," "aim," "would," "annualized" and "outlook," or the negative version of those words or other comparable words or phrases of a future or forward-looking nature. These forward-looking statements are not historical facts, and are based on current expectations, estimates and projections about our industry, management's beliefs and certain assumptions made by management, many of which, by their nature, are inherently uncertain and beyond our control. Accordingly, we caution that any such forward-looking statements are not guarantees of future performance and are subject to risks, assumptions, estimates and uncertainties that are difficult to predict. Although we believe that the expectations reflected in these forward-looking statements are reasonable as of the date made, actual results may prove to be materially different from the results expressed or implied by the forward-looking statements.

A number of important factors could cause our actual results to differ materially from those indicated in these forward-looking statements, including those factors identified in "Item 1A - Risk Factors" or "Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations" or the following:

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

- incremental costs and obligations associated with operating as a public company;
- effects of competition from a wide variety of local, regional, national and other providers of financial, investment and insurance services;
- the impact of any claims or legal actions to which we may be subject, including any effect on our reputation; and
- changes in federal tax law or policy.

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

Item 1A. Risk Factors

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

Risks Related to Our Business

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

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

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

Mortgage production, especially refinancing activity, declines in rising interest rate environments. Even with rate increases and decreases over the last few years by the Federal Reserve, interest rates have been historically low over the last few years and this environment likely will not continue indefinitely. Moreover, when interest rates increase further, there can be no assurance that our mortgage production will continue at current levels. Because we sell a substantial portion of the mortgage loans we originate and purchase, the profitability of our mortgage banking business also depends in large part on our ability to aggregate a high volume of loans and sell them at a gain in the secondary market. Thus, in addition to our dependence on the interest rate environment, we are dependent upon (i) the existence of an active secondary market and (ii) our ability to profitably sell loans or securities into that market. If our level of mortgage production declines, the profitability will depend upon our ability to reduce our costs commensurate with the reduction of revenue from our mortgage operations.

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

The ability for us and our warehouse financing customers to originate and sell residential mortgage loans readily is dependent upon the availability of an active secondary market for single-family mortgage loans, which in turn depends in part upon the continuation of programs currently offered by GSEs and other institutional and

non-institutional investors. These entities account for a substantial portion of the secondary market in residential mortgage loans. Because the largest participants in the secondary market are Fannie Mae and Freddie Mac, GSEs whose activities are governed by federal law, any future changes in laws that significantly affect the activity of these GSEs could, in turn, adversely affect our operations. In September 2008, Fannie Mae and Freddie Mac were placed into conservatorship by the U.S. government. The federal government has for many years considered proposals to reform Fannie Mae and Freddie Mac, but the results of any such reform, and their impact on us, are difficult to predict. To date, no reform proposal has been enacted.

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

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

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

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

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

Rising interest rates will result in a decline in value of the fixed-rate debt securities we hold in our investment securities portfolio. The unrealized losses resulting from holding these securities would be recognized in other comprehensive income (loss) and reduce total shareholders' equity. Unrealized losses do not negatively impact our regulatory capital ratios; however, tangible common equity and the associated ratios would be reduced. If debt securities in an unrealized loss position are sold, such losses become realized and will reduce our regulatory capital ratios.

If short-term interest rates remain at their historically low levels for a prolonged period, and assuming longer term interest rates fall further, we could experience net interest margin compression as our interest earning assets would continue to reprice downward while our interest-bearing liability rates could fail to decline in tandem. This would have a material adverse effect on our net interest income and our results of operations.

Because a significant portion of our loan portfolio is comprised of real estate loans, negative changes in the economy affecting real estate values and liquidity could impair the value of collateral securing our real estate loans and result in loan and other losses.

A significant portion of our loan portfolio is comprised of loans with real estate as a primary or secondary component of collateral. As a result, adverse developments affecting real estate values in our market areas could increase the credit risk associated with our real estate loan portfolio. The market value of real estate can fluctuate significantly in

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

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

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

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

Additional liquidity is provided by brokered deposits and our ability to borrow from the FHLB. Brokered deposits may be more rate sensitive than other sources of funding. In the future, those depositors may not replace their brokered deposits with us as they mature, or we may have to pay a higher rate of interest to keep those deposits or to replace them with other deposits or other sources of funds. Not being able to maintain or replace those deposits as they mature would adversely affect our liquidity. Additionally, if Merchants Bank does not maintain its well-capitalized position, it may not accept or renew any brokered deposits without a waiver granted by the FDIC. We also may borrow from third-party lenders from time to time. Our access to funding sources in amounts adequate to finance or capitalize our activities or on terms that are acceptable to us could be impaired by factors that affect us directly or the financial services industry or economy in general, such as disruptions in the financial markets or negative views and expectations about the prospects for the financial services industry.

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

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

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

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

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

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

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

Our business and operations are sensitive to general business and economic conditions in the United States, generally, and particularly Indiana. If the national, regional or local economies experience worsening economic conditions, including high levels of unemployment, our growth and profitability could be constrained. Additionally, our ability to assess the credit worthiness of our customers is made more complex by uncertain business and economic conditions. Weak economic conditions are characterized by, among other indicators, deflation, elevated levels of unemployment, fluctuations in debt and equity capital markets, increased delinquencies on mortgage, commercial and consumer loans, residential and commercial real estate price declines, increases in nonperforming assets and foreclosures, lower home sales and commercial activity, and fluctuations in the multi-family FHA financing sector. All of these factors are generally detrimental to our business. Our business is significantly affected by monetary and other regulatory policies of the U.S. federal government, its agencies and government-sponsored entities. Changes in any of these policies are influenced by macroeconomic conditions and other factors that are beyond our control, are difficult to predict and could have a material adverse effect on our business, financial position, results of operations and growth prospects.

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

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

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

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

may be negatively impacted and our loan administration costs could increase, each of which could have an adverse effect on our net income and related ratios, such as return on assets and equity.

Our allowance for loan losses may prove to be insufficient to absorb potential losses in our loan portfolio.

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

Although management believes that the allowance for loan losses is adequate to absorb losses on any existing loans that may become uncollectible, we may be required to take additional provisions for loan losses in the future to further supplement the allowance for loan losses, either due to management’s decision to do so or because our banking regulators require us to do so. Our bank regulatory agencies will periodically review our allowance for loan losses and the value attributed to nonaccrual loans or to real estate acquired through foreclosure and may require us to adjust our determination of the value for these items. These adjustments may adversely affect our business, financial condition and results of operations.

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

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

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

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

fund additional amounts to complete the project and may have to hold the property for an unspecified period of time while we attempt to dispose of it.

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

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

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

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

Our business and growth strategies are built primarily upon our ability to retain employees with experience and business relationships within their respective market areas. We seek to manage the continuity of our executive management team through regular succession planning. As part of such succession planning, other executives and high performing individuals have been identified and are provided certain training in order to be prepared to assume particular management roles and responsibilities in the event of the departure of a member of our executive management team. However, the loss of Mr. Petrie or Mr. Dunlap, or any of our other key personnel could have an adverse impact on our business and growth because of their skills, years of industry experience, and knowledge of our market areas, our failure to develop and implement a viable succession plan, the difficulty of finding qualified replacement personnel, or any difficulties associated with transitioning of responsibilities to any new members of the executive management team. With the exception of Mr. Dury, Chief Executive Officer of MCC, who is subject to an "at will" employment agreement that contains a 12 month non-competition period, we do not have employment or non-competition agreements with our executives or other employees who are important to our business. While our mortgage originators and loan officers are generally subject to non-solicitation provisions as part of their employment, our ability to enforce such agreements may not fully mitigate the injury to our business from the breach of such agreements, as such employees could leave us and immediately begin soliciting our customers. The departure of any of our personnel who are not subject to enforceable non-competition agreements could have a material adverse impact on our business, results of operations and growth prospects.

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

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

criminals and terrorists make keeping up with new threats difficult and could result in a breach. Controls employed by our information technology department and cloud vendors could prove inadequate. A breach of our security that results in unauthorized access to our data could expose us to a disruption or challenges relating to our daily operations, as well as to data loss, litigation, damages, fines and penalties, significant increases in compliance costs and reputational damage, any of which could have an adverse effect on our business, financial condition and results of operations.

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

We depend to a significant extent on a number of relationships with third-party service providers. Specifically, we receive core systems processing, essential web hosting and other internet systems, deposit processing and other processing services from third-party service providers. If these third-party service providers experience difficulties or terminate their services and we are unable to replace them with other service providers, our operations could be interrupted. If an interruption were to continue for a significant period of time, our business, financial condition and results of operations could be adversely affected, perhaps materially. Even if we are able to replace them, it may be at a higher cost to us, which could adversely affect our business, financial condition and results of operations.

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

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

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

We are subject to certain operational risks, including, but not limited to, customer or employee fraud and data processing system failures and errors.

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

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

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

Although we plan to continue to grow our business organically, we also intend to pursue acquisition opportunities that we believe complement our activities and have the ability to enhance our profitability and provide

attractive risk‑adjusted returns. Our future acquisition activities could be material to our business and involve a number of risks, including the following:

- intense competition from other banking organizations and other acquirers for potential merger candidates;
- market pricing for desirable acquisitions resulting in returns that are less attractive than we have traditionally sought to achieve;
- incurring time and expense associated with identifying and evaluating potential acquisitions and negotiating potential transactions, resulting in our attention being diverted from the operation of our existing business;
- using inaccurate estimates and judgments to evaluate credit, operations, management and market risks with respect to the target institution or assets;
- potential exposure to unknown or contingent liabilities of banks and businesses we acquire, including consumer compliance issues;
- the time and expense required to integrate the operations and personnel of the combined businesses;
- experiencing higher operating expenses relative to operating income from the new operations;
- losing key employees and customers;
- reputational issues if the target’s management does not align with our culture and values;
- significant problems relating to the conversion of the financial and customer data of the target;
- integration of acquired customers into our financial and customer product systems;
- risks of impairment to goodwill; or
- regulatory timeframes for review of applications may limit the number and frequency of transactions we may be able to consummate.

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

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

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

Our goodwill impairment test involves a two‑step process. Under the first step, the estimation of fair value of the reporting unit is compared to its carrying value including goodwill. If step one indicates a potential impairment, the second step is performed to measure the amount of impairment, if any. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. Any such adjustments are reflected in our results of operations in the periods in which they become known. As

of December 31, 2019, our goodwill totaled $15.8 million. While we have not recorded any impairment charges since we initially recorded the goodwill, there can be no assurance that our future evaluations of our existing goodwill or goodwill we may acquire in the future will not result in findings of impairment and related write-downs, which could adversely affect our business, financial condition and results of operations.

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

We face significant capital and other regulatory requirements as a financial institution. Although we raised significant funds through our October 2017 initial public offering and $171.1 million, net of expenses and repurchases, through preferred stock offerings during 2019, we may need to raise additional capital in the future to provide us with sufficient capital resources and liquidity to meet our commitments and business needs, which could include the possibility of financing acquisitions. In addition, we, on a consolidated basis, and Merchants Bank and FMBI, on a stand-alone basis, must meet certain regulatory capital requirements and maintain sufficient liquidity. Importantly, regulatory capital requirements could increase from current levels, which could require us to raise additional capital or contract our operations. Our ability to raise additional capital depends on conditions in the capital markets, economic conditions and a number of other factors, including investor perceptions regarding the banking industry, market conditions and governmental activities, and on our financial condition and performance. Accordingly, we cannot provide assurances that we will be able to raise additional capital if needed or on terms acceptable to us. If we fail to maintain capital to meet regulatory requirements, our financial condition, liquidity and results of operations would be materially and adversely affected.

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

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

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

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

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

Changes in accounting standards could materially impact our financial statements.

From time to time, the Financial Accounting Standards Board ("FASB") or the SEC may change the financial accounting and reporting standards that govern the preparation of our financial statements. Such changes may result in us being subject to new or changing accounting and reporting standards. In addition, the bodies that interpret the accounting standards (such as banking regulators or outside auditors) may change their interpretations or positions on how these standards should be applied. These changes may be beyond our control, can be hard to predict and can materially impact how we record and report our financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retrospectively, or apply an existing standard differently, also retrospectively, in each case resulting in our needing to revise or restate prior period financial statements. Additionally, as an emerging growth company we intend to take advantage of extended transition periods for complying with new or revised accounting standards affecting public companies.

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

We are required to comply with the SEC's rules implementing Sections 302 and 404 of the Sarbanes-Oxley Act, which require management to certify financial and other information in our quarterly and annual reports and provide an annual management report on the effectiveness of controls over financial reporting. While we are an emerging growth company and elect transitional relief available to emerging growth companies, our independent registered public accounting firm will not be required to report on the effectiveness of our internal control over financial reporting.

If we identify any material weaknesses in our internal control over financial reporting or are unable to comply with the requirements of Section 404 in a timely manner or assert that our internal control over financial reporting is effective, or if our independent registered public accounting firm is unable to express an opinion as to the effectiveness of our internal control over financial reporting once we are no longer an emerging growth company, investors, counterparties and customers may lose confidence in the accuracy and completeness of our financial statements and reports; our liquidity, access to capital markets and perceptions of our creditworthiness could be adversely affected; and the market price of our common stock could decline. In addition, we could become subject to investigations by the stock exchange on which our securities are listed, the SEC, Federal Reserve, FDIC, IDFI, IDFPR or other regulatory authorities, which could require additional financial and management resources. These events could have an adverse effect on our business, financial condition and results of operations.

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

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

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

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

resulting in our needing to revise or restate prior period financial statements, cause damage to our reputation and the price of our common stock, and adversely affect our business, financial condition and results of operations.

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

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

We may be adversely impacted by the transition from LIBOR as a reference rate.

In 2017, the United Kingdom's Financial Conduct Authority announced that after 2021 it would no longer compel banks to submit the rates required to calculate the London Interbank Offered Rate ("LIBOR"). This announcement indicates that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. Consequently, at this time, it is not possible to predict whether and to what extent banks will continue to provide submissions for the calculation of LIBOR.

Additionally, on February 6, 2020, Fannie Mae and Freddie Mac announced that they will not accept single family or multi-family adjustable rate mortgages ("ARMs") indexed to LIBOR with an application date after September 30, 2020 and will cease accepting all such ARMs on or before December 31, 2020 and thereafter will only accept ARMs indexed to the Federal Reserve's Secured Overnight Financing Rate ("SOFR").

With these announcements it is not possible to predict whether LIBOR will continue to be viewed as an acceptable market index, whether SOFR or another rate may become the industry accepted alternative to LIBOR, or what the effect of any such changes in views or alternatives may be on the markets for LIBOR-indexed financial instruments.

We have loans and other financial instruments and two series of preferred stock with attributes that are either directly or indirectly dependent on LIBOR. While such loans, instruments, and series of preferred stock generally allow for a change to another index in the event that LIBOR ceases to be accepted in the industry, the transition from LIBOR could create considerable costs and additional risk. Since proposed alternative rates are calculated differently, payments under contracts and dividends paid on those series of preferred stock referencing new rates will differ from those referencing LIBOR. The transition will change our market risk profiles, requiring changes to risk and pricing models, valuation tools, product design and hedging strategies. Furthermore, failure to adequately manage this transition process with our customers could adversely impact our reputation. Although we are currently unable to assess what the ultimate impact of the transition from LIBOR will be, failure to adequately manage the transition could have a material adverse effect on our business, financial condition and results of operations.

We are dependent on the use of data and modeling in our management's decision-making, and faulty data or modeling approaches could negatively impact our decision-making ability or possibly subject us to regulatory scrutiny in the future.

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

impact our decision-making ability or, if we become subject to regulatory stress-testing in the future, adverse regulatory scrutiny. Secondarily, because of the complexity inherent in these approaches, misunderstanding or misuse of their outputs could similarly result in suboptimal decision-making.

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

On August 5, 2011, Standard & Poor's cut the credit rating of the U.S. federal government's long-term sovereign debt from AAA to AA+, while also keeping its outlook negative. Moody's had lowered its own outlook for the same debt to "Negative" on August 2, 2011, and Fitch also lowered its outlook for the same debt to "Negative," on November 28, 2011. In 2013, both Moody's and Standard & Poor's revised their outlooks from "Negative" to "Stable," and on March 21, 2014, Fitch revised its outlook from "Negative" to "Stable." Further downgrades of the U.S. federal government's sovereign credit rating, and the perceived creditworthiness of U.S. government-backed obligations, could affect our ability to obtain funding that is collateralized by affected instruments and our ability to access capital markets on favorable terms. Such downgrades could also affect the pricing of funding, when funding is available. A downgrade of the credit rating of the U.S. government, or of its agencies, GSEs or related institutions or instrumentalities, may also adversely affect the market value of such instruments and, further, exacerbate the other risks to which we are subject and any related adverse effects on our business, financial condition or results of operations.

Severe weather, natural disasters, pandemics, acts of war or terrorism or other external events could significantly impact our business.

Severe weather, natural disasters, widespread disease or pandemics, acts of war or terrorism or other adverse external events could have a significant impact on our ability to conduct business. In addition, such events could affect the stability of our deposit base, impair the value of collateral securing loans, cause significant property damage, result in loss of revenue or cause us to incur additional expenses. The occurrence of any of these events in the future could have a material adverse effect on our business, financial condition or results of operations.

Risks Related to the Regulation of Our Industry

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

The Dodd-Frank Act, among other things, imposed new capital requirements on bank holding companies; changed the base for the FDIC insurance assessments to a bank's average consolidated total assets minus average tangible equity, rather than upon its deposit base; permanently raised the current standard deposit insurance limit to $250,000; and expanded the FDIC's authority to raise insurance premiums. The Dodd-Frank Act established the CFPB as an independent entity within the Federal Reserve, which has broad rulemaking, supervisory and enforcement authority over consumer financial products and services, including deposit products, residential mortgages, home-equity loans and credit cards and contains provisions on mortgage-related matters, such as steering incentives, determinations as to a borrower's ability to repay and prepayment penalties. Although the applicability of certain elements of the Dodd-Frank Act is limited to institutions with more than $10 billion in assets, there can be no guarantee that such applicability will not be extended in the future or that regulators or other third parties will not seek to impose such requirements on institutions with less than $10 billion in assets, such as Merchants Bank and FMBI.

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

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

increased compliance costs. These changes also may require us to invest significant management attention and resources to make any necessary changes to operations to comply and could have an adverse effect on our business, financial condition and results of operations.

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

As a result of the Dodd-Frank Act and recent rulemaking, we are subject to more stringent capital requirements.

In July 2013, the U.S. federal banking authorities approved the implementation of the Basel III regulatory capital reforms, or Basel III, and issued rules effecting certain changes required by the Dodd-Frank Act. Basel III is applicable to all U.S. banks that are subject to minimum capital requirements as well as to bank and saving and loan holding companies, other than "small bank holding companies" (generally bank holding companies with consolidated assets of less than $1.0 billion). Basel III not only increased most of the required minimum regulatory capital ratios, it introduced a new common equity Tier 1 capital ratio and the concept of a capital conservation buffer. Basel III also expanded the definition of capital by establishing additional criteria that capital instruments must meet to be considered additional Tier 1 and Tier 2 capital. In order to be a "well-capitalized" depository institution under Basel III, an institution must maintain a common equity Tier 1 capital ratio of 6.5% or more; a Tier 1 capital ratio of 8% or more; a total capital ratio of 10% or more; and a leverage ratio of 5% or more. Institutions must also maintain a capital conservation buffer consisting of common equity Tier 1 capital. Basel III became effective as applied to us, Merchants Bank, and FMBI on January 1, 2015 with a phase-in period that generally extended through January 1, 2019 for many of the changes.

Although, the federal banking regulators recently finalized certain rules intended to ease and/or simplify our capital requirements (e.g., the Simplification Rule and CBLR, as described in Part I, Item 1 - Supervision and Regulation - Merchants Bank and FMBI – Capital Requirements and Basel III), these new rules ultimately may not affect our capital requirements or provide sufficient relief.

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

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

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

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

Federal and state regulators periodically examine our business, and we may be required to remediate adverse examination findings.

The Federal Reserve, FDIC, IDFI, IDFPR, Fannie Mae, Freddie Mac, RHS, and Ginnie Mae periodically examine our business, including our compliance with laws and regulations. If, as a result of an examination, a banking agency were to determine that our financial condition, capital resources, asset quality, earnings prospects, management, liquidity or other aspects of any of our operations had become unsatisfactory, or that we were in violation of any law or

regulation, they may take a number of different remedial actions as they deem appropriate. These actions include the power to enjoin "unsafe or unsound" practices, to require affirmative action to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced, to direct an increase in our capital, to restrict our growth, to assess civil money penalties, to fine or remove officers and directors and, if it is concluded that such conditions cannot be corrected or there is an imminent risk of loss to depositors, to terminate our deposit insurance and place us into receivership or conservatorship. Any regulatory action against us could have an adverse effect on our business, financial condition and results of operations.

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

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

Additionally, the CFPB was created under the Dodd-Frank Act to centralize responsibility for consumer financial protection with broad rulemaking authority to administer and carry out the purposes and objectives of federal consumer financial laws with respect to all financial institutions that offer financial products and services to consumers. The CFPB is also authorized to prescribe rules applicable to any covered person or service provider, identifying and prohibiting acts or practices that are "unfair, deceptive, or abusive" in connection with any transaction with a consumer for a consumer financial product or service, or the offering of a consumer financial product or service. The ongoing broad rulemaking powers of the CFPB have potential to have a significant impact on the operations of financial institutions offering consumer financial products or services. The CFPB may propose new rules on consumer financial products or services, which could have an adverse effect on our business, financial condition and results of operations if any such rules limit our ability to provide such financial products or services. The Company currently has an approved CRA strategic plan.

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

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

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

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

As a matter of policy, the Federal Reserve expects a BHC to act as a source of financial and managerial strength to a subsidiary bank and to commit resources to support such subsidiary bank. The Dodd-Frank Act codified the Federal Reserve's policy on serving as a source of financial strength. Under the "source of strength" doctrine, the Federal Reserve may require a BHC to make capital injections into a troubled subsidiary bank and may charge the BHC with

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

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

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

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

During 2019, we completed construction of a new headquarters building and opened a Merchants Bank branch at 410 Monon Blvd., Carmel, Indiana 46032. With the recent acquisitions of FMBI and FMNBP and the assets of NattyMac, our operations now include a total of sixteen offices or branches in several states, including Indiana, Illinois, Florida, New York, and Minnesota. We believe that our facilities are in good condition and are adequate to meet our operating needs for the foreseeable future.

Item 3. Legal Proceedings.

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

Item 4. Mine Safety Disclosures.

None.

PART II

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

Our common stock began trading on the Nasdaq Capital Market ("Nasdaq") under the symbol "MBIN" on October 27, 2017. Prior to that date, there was no public market for our common stock. On March 5, 2020, the closing price of our common stock was $18.33. As of March 5, 2020, there were 28,735,466 shares of our common stock outstanding and 47 shareholders of record. A substantially greater number of holders of our common stock are "street name" or beneficial holders, whose shares are held by banks, brokers and other financial institutions.

Dividend Policy

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

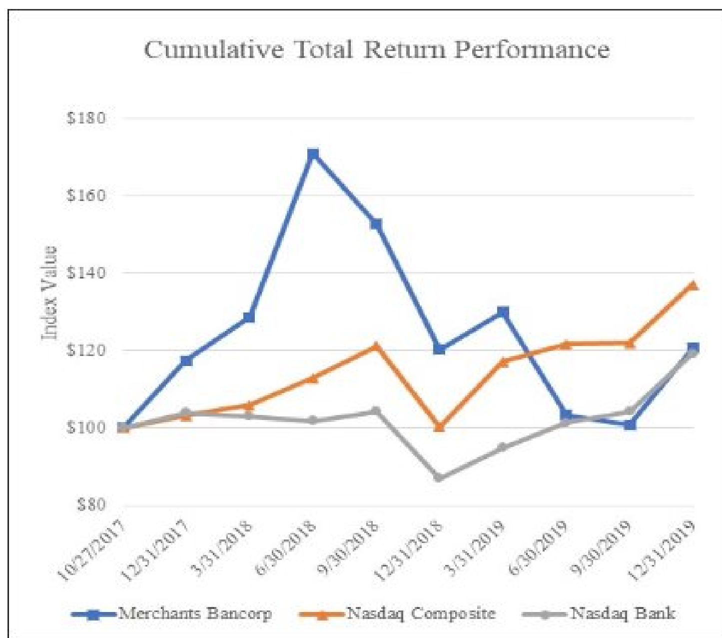
Dividend Restrictions

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

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

Stock Performance Graph

The following graph compares the cumulative total shareholder return on our common stock from October 27, 2017 (the date of our initial public offering and listing on Nasdaq) through December 31, 2019. The graph compares our common stock with the Nasdaq Composite Index and the Nasdaq Bank Index. The graph assumes an investment of $100.00 in our common stock and each index on October 27, 2017 and reinvestment of all quarterly dividends. Measurement points are October 27, 2017 and the last trading day of each subsequent quarter through December 31, 2019. There is no assurance that our common stock performance will continue in the future with the same or similar results as shown in the graph.



Securities Authorized for Issuance Under Equity Compensation Plans

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

Unregistered Sales and Repurchases of Equity Securities

None.

Item 6. Selected Financial Data.

	At or for the Year Ended December 31,				
(Dollars in thousands, except per share data)	**2019**	**2018**	**2017**	**2016**	**2015**
Balance Sheet Data:					
Total Assets	$ 6,371,928	$ 3,884,163	$ 3,393,133	$ 2,718,512	$ 2,269,442
Loans held for investment	3,028,310	2,058,127	1,374,660	941,796	762,212
Allowance for loan losses	(15,842)	(12,704)	(8,311)	(6,250)	(5,422)
Loans held for sale	2,093,789	832,455	995,319	764,503	620,583
Deposits	5,478,075	3,231,086	2,943,561	2,428,621	2,039,520
Total liabilities	5,718,200	3,462,926	3,025,659	2,512,224	2,121,242
Total shareholders' equity	653,728	421,237	367,474	206,288	148,200
Tangible common shareholders' equity (non-GAAP)	421,438	358,637	320,479	164,184	137,677
Income Statement Data:					
Interest Income	$ 211,995	$ 140,563	$ 94,387	$ 72,939	$ 56,345
Interest Expense	89,697	50,592	27,790	18,968	14,290
Net interest income	122,298	89,971	66,597	53,971	42,055
Provision for loan losses	3,940	4,629	2,472	960	960
Noninterest income	47,089	49,585	47,680	28,504	27,008
Noninterest expense	63,313	50,900	34,644	26,720	20,922
Income before taxes	102,134	84,027	77,161	54,795	47,181
Provision for income taxes	24,805	21,153	22,477	21,668	18,798
Net income	77,329	62,874	54,684	33,127	28,383
Preferred stock dividends	9,216	3,330	3,330	2,002	—
Net income available to common shareholders	$ 68,113	$ 59,544	$ 51,354	$ 31,125	$ 28,383
Credit Quality Data:					
Nonperforming loans	$ 4,678	$ 2,411	$ 3,140	$ 1,887	$ 887
Nonperforming loans to total loans	0.15 %	0.12 %	0.23 %	0.20 %	0.12 %
Nonperforming assets	$ 4,822	$ 2,411	$ 3,140	$ 1,887	$ 887
Nonperforming assets to total assets	0.08 %	0.06 %	0.09 %	0.07 %	0.04 %
Allowance for loan losses to total loans	0.52 %	0.62 %	0.60 %	0.66 %	0.71 %
Allowance for loan losses to nonperforming loans	338.65 %	526.92 %	264.68 %	331.21 %	611.27 %
Net charge-offs/(recoveries) to average loans and loans held for sale	0.02 %	0.01 %	0.02 %	— %	— %
Per Share Data (Common Stock):					
Diluted earnings per share	$ 2.37	$ 2.07	$ 2.28	$ 1.47	$ 1.35
Dividends declared	$ 0.28	$ 0.24	$ 0.20	$ 0.20	$ 0.20
Book value					
Tangible book value (non-GAAP)	$ 14.68	$ 12.50	$ 11.17	$ 7.78	$ 6.52
Weighted average shares outstanding					
Basic	28,705,125	28,692,955	22,551,452	21,111,208	21,075,475
Diluted	28,745,707	28,724,419	22,568,154	21,113,435	21,075,475
Shares outstanding at period end	28,706,438	28,694,036	28,685,167	21,111,200	21,111,200
Performance Metrics:					
Return on average assets	1.47 %	1.71 %	1.84 %	1.24 %	1.32 %
Return on average common equity	14.37 %	15.86 %	22.00 %	18.68 %	22.62 %
Return on average tangible common equity (non-GAAP)	17.56 %	17.23 %	25.14 %	20.50 %	22.73 %
Net interest margin	2.40 %	2.54 %	2.32 %	2.07 %	2.02 %
Efficiency ratio (non-GAAP)	37.38 %	36.47 %	30.32 %	32.40 %	30.29 %
Loans and loans held for sale to deposits	93.50 %	89.46 %	80.51 %	70.26 %	67.80 %
Capital Ratios—Merchants Bancorp:					
Tangible common equity to tangible assets (non-GAAP)	6.6 %	9.3 %	9.5 %	6.0 %	6.1 %
Tier 1 common equity to risk-weighted assets	7.4 %	10.6 %	11.8 %	8.1 %	8.5 %
Tier 1 leverage ratio	9.4 %	10.0 %	10.9 %	6.6 %	6.1 %
Tier 1 capital to risk-weighted assets	11.3 %	11.9 %	13.4 %	10.3 %	9.2 %
Total capital to risk-weighted assets	11.6 %	12.3 %	13.7 %	10.6 %	9.6 %
Capital Ratios—Merchants Bank Only:					
Tier 1 common equity to risk-weighted assets	11.7 %	12.9 %	15.4 %	13.2 %	12.9 %
Tier 1 leverage ratio	9.7 %	11.0 %	12.5 %	8.4 %	8.5 %
Tier 1 capital to risk-weighted assets	11.7 %	12.9 %	15.4 %	13.2 %	12.9 %
Total capital to risk-weighted assets	12.0 %	13.3 %	15.7 %	13.5 %	13.3 %

NON-GAAP FINANCIAL MEASURES

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

The reconciliation from shareholders' equity per GAAP to tangible common shareholders' equity is comprised solely of goodwill and intangibles totaling $19.6 million at December 31, 2019, $21.0 million at December 31, 2018, $5.4 million at December 31, 2017 and $523,000 for each of the years ended December 31, 2016 and 2015.

The reconciliation from consolidated assets per GAAP to tangible assets is comprised solely of consolidated assets less goodwill and intangibles totaling $19.6 million at December 31, 2019, $21.0 million at December 31, 2018, $5.4 million at December 31, 2017 and $523,000 for each of the years ended December 31, 2016 and 2015.

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

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

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

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

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

	At December 31,				
(Dollars in thousands)	**2019**	**2018**	**2017**	**2016**	**2015**
Tangible common shareholders' equity:					
Shareholders' equity per GAAP	$ 653,728	$ 421,237	$ 367,474	$ 206,288	$ 148,200
Less: goodwill & intangibles	(19,644)	(21,019)	(5,414)	(523)	(523)
Tangible shareholders' equity	634,084	400,218	362,060	205,765	147,677
Less: preferred stock	(212,646)	(41,581)	(41,581)	(41,581)	(10,000)
Tangible common shareholders' equity	**$ 421,438**	**$ 358,637**	**$ 320,479**	**$ 164,184**	**$ 137,677**
Average tangible common shareholders' equity:					
Average shareholders' equity per GAAP	$ 537,946	$ 396,350	$ 248,515	$ 177,370	$ 125,463
Less: average goodwill & intangibles	(20,243)	(9,265)	(2,662)	(523)	(523)
Less: average preferred stock	(129,881)	(41,581)	(41,581)	(25,038)	(55)
Average tangible common shareholders' equity	$ 387,822	$ 345,504	$ 204,272	$ 151,809	$ 124,885
Tangible assets:					
Assets per GAAP	$ 6,371,928	$ 3,884,163	$ 3,393,133	$ 2,718,512	$ 2,269,442
Less: goodwill & intangibles	(19,644)	(21,019)	(5,414)	(523)	(523)
Tangible assets	$ 6,352,284	3,863,144	3,387,719	2,717,989	2,268,919
Ending Common Shares	28,706,438	28,694,036	28,685,167	21,111,200	21,111,200
Tangible book value per common share	**$ 14.68**	**$ 12.50**	**$ 11.17**	**$ 7.78**	**$ 6.52**
Return on average tangible common equity	**17.56 %**	**17.23 %**	**25.14 %**	**20.50 %**	**22.73 %**
Tangible common equity to tangible assets	**6.6 %**	**9.3 %**	**9.5 %**	**6.0 %**	**6.1 %**

	For the Year Ended December 31,				
	2019	2018	2017	2016	2015
Net income as reported per GAAP	$ 77,329	$ 62,874	$ 54,684	$ 33,127	$ 28,383
Less: preferred stock dividends	(9,216)	(3,330)	(3,330)	(2,002)	—
Net income available to common shareholders	$ 68,113	$ 59,544	$ 51,354	$ 31,125	$ 28,383
Efficiency ratio (based on all GAAP metrics):					
Noninterest expense	63,313	50,900	34,644	26,720	20,922
Net interest income (before provision for loan losses)	122,298	89,971	66,597	53,971	42,055
Noninterest income	47,089	49,585	47,680	28,504	27,008
Total revenues for efficiency ratio	169,387	139,556	114,277	82,475	69,063
Efficiency ratio	37.38 %	36.47 %	30.32 %	32.40 %	30.29 %

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

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

Discussion and Analysis of the Company's financial condition and the results of operations for the year ended December 31, 2018 compared to the year ended December 31, 2017 were previously provided in Item 7 of Form 10-K for the year ended December 31, 2018, which is incorporated by reference.

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

Financial Highlights for the Year Ended December 31, 2019

- Assets of $6.4 billion increased 64% compared to December 2018, reflecting a 152% increase in loans held for sale and 47% increase in net loans receivable.

- Net income increased $14.5 million, or 23%, compared to the year ended December 31, 2018, driven primarily by a $32.3 million, or 36%, increase in net interest income from significant growth in loans held for sale and loans receivable in our Warehouse segment. The 98% increase in warehouse loan volume during this period was well ahead of industry volume increases of 30%, according to the Mortgage Bankers Association. We have benefited from the increased loan origination and refinancing activity due to lower market interest rates.

- We experienced a 14 basis point decrease in our net interest margin of 2.40% compared to the year ended December 31, 2018. The decline in net interest margin reflected the flattening and inversion of the yield curve compared to the prior year, and reflects the shift in business mix to a higher concentration of warehouse loans that typically are funded for a shorter duration and earn interest based on longer term rates. Profitability in this business, which also includes fees classified as noninterest income, made the most significant contribution to net income growth during the period. Our diverse business model is designed to maximize overall profitability in both rising and falling interest rate environments, and unlike many other banks, our future profitability relies less upon changes in net interest margin.

- Partially offsetting the increase in net interest income compared to the year ended December 31, 2018 was a $12.4 million, or 24%, increase in noninterest expenses, primarily due to an increase in salaries and employee benefits to support growth in our businesses. The efficiency ratio was 37.4% compared to 36.5% for the year ended December 31, 2018.

- Our asset quality remained strong, with nonperforming loans representing only 0.15% of total loans.

- The additional $171.1 million capital, net of expenses and repurchases, provided by our successful preferred stock offerings during 2019 has also allowed us to increase our capacity to offer additional funding opportunities to our customers while remaining a well-capitalized institution.

Company and Business Segment Overview

We are a diversified bank holding company headquartered in Carmel, Indiana and registered under the Bank Holding Company Act of 1956, as amended. We currently operate multiple lines of business, including multi-family housing and servicing, mortgage warehouse financing, retail and correspondent residential mortgage banking, agricultural lending and traditional community banking.

See "Company Overview and Our Business Segments," in Item 1 "Business", "Operating Segment Analysis for the Years Ended December 31, 2019 and 2018" in Item 7 "Management's Discussion and Analysis of Financial Condition and the Results of Operations", and "Segment Information," in Note 24 of our Consolidated Financial Statements for further information about our segments.

Primary Factors We Use to Evaluate Our Business

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

Results of operations

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

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

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

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

Gain on sale of loans includes placement and origination fees, capitalized mortgage servicing rights, trading gains and losses, and other related income. Loan servicing fees are collected as payments are received for loans in the servicing portfolio. Fair value adjustments to the value of mortgage servicing rights are also included in noninterest income. Mortgage warehouse fees are collected as the funded loans are sold in the secondary market.

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

Salaries and employee benefits includes commissions, other compensation, employee benefits and employment tax expenses for our personnel. Loan expenses include third party processing for mortgage warehouse financing activities and loan-related origination expenses. Occupancy expense includes depreciation expense on our owned properties, lease expense on our leased properties and other occupancy-related expenses. Equipment expense includes furniture, fixtures and equipment related expenses. Professional fees include legal, accounting, consulting and other outsourcing arrangements. FDIC insurance expense represents the assessments that we pay to the FDIC for deposit insurance. Technology expense includes data processing fees paid to our third-party data processing system provider and other data service providers. Other general and administrative expenses include expenses associated with travel, meals, training, supplies and postage. Noninterest expenses generally increase as we grow our business. Noninterest expenses have increased significantly over the past few years as we have grown organically, and as we have built out and modernized our operational infrastructure and implemented our plan to build an efficient, technology-driven mortgage banking operation with significant operational capacity for growth. In addition, staffing and administrative costs associated with becoming a publicly-traded company in October 2017, as well as the costs related to employees and properties added through our acquisitions of FMBI and FMNBP and the assets of NattyMac during 2018, have also contributed to this increase.

Financial Condition

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

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

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

Capital. We manage our regulatory capital based upon factors that include: (a) the level and quality of capital and our overall financial condition; (b) the trend and volume of problem assets; (c) the dollar amount of mortgage servicing rights as a percentage of capital; (d) the level and quality of earnings; (e) the risk exposures in our balance sheet; and (f) other factors. In addition, since 2014 we have annually increased our capital through net income less dividends and equity issuances.

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

Recent Developments and Material Trends

Economic and Interest Rate Environment. The results of our operations are highly dependent on economic conditions, mortgage volumes, and market interest rates. Residential mortgage volumes fluctuate based on economic conditions, market interest rates, and the credit parameters set by the GSEs. In December 2015, the Federal Reserve raised short-term interest rates for the first time in nine years with a 25 basis point increase and then raised rates again in December 2016, March 2017, June 2017, December 2017, March 2018, June 2018, September 2018, and December 2018, each with additional 25 basis point increases. Then in July 2019, the Federal Reserve reversed course with a 25 basis points decrease, followed by another 25 basis point decrease in both September and October of 2019.

The lower interest rates in 2019 contributed to the significant loan growth we experienced for the year ended December 31, 2019, particularly related to single family mortgage refinancing activity that increased net interest income

in our Mortgage Warehousing segment. However, we do not anticipate that this trend of growth will necessarily continue. Supporting this expectation are reports from the Mortgage Bankers Association, which has forecasted a 30% increase in single family residential mortgage volume, to $2.173 trillion for 2019, from $1.677 trillion in 2018, and an increase of 20%, to $2.609 trillion in 2020, followed by a decrease to $1.926 trillion in 2021.

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

As described further in Item 1 - "Supervision and Regulation—Merchants Bank and FMBI—Capital Requirements and Basel III" the federal regulators finalized and adopted rules regarding CBLR in November 2019. Under CBLR, if a qualifying depository institution or depository institution holding company elects to use such measure, such institution or holding company will be considered well capitalized if its ratio of Tier 1 capital to average total consolidated assets (i.e., leverage ratio) exceeds 9% and will not be required to calculate and report risk-based capital ratios. The Company, Merchants Bank, and FMB expect to begin using CBLR in the first quarter of 2020. We anticipate that making such an election could reduce the level of capital for us to maintain our well capitalized status and will allow us to consider offering products which would have otherwise been cost prohibitive to us under Basel III (i.e., the risk-weighting requirements).

General and Administrative Expenses. We expect to continue incurring increased noninterest expense attributable to general and administrative expenses related to building out and modernizing our operational infrastructure, marketing and other administrative expenses to execute our strategic initiatives, expenses to hire additional personnel and other costs required to continue our growth as a public company.

Allowance for Loan Losses. One of our key operating objectives has been, and continues to be, maintenance of an appropriate level of allowance for loan losses for probable incurred losses in our loan portfolio. The provision for loan losses recorded in prior years was primarily due to growth in our loan portfolio, as our historical loss rates remained very low. As we anticipate that our loan portfolio could decrease in 2020, we could similarly expect the provision to decrease, but could also be influenced by any changes to problem loans in our portfolio and or the loan type mix within the portfolio.

Acquisition of FMBI. On January 2, 2018, we acquired FMBI, an Illinois chartered bank located in Joy, Illinois, for a purchase price of approximately $5.5 million. The acquisition provided us membership to the Federal Home Loan Bank of Chicago, allowing us to participate in their Mortgage Partnership Finance Program.

Acquisition of FMNBP. On October 1, 2018, we acquired FMNBP, a national banking association located in Paxton, Illinois, for a purchase price of approximately $21.9 million, and FMNBP was merged into FMBI, with FMBI as the surviving bank.

Acquisition of NattyMac. On December 31, 2018, we acquired the assets of NattyMac, a warehouse funding operation located in Clearwater, Florida, from Home Point. Additionally, the Company repaid the balance, and related interest, of the $30 million subordinated debt that Home Point had invested in the Company.

Issuance of Preferred Stock. During 2019, we raised approximately $171.1 million in new capital, net of expenses and repurchases, through the issuance of preferred stock. At current levels, our total dividends on preferred stock are expected to be approximately $14.5 million annually.

Comparison of Operating Results for the Years Ended December 31, 2019 and 2018

General. Net income for the year ended December 31, 2019 was $77.3 million, an increase of $14.4 million, or 23%, over the net income of $62.9 million for the year ended December 31, 2018. The increase was primarily due to a $33.0 million increase in net interest income after the provision for loan losses, which was partially offset by a

$12.4 million increase in noninterest expense, a $3.7 million increase in the provision for income taxes, and a $2.5 million decrease in noninterest income.

Net Interest Income. Net interest income increased $32.3 million, or 36%, to $122.3 million for the year ended December 31, 2019 compared to $90.0 million for the year ended December 31, 2018. The increase was due to a $1.5 billion increase in our average interest earning assets and a 9 basis point increase in our interest rate spread, to 2.16%, for the year ended December 31, 2019 from 2.07% for the year ended December 31, 2018. Our net interest margin decreased 14 basis points, to 2.40%, for the year ended December 31, 2019 from 2.54% for the year ended December 31, 2018. The decline in net interest margin reflected the flattening and inversion of the yield curve compared to the prior year, and reflects the shift in business mix to a higher concentration of warehouse loans that typically are funded for a shorter duration and earn interest based on longer term rates. Profitability in this business, which also includes fees classified as noninterest income, had the most significant growth in net income of all our businesses during the year ended December 31, 2019 compared to the year ended December 31, 2018.

Interest Income. Interest income increased $71.4 million, or 51%, to $212.0 million for the year ended December 31, 2019, from $140.6 million for the year ended December 31, 2018. This increase was primarily attributable to a $67.0 million increase in interest on loans and loans held for sale, a $2.2 million increase in interest on other interest-earning deposits, and a $1.7 million increase in trading securities.

The average balance of loans, including loans held for sale, during the year ended December 31, 2019 increased 61%, to $4.1 billion from $2.5 billion for the year ended December 31, 2018, while the average yield on loans decreased 13 basis points to 4.59% for the year ended December 31, 2019 compared to 4.72% for the year ended December 31, 2018. The increase in loans and loans held for sale was primarily due to a significant increase in warehouse funding and multi-family volumes. The decrease in the average yield on loans was primarily due to the overall decrease in interest rates in the market period to period.

The average balance of other interest-earning assets increased 11%, to $547.1 million, for the year ended December 31, 2019 from $493.9 million for the year ended December 31, 2018, while the average yield increased 32 basis points to 2.27% for the year ended December 31, 2019.

The average balance of trading securities increased $48.8 million, or 35%, to $188.8 million for the year ended December 31, 2019 compared to $140.0 million for the year ended December 31, 2018, while the average yield decreased by 4 basis points to 3.54% for the year ended December 31, 2019.

The average balance of taxable securities available-for-sale decreased $95.8 million, or 25%, to $281.7 million for the year ended December 31, 2019 compared to $377.5 million for the year ended December 31, 2018, and the average yield increased 49 basis points, to 2.20%, for the year ended December 31, 2019.

Interest Expense. Total interest expense increased $39.1 million, or 77%, to $89.7 million for the year ended December 31, 2019 compared to $50.6 million for the year ended December 31, 2018.

Interest expense on deposits increased 101%, to $84.7 million for the year ended December 31, 2019 from $42.2 million for the year ended December 31, 2018. The increase was primarily due to an increase in the average balance of interest-bearing deposits of $1.8 billion, or 69%, to $4.4 billion for the year ended December 31, 2019, as well as a 31 basis point increase in the average cost of interest-bearing deposits, to 1.93% for the year ended December 31, 2019, from 1.62% for the same period in 2018. The increase in average balances was primarily due to an increase in brokered certificates of deposit and interest-bearing checking accounts. The increase in the cost of deposits was primarily due to the overall increase in interest rates in the economy period to period.

Interest expense on borrowings decreased 40%, to $5.0 million for the year ended December 31, 2019 from $8.4 million for the year ended December 31, 2018. The decrease was due primarily to a 602 basis point decrease in the average cost of borrowings, to 6.02% for the year ended December 31, 2019, compared with 12.04% for the year ended December 31, 2018. This was partially offset by a $14.1 million, or 20%, increase in the average balance outstanding period to period. The 602 basis point decrease in the cost of borrowings was primarily due to a lower level of short-term subordinated debt in the mix during the twelve months ended December 31, 2019 compared with the twelve months ended December 31, 2018, as we repaid $30 million in subordinated debt associated with the acquisition of NattyMac assets on December 31, 2018. Our short-term subordinate debt instruments have carried a higher cost than our other

categories of borrowing, as they include a variable interest rate equal to the one-month LIBOR rate plus an applicable margin. Additionally, our warehouse structured financing agreements provide for an additional interest payment for a portion of the earnings generated. As a result of these payments, cost of borrowings increased from a base rate of 3.26% and 4.44%, to an effective rate of 6.02% and 12.04% for the year ended December 31, 2019 and 2018, respectively.

The $14.1 million increase in the average balance of borrowings outstanding compared to the year ended December 31, 2018 was primarily due to a $44.5 million increase in average borrowings with the FHLB, that was partially offset by the repayment of $30 million in subordinated debt associated with the acquisition of NattyMac assets and the repayment of $25 million for a line of credit that expired in August 2019.

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

	Year Ended December 31,					
	2019			2018		
(Dollars in thousands)	Average Balance[1]	Interest Inc / Exp	Average Yield / Rate	Average Balance[1]	Interest Inc / Exp	Average Yield / Rate
Assets:						
Interest-bearing deposits, and other	$ 547,089	$ 12,397	2.27 %	$ 493,949	$ 9,646	1.95 %
Securities available for sale - taxable	281,656	6,208	2.20 %	377,497	6,448	1.71 %
Securities available for sale - tax exempt	9,503	272	2.86 %	—	—	— %
Trading securities	188,781	6,690	3.54 %	139,965	5,012	3.58 %
Loans and loans held for sale	4,065,607	186,428	4.59 %	2,532,433	119,457	4.72 %
Total interest-earning assets	5,092,636	211,995	4.16 %	3,543,844	140,563	3.97 %
Allowance for loan losses	(13,324)			(10,321)		
Noninterest-earning assets	182,988			147,411		
Total assets	$5,262,300			$3,680,934		
Liabilities & Shareholders' Equity:						
Deposits						
Interest-bearing checking	$1,706,884	30,907	1.81 %[4]	$ 907,393	16,397	1.81 %[4]
Savings deposits	149,866	322	0.21 %	233,955	573	0.24 %
Money market deposits	957,926	17,970	1.88 %	884,527	14,680	1.66 %
Certificates of deposit	1,575,940	35,462	2.25 %	573,434	10,566	1.84 %
Total Deposits	4,390,616	84,661	1.93 %	2,599,309	42,216	1.62 %
Borrowings	83,668	5,036	6.02 %	69,544	8,376	12.04 %
Total interest-bearing liabilities	4,474,284	89,697	2.00 %	2,668,853	50,592	1.90 %
Noninterest-bearing deposits	194,208			584,747		
Noninterest-bearing liabilities	55,862			30,984		
Total liabilities	4,724,354			3,284,584		
Shareholders' equity	537,946			396,350		
Total liabilities and equity	$5,262,300			$3,680,934		
Net interest spread[2]			2.16 %			2.07 %
Net interest earning assets	$ 618,352			$ 874,991		
Net interest income		$ 122,298			$ 89,971	
Net interest margin[3]			2.40 %			2.54 %
Average interest-earning assets to average interest-bearing liabilities			113.82 %			132.79 %

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

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

multiplied by prior volume). Changes applicable to both volume and rate have been allocated to volume. Yields have been calculated on a pre-tax basis.

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

	Year ended December 31, 2019 compared to Year ended December 31, 2018		
	Increase (Decrease) Due to		
(Dollars in thousands)	**Volume**	**Rate**	**Total**
Interest income			
Interest-bearing deposits and other	$ 1,038	$ 1,713	$ 2,751
Securities available for sale - taxable	(1,637)	1,397	(240)
Securities available for sale - tax exempt	—	272	272
Trading securities	1,748	(70)	1,678
Loans and loans held for sale	72,321	(5,350)	66,971
Total interest income	73,470	(2,038)	71,432
Interest expense			
Deposits			
Interest-bearing checking	14,447	63	14,510
Savings deposits	(206)	(45)	(251)
Money market deposits	1,218	2,072	3,290
Certificates of deposit	18,472	6,424	24,896
Total Deposits	33,931	8,514	42,445
Borrowings	1,701	(5,041)	(3,340)
Total interest expense	35,632	3,473	39,105
Net interest income	$ 37,838	$ (5,511)	$ 32,327

Provision for Loan Losses. We recorded a provision for loan losses of $3.9 million for the year ended December 31, 2019, a decrease of $689,000, compared with the year ended December 31, 2018. The decrease reflected improvement in loss expectations for our multi-family loan portfolio based on historical loss experience that was partially offset by increases for overall loan growth. The allowance for loan losses was $15.8 million, or 0.52% of total loans, at December 31, 2019, compared to $12.7 million, or 0.62% of total loans, at December 31, 2018.

Noninterest Income. Noninterest income decreased $2.5 million, or 5%, to $47.1 million for the year ended December 31, 2019 from $49.6 million for the year ended December 31, 2018. The decrease was primarily due to a $6.9 million decrease in loan servicing fees and a $3.9 million decrease in gain on sale of loans, that was partially offset by a $4.6 million increase in mortgage warehouse fees and a $3.1 million increase in other income.

The lower loan servicing fees in 2019 were primarily due to a $4.8 million decrease in the fair value of mortgage servicing rights for the year ended December 31, 2019, compared with an increase of $1.8 million for the year ended December 31, 2018. The value of mortgage servicing rights generally declines in falling interest rate environments and increases in rising interest rate environments.

The gain on sale of loans was $35.4 million for the year ended December 31, 2019, a decrease of $3.9 million, or 10%, compared to $39.3 million in the prior year. The decrease was primarily due lower volume of multi-family rental real estate loan sales in the secondary market and was also negatively impacted by loan processing delays caused by the federal government shutdown in January 2019.

The mortgage warehouse fees were $7.1 million for the year ended December 31, 2019, a 180% increase, compared to $2.6 million for the year ended December 31, 2018. The increase was primarily due the significant growth in mortgage warehouse volumes.

Noninterest Expense. Noninterest expense increased $12.4 million, or 24%, to $63.3 million for the year ended December 31, 2019 compared to $50.9 million for the year ended December 31, 2018. The increase was due primarily to a $5.9 million, or 18% increase in salaries and employee benefits, reflecting an increase in the number of employees to

support business growth and acquisitions that closed during the fourth quarter of 2018. The efficiency ratio was 37.4% for the year ended December 31, 2019, compared with 36.5% for the year ended December 31, 2018.

Income Taxes. Income tax expense increased 17%, to $24.8 million for the year ended December 31, 2019 from $21.2 million for the year ended December 31, 2018. The increase was due primarily to the 22% increase in pre-tax income. Our effective tax rate was 24.3% for the year ended December 31, 2019 and 25.2% for the year ended December 31, 2018.

Asset Quality

Total nonperforming loans (nonaccrual and greater than 90 days late but still accruing) were $4.7 million, or 0.15% of total loans, at December 31, 2019, compared to $2.4 million, or 0.12% of total loans, at December 31, 2018. The increase in nonperforming loans reflected higher delinquencies in residential real estate and commercial loans, primarily related to three large loans that moved into the greater than 90 days late category. We believe the Company maintains a solid equity position in the loans on these properties and we do not anticipate any losses as the loans move through our collection process. As a percentage of nonperforming loans, the allowance for loan losses was 338.6% at December 31, 2019 compared to 526.9% at December 31, 2018. The decrease compared to December 31, 2018 was primarily due to the increase in nonperforming loans.

Total loans greater than 30 days past due were $12.6 million at December 31, 2019 compared to $3.2 million at December 31, 2018. The increase included the large loans that moved into the 90 days late category as described above, but also reflected several loans that moved into 30-59 days late category. The large loans in the 30-59 days late category have been proactively addressed.

Special Mention (Watch) loans were $60.3 million at December 31, 2019, compared to $90.6 million at December 31, 2018. The decrease compared to December 31, 2018 primarily reflected the completion of certain construction projects with cost over-runs that were funded by the borrowers. Classified (substandard, doubtful and loss) loans were $12.5 million at December 31, 2019 and $11.2 million at December 31, 2018.

We had $162,000 of recoveries and $964,000 of charge offs during the year ended December 31, 2019, and no recoveries with $236,000 of charge offs during the year ended December 31, 2018. The higher charge-offs in 2019 related primarily to two loans, reflecting a borrower losing its primary sources of revenue, as opposed to general weakening in credit quality.

Operating Segment Analysis for the Years Ended December 31, 2019 and 2018

Our reportable segments are Multi-family Mortgage Banking, Mortgage Warehousing, and Banking. As discussed in “Our Business Segments” of Item 1 and Note 24 of our Consolidated Financial Statements, our reportable segments have been determined based upon their business processes and economic characteristics. This determination also gave consideration to the structure and management of various product lines.

Our segment financial information was compiled utilizing the accounting policies described in Note 1, “Nature of Operations and Summary of Significant Accounting Policies,” and Note 24, “Segment Information,” of the Notes to Consolidated Financial Statements included elsewhere in this report. As a result, reported segments and the financial information of the reported segments are not necessarily comparable with similar information reported by other financial institutions. Furthermore, changes in management structure or allocation methodologies and procedures may result in future changes to previously reported segment financial data. Transactions between segments consist primarily of borrowed funds. Intersegment interest expense is allocated to the Mortgage Warehousing and Banking segments based on Merchants Bank’s cost of funds. The provision for loan losses is allocated based on information included in our allowance for loan losses analysis and specific loan data for each segment.

The Other segment presented below, in Note 24 of our Consolidated Financial Statements, and elsewhere in this report includes general and administrative expenses for provision of services to all segments, internal funds transfer pricing offsets resulting from allocations to or from the other segments, certain elimination entries, and investments in qualified affordable housing limited partnerships.

The following table presents our primary operating results for our operating segments for the years ended December 31, 2019 and 2018.

(Dollars in thousands)	Multi-family Mortgage Banking	Mortgage Warehousing	Banking	Other	Total
Year Ended December 31, 2019					
Interest income	$ 1,328	$ 102,157	$ 106,443	$ 2,067	$ 211,995
Interest expense	—	50,880	45,681	(6,864)	89,697
Net interest income	1,328	51,277	60,762	8,931	122,298
Provision for loan losses	—	1,358	2,582	—	3,940
Net interest income after provision for loan losses	1,328	49,919	58,180	8,931	118,358
Noninterest income	41,682	7,178	1,005	(2,776)	47,089
Noninterest expense	22,556	11,397	17,738	11,622	63,313
Income before income taxes	20,454	45,700	41,447	(5,467)	102,134
Income taxes	5,691	10,934	9,593	(1,413)	24,805
Net income	$ 14,763	$ 34,766	$ 31,854	$ (4,054)	$ 77,329
Total assets	$ 188,866	$3,124,684	$3,018,568	$ 39,810	$6,371,928

(Dollars in thousands)	Multi-family Mortgage Banking	Mortgage Warehousing	Banking	Other	Total
Year Ended December 31, 2018					
Interest income	$ 712	$ 58,784	$ 79,332	$ 1,735	$ 140,563
Interest expense	—	24,369	29,508	(3,285)	50,592
Net interest income	712	34,415	49,824	5,020	89,971
Provision for loan losses	—	1,372	3,257	—	4,629
Net interest income after provision for loan losses	712	33,043	46,567	5,020	85,342
Noninterest income	45,831	2,550	3,150	(1,946)	49,585
Noninterest expense	19,205	7,721	14,876	9,098	50,900
Income before income taxes	27,338	27,872	34,841	(6,024)	84,027
Income taxes	7,528	6,872	8,572	(1,819)	21,153
Net income	$ 19,810	$ 21,000	$ 26,269	$ (4,205)	$ 62,874
Total assets	$ 166,102	$1,430,776	$2,256,687	$ 30,598	$3,884,163

Multi-family Mortgage Banking. The Multi-family Mortgage Banking segment reported net income of $14.8 million for the year ended December 31, 2019, a decrease of $5.0 million, or 25%, compared with $19.8 million reported for the year ended December 31, 2018. The decrease was due primarily to a decrease of $4.1 million in noninterest income and an increase of $3.4 million in noninterest expenses, partially offset by a $1.8 million decrease in income taxes.

The $4.1 million decrease in noninterest income compared to the year ended December 31, 2018 was primarily due to lower loan servicing fees, which were impacted by fair market value adjustments to mortgage servicing rights. The year ended December 31, 2019 included a negative $4.8 million fair value adjustment, which compared to a positive fair market value adjustment of $1.8 million for the year ended December 31, 2018. The volume of loans originated and acquired for sale in the secondary market decreased by $322.3 million, or 26%, to $917.3 million for the year ended December 31, 2019 compared to the year ended December 31, 2018.

The $3.4 million increase in noninterest expenses was primarily associated with higher salaries and benefits to support future loan growth, including the opening of an origination office in Chicago in April 2019. Also contributing to the increase was an increase in occupancy and equipment costs associated with a move to our new corporate headquarters.

Total assets in the Multi-family segment increased 14%, to $188.9 million at December 31, 2019, compared with December 31, 2018.

Mortgage Warehousing. The Mortgage Warehousing segment reported net income of $34.8 million for the year ended December 31, 2019, an increase of $13.8 million, or 66%, over the $21.0 million reported for the year ended December 31, 2018. The increase was primarily due to a $16.9 million increase in net interest income associated with the significant growth in loans receivable and loans held for sale. The higher origination volume in the single-family mortgage market was primarily attributable to lower mortgage interest rates, and the recently added capital has given the company the ability to increase loans outstanding within the well-capitalized capital classification. The volume of loans funded during year ended December 31, 2019 amounted to $46.2 billion, an increase of $22.9 billion, or 98%, compared to the same period in 2018. This compared favorably to the 30% industry increase in single-family residential loan volumes from the year ended December 31, 2018, according to the Mortgage Bankers Association. The growth in volume also contributed to a $4.6 million increase in noninterest income related to warehouse fees.

Partially offsetting the growth in net interest income and noninterest income compared to the year ended December 31, 2018 was a $3.7 million increase in noninterest expenses for salaries and benefits and a $4.1 million increase in income taxes from 64% higher pre-tax net income. The higher salaries and benefits were primarily associated with the acquisition of NattyMac's employees, which were not included in the year ended December 31, 2018, and to support planned business growth.

Total assets in the Mortgage Warehousing segment increased 118%, to $3.1 billion at December 31, 2019, compared with December 31, 2018.

Banking. The Banking segment reported net income for the year ended December 31, 2019, of $31.9 million, an increase of $5.6 million, or 21%, over the $26.3 million reported for the year ended December 31, 2018. The increase was primarily due to a $10.9 million increase in net interest income, reflecting higher loan volume.

Partially offsetting the increase in net interest income compared to the prior year was a $2.9 million increase in noninterest expense, primarily related to higher deposit insurance expense associated with our higher levels of deposits in 2019. Also partially offsetting the increase in net interest income compared to the prior year was a $2.1 decrease in noninterest income and a $1.0 million increase in income taxes, reflecting a 19% increase in pre-tax net income.

The results of FMNBP in the Banking segment during the year ended December 31, 2019 did not make a material contribution to the increase in net income compared to the year ended December 31, 2018.

Total assets in the Banking segment increased 34%, to $3.0 billion at December 31, 2019, compared with December 31, 2018.

See "Our Business Segments," in Item 1 "Business", and Note 24, "Segment Information," in the notes to our Consolidated Financial Statements for further information about our segments.

Financial Condition

As of December 31, 2019, we had approximately $6.4 billion in total assets, $5.5 billion in deposits, and $653.7 million in total shareholders' equity. Total assets as of December 31, 2019 included approximately $506.7 million of cash and cash equivalents, $5.1 billion of loans, which was comprised of $2.1 billion of loans held for sale and $3.0 billion of loans held for investment, net of allowance for loan losses. Total assets also include $269.9 million of trading securities that primarily represent pre-sold multi-family rental real estate loan originations in Ginnie Mae, Freddie Mac, and Fannie Mae mortgage backed securities pending settlements that typically occur within 30 days. There were $290.2 million of available for sale securities that are match funded with related custodial deposits. There are restrictions on the types of securities, as these are funded by certain custodial deposits where we set the cost of deposits based on the yield of the related securities. Mortgage servicing rights at December 31, 2019 were $74.4 million based on the fair value of the multi-family rental real estate loan servicing, which are primarily Ginnie Mae servicing rights with 10-year call protection.

Comparison of Financial Condition at December 31, 2019 and 2018

Total Assets. Total assets increased $2.5 billion, or 64%, to $6.4 billion at December 31, 2019 from $3.9 billion at December 31, 2018. The increase was due primarily to increases in loans held for sale of $1.3 billion and net loans receivable of 967.0 million. Also contributing to the increase in assets was a $170.2 million increase in cash and cash equivalents.

Cash and Cash Equivalents. Cash and cash equivalents increased $170.2 million, or 51%, to $506.7 million at December 31, 2019 from $336.5 million at December 31, 2018. The increase reflected cash levels consistent with balance sheet growth and funding activities.

Trading Securities. Trading securities increased $106.5 million, or 65%, to $269.9 million at December 31, 2019, from $163.4 million at December 31, 2018. The trading securities represent loans that Merchants Bank has funded and are held pending settlement, primarily as Ginnie Mae mortgage-backed securities with a firm investor commitment to purchase the securities. The increases were due to an increase in the volume of lending, and timing of settlements.

Securities Available-for-Sale. Investment securities available-for-sale decreased 12%, to $290.2 million at December 31, 2019 from $331.1 million at December 31, 2018. The decrease was primarily due to sales, calls, maturities (paydowns) and repayments of securities totaling $689.6 million, which were partially offset by purchases of $647.4 million during the period. Our available for sale portfolio is primarily funded with escrow deposits related to our multi-family mortgage Ginnie Mae servicing portfolio. These deposits must be either FDIC insured or invested in federal agency securities. The decline in available for sale securities compared with December 31, 2018 reflects a continuation of our strategy to increase the use of FDIC insurance for the deposits, as opposed to securities, which can be a more efficient approach to deploying deposits for the Company.

Federal Home Loan Bank ("FHLB") stock. FHLB stock increased $12.4 million, or 155%, to $20.4 million at December 31, 2019 from $8.0 million at December 31, 2018. The increase in FHLB stock was due primarily to the additional borrowing that allows us to manage our liquidity and funding costs more effectively. Additional stock purchases are required by the FHLB in order to facilitate increased borrowing capacity.

Loans Held for Sale. Loans held for sale, comprised primarily of single-family residential real estate loan participations, increased $1.3 billion, or 152%, to $2.1 billion at December 31, 2019 compared with December 31, 2018. Originations and purchases of loans identified as held for sale totaled $34.0 billion during the year ended December 31, 2019, compared to $17.8 billion during the same period in 2018. The increase in loans held for sale was primarily due to significant growth in our mortgage warehouse business, resulting from lower mortgage interest rates that increased our origination volume in the single-family mortgage market.

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

	December 31, 2019		December 31, 2018		December 31, 2017	
(Dollars in thousands)	**Amount**	**% of Total**	**Amount**	**% of Total**	**Amount**	**% of Total**
Mortgage warehouse lines of credit	$ 765,151	25 %	$ 337,332	16 %	$ 224,937	16 %
Residential real estate	413,835	14 %	410,871	20 %	330,410	24 %
Multi-family and healthcare financing	1,347,125	44 %	914,393	44 %	529,259	38 %
Commercial and commercial real estate	398,601	13 %	299,194	15 %	228,668	17 %
Agricultural production and real estate	85,210	3 %	79,255	4 %	51,966	4 %
Consumer and margin	18,388	1 %	17,082	1 %	9,420	1 %
Total	3,028,310		2,058,127		1,374,660	
Allowance for loan losses	(15,842)		(12,704)		(8,311)	
Total loans held for investment, net	$ 3,012,468	100.00 %	$ 2,045,423	100 %	$ 1,366,349	100 %

Loans receivable, net, which are comprised of loans held for investment, increased $967.0 million, or 47%, to $3.0 billion at December 31, 2019 compared to December 31, 2018. The increase in net loans was comprised primarily of:

- an increase of $432.7 million, or 47%, in multi-family and healthcare financing loans, to $1.3 billion,

- an increase of $427.8 million, or 127%, in mortgage warehouse lines of credit loans, to $765.2 million, and
- an increase of $99.4 million, or 33%, increase in commercial loans, to $398.6 million.

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

The increase in mortgage warehouse lines of credit was primarily due to an increase in single-family refinancing activity associated with lower market interest rates. Our growth in this business was substantially higher than the industry overall. We reported a 98% increase in mortgage warehouse volumes, while the industry saw a 30% industry increase in single-family residential loan volumes for the year ended December 31, 2019 compared to the year ended December 31, 2018, according to the Mortgage Bankers Association.

The increase in commercial loans was also due to higher origination volume during the year ended December 31, 2019.

As of December 31, 2019, approximately 93% of the total net loans at Merchants Bank reprice within three months.

The following table presents an analysis of the allowance for loan losses for the periods presented:

(Dollars in thousands)	**At or For the Year Ended December 31,**		
	2019	**2018**	**2017**
Balance at beginning of period	$ 12,704	$ 8,311	$ 6,250
Charge-offs:			
Mortgage warehouse lines of credit	(107)	—	—
Residential real estate	—	—	—
Multi-family and healthcare financing	—	—	—
Commercial and commercial real estate	(857)	(90)	(546)
Agricultural production and real estate	—	—	—
Consumer and margin	—	(146)	—
Total charge-offs	(964)	(236)	(546)
Recoveries:			
Mortgage warehouse lines of credit	—	—	—
Residential real estate	—	—	—
Multi-family and healthcare financing	—	—	—
Commercial and commercial real estate	162	—	135
Agricultural production and real estate	—	—	
Consumer and margin	—	—	—
Total recoveries	162	—	135
Net (charge-offs) recoveries	(802)	(236)	(411)
Transfers out:			
Residential real estate	—	—	—
Provision for loan losses	3,940	4,629	2,472
Balance at end of period	$ 15,842	$ 12,704	$ 8,311
Ratios:			
Net charge-offs to average loans outstanding	0.02 %	0.01 %	0.02 %
Allowance for loan losses to nonperforming loans at end of period	338.65 %	526.92 %	264.68 %
Allowance for loan losses to total loans at end of period	0.52 %	0.62 %	0.60 %

The following table presents an analysis of the allowance for loan losses for the periods presented:

	At December 31,								
	2019			2018			2017		
(Dollars in thousands)	Amount	Percent of Allowance to Total Allowance	Percent of Loans in Category to Total Loans	Amount	Percent of Allowance to Total Allowance	Percent of Loans in Category to Total Loans	Amount	Percent of Allowance to Total Allowance	Percent of Loans in Category to Total Loans
Mortgage warehouse lines of credit	$ 1,913	12 %	25 %	$ 1,068	8 %	16 %	$ 283	3 %	16 %
Residential real estate	2,042	13 %	14 %	1,986	16 %	20 %	1,587	19 %	24 %
Multi-family and healthcare financing	7,018	45 %	44 %	6,030	48 %	44 %	3,502	42 %	38 %
Commercial and commercial real estate	4,173	26 %	13 %	3,051	24 %	15 %	2,362	29 %	17 %
Agricultural production and real estate	523	3 %	3 %	429	3 %	4 %	320	4 %	4 %
Consumer and margin	173	1 %	1 %	140	1 %	1 %	257	3 %	1 %
Total allocated allowance	15,842	100 %	100 %	12,704	100 %	100 %	8,311	100 %	100 %
Unallocated allowance	—	—	—	—	—	—	—	—	—
Total allowance for loan losses	$ 15,842	100 %	100 %	$ 12,704	100 %	100 %	$ 8,311	100 %	100 %

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

(Dollars in thousands)	At December 31, 2019	2018	2017
Nonaccrual loans:			
Mortgage warehouse lines of credit	$ 233	$ 575	$ —
Residential real estate	740	893	60
Multi-family and healthcare financing	—	—	—
Commercial and commercial real estate	1,118	136	2,060
Agricultural production and real estate	—	282	282
Consumer and margin	18	18	146
Total	2,109	1,904	2,548
Accruing loans 90 days or more past due:			
Mortgage warehouse lines of credit	—	—	—
Residential real estate	1,851	74	475
Multi-family and healthcare financing	—	—	—
Commercial and commercial real estate	486	117	—
Agricultural production and real estate	231	307	117
Consumer and margin	1	9	—
Total	2,569	507	592
Total nonperforming loans	4,678	2,411	3,140
Real estate owned	144	—	—
Other nonperforming assets	—	—	—
Total nonperforming assets	$ 4,822	$ 2,411	$ 3,140
Troubled debt restructurings:			
Mortgage warehouse lines of credit	$ —	$ —	$ —
Residential real estate	—	—	—
Multi-family and healthcare financing	—	—	—
Commercial and commercial real estate	3,999	3,998	1,969
Agricultural production and real estate	—	—	—
Consumer and margin	—	—	—
Total	$ 3,999	$ 3,998	$ 1,969
Ratios:			
Total nonperforming loans to total loans	0.15 %	0.12 %	0.23 %
Total nonperforming loans to total assets	0.07 %	0.06 %	0.09 %
Total nonperforming assets to total assets	0.08 %	0.06 %	0.09 %
Total nonperforming loans and TDRs to total loans	0.29 %	0.31 %	0.37 %
Total nonperforming loans and TDRs to total assets	0.14 %	0.17 %	0.15 %
Total nonperforming assets and TDRs to total assets	0.14 %	0.17 %	0.15 %

Premises and Equipment, Net. Premises and equipment, net, increased $14.1 million, or 93%, to $29.3 million at December 31, 2019 compared to December 31, 2018. The increase was primarily due to the construction and furnishing of the Company's new headquarters building in Carmel, Indiana.

Mortgage Servicing Rights. Mortgage servicing rights decreased 4%, to $74.4 million at December 31, 2019 compared to $77.8 million at December 31, 2018. During the twelve months ended December 31, 2019, additions included originated and purchased servicing of $7.3 million. These increases were offset by a reduction for paydowns of $6.0 million and a fair value decrease of $4.8 million. Mortgage servicing rights are recognized in connection with sales of multi-family loans when we retain servicing of the sold loans, as well as upon purchases of loan servicing portfolios. The mortgage servicing rights are recorded and carried at fair value. The fair value decrease recorded during the twelve months ended December 31, 2019 was driven primarily by the decline in multi-family mortgage rates that increased borrower prepayment assumptions. Further decreases in interest rates could result in additional reductions to fair market values. The opposite could occur if interest rates increase.

Deposits. Deposits increased 70%, to $5.5 billion at December 31, 2019 from $3.2 billion at December 31, 2018. The increase was primarily due to our higher use of brokered certificates of deposits to support the significant growth in warehouse loans and to match the expected duration.

Certificates of deposit accounts increased $1.5 billion, or 220%, to $2.2 billion at December 31, 2019, primarily driven by the increase in brokered deposits outstanding period to period. Demand deposits increased $550.4 million, or 36%, to $2.1 billion at December 31, 2019, while savings deposits increased $202.7 million, or 20%, to $1.2 billion at December 31, 2019.

To fund the significant growth in loans that have relatively short durations, we have increased our use of brokered deposits by $1.2 billion, or 118%, to $2.2 billion at December 31, 2019 from $988.2 million at December 31, 2018.

- Brokered certificates of deposit accounts increased $1.4 billion, or 239%, to $2.0 billion at December 31, 2019 from $578.5 million at December 31, 2018.
- Brokered savings deposits increased $75.0 million, or 68%, to $184.6 million at December 31, 2019 from $109.6 million at December 31, 2018.
- Brokered demand deposit accounts decreased by $290.1 million, or 97%, to $10.0 million at December 31, 2019.

Although our brokered deposits are short-term in nature, they may be more rate sensitive compared to other sources of funding. In the future, those depositors may not replace their brokered deposits with us as they mature, or we may have to pay a higher rate of interest to keep those deposits or to replace them with other deposits or other sources of funds. Not being able to maintain or replace those deposits as they mature would adversely affect our liquidity. Additionally, if Merchants Bank does not maintain its well-capitalized position, it may not accept or renew any brokered deposits without a waiver granted by the FDIC.

Interest-bearing deposits increased $2.2 billion, or 71%, to $5.2 billion at December 31, 2019, and noninterest-bearing deposits increased $89.2 million, to $272.0 million at December 31, 2019.

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

	For the Year Ended December 31, 2019		For the Year Ended December 31, 2018		For the Year Ended December 31, 2017	
(Dollars in thousands)	**Average Balance**	**Average Rate**	**Average Balance**	**Average Rate**	**Average Balance**	**Average Rate**
Noninterest-bearing demand	$ 194,208	— %	$ 584,747	— %	$ 650,537	— %
Interest-bearing demand	1,706,884	1.81 %	907,393	1.81 %	569,976	1.14 %
Money market savings	957,926	1.88 %	884,527	1.66 %	834,473	1.21 %
Savings	149,866	0.21 %	233,955	0.24 %	332,374	0.23 %
Certificates of deposit	1,575,940	2.25 %	573,434	1.84 %	240,869	1.09 %
Total	$ 4,584,824	1.85 %	$ 3,184,056	1.33 %	$ 2,628,229	0.76 %

The following table shows time deposits of $100,000 or more by time remaining until maturity:

(Dollars in thousands)	At December 31, 2019
Three months or less	$ 1,362,083
Over three months through six months	661,187
Over six months through one year	61,098
Over one year to three years	82,123
Over three years	7,848
Total	$ 2,174,339

Borrowings. Borrowings totaled $181.4 million at December 31, 2019, a decrease of $14.0 million from December 31, 2018, reflecting the repayment of $25.0 million for a line of credit that expired in August of 2019, which was partially offset by an increase in short-term FHLB advances to maintain an appropriate level of cash to fund our businesses. The decrease compared to December 31, 2018 also reflected a shift towards utilizing more brokered deposits to appropriately match the duration of the new loans established during the period.

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

(Dollars in thousands)	At or For the Years Ended December 31, 2019	2018	2017
Balance at end of period	$ 181,439	$ 195,453	$ 56,612
Average balance during period	83,668	69,544	65,660
Maximum outstanding at any month end	368,664	200,265	57,002
Weighted average interest rate at end of period[1]	1.79 %	3.20 %	4.09 %
Average interest rate during period	6.02 %	12.04 %	11.86 %

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

Total Shareholders' Equity. Total shareholders' equity increased $232.5 million, or 55%, to $653.7 million at December 31, 2019 from $421.2 million at December 31, 2018. The increase resulted primarily from the issuance of $171.1 million in preferred stock, net of expenses and repurchases, and net income of $77.3 million, which was partially offset by dividends paid on common and preferred shares of $8.0 million and $9.2 million, respectively, during the period.

Liquidity and Capital Resources

Liquidity

Our primary sources of funds are deposits, including those that are escrow, custodial, and brokered in nature, principal and interest payments on loans, and proceeds from sale of loans. While maturities and scheduled amortization of loans are predictable sources of funds, deposit flows and mortgage prepayments are greatly influenced by market interest rates, economic conditions, and competition. Our most liquid assets are cash, short-term investments, including interest-bearing demand deposits and trading securities. The levels of these assets are dependent on our operating, financing, lending, and investing activities during any given period.

Our cash flows are comprised of three primary classifications: cash flows from operating activities, investing activities, and financing activities. Net cash provided by (used in) operating activities was $(1.3) billion and $204.3 million for the years ended December 31, 2019 and 2018, respectively. Net cash used in investing activities, which consists primarily of net change in loans receivable and purchases, sales and maturities of investment securities, was $957.7 million and $509.1 million for the years ended December 31, 2019 and 2018, respectively. Net cash

provided by financing activities, which is comprised primarily of net change in deposits, was $2.4 billion and $281.7 million for the years ended December 31, 2019 and 2018, respectively.

At December 31, 2019, we had $788.0 million in outstanding commitments to extend credit that are subject to credit risk and $1.9 billion outstanding commitments subject to certain performance criteria and cancellation by the Company, including loans pending closing, unfunded construction draws, and unfunded lines of warehouse credit. We anticipate that we will have sufficient funds available to meet our current loan origination commitments.

Certificates of deposit that are scheduled to mature in less than one year from December 31, 2019 totaled $2.1 billion. Management expects that a substantial portion of the maturing certificates of deposit will be renewed. However, if a substantial portion of these deposits is not retained, we may decide to utilize FHLB advances or raise interest rates on deposits to attract new accounts, which may result in higher levels of interest expense.

At December 31, 2019, based on available collateral and our ownership of FHLB stock, we had access to additional FHLB advances of up to $1.5 billion.

Capital Resources

The access to and cost of funding for new business initiatives, the ability to engage in expanded business activities, the ability to pay dividends, the level of deposit insurance costs and the level and nature of regulatory oversight depend, in part, on our capital position. The Company filed a registration statement on Form S-3 with the SEC on December 30, 2019, which was declared effective on January 9, 2020, and which provides a means to allow us to issue registered securities to finance our growth objectives.

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

Shareholders' Equity. Shareholders' equity was $653.7 million as of December 31, 2019, compared to $421.2 million as of December 31, 2018. The $232.5 million increase resulted primarily from the issuance of $171.1 million in preferred stock, net of expenses and repurchases, as well as net income of $77.3 million, which was partially offset by dividends paid on common and preferred shares of $8.0 million and $9.2 million, respectively, during the period.

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

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

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

Dividends on the Series A Preferred Stock, to the extent declared by the Company's board, are payable quarterly at an annual rate of $1.75 per share through March 31, 2024. After such date, quarterly dividends will accrue and be payable at a floating rate equal to three-month LIBOR plus a spread of 460.5 basis points per year. In the event that three-month LIBOR is less than zero, three-month LIBOR shall be deemed to be zero. The Company may redeem the Series A Preferred Stock at its option, subject to regulatory approval, on or after April 1, 2024, as described in the prospectus supplement relating to the offering filed with the SEC on March 22, 2019.

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

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

Dividends on the Series B Preferred Stock, to the extent declared by the Company’s board, are payable quarterly at an annual rate of $60.00 per depositary share (equivalent to $1.50 per depositary share) through December 31, 2024. After such date, quarterly dividends will accrue and be payable at a floating rate equal to three-month LIBOR plus a spread of 456.9 basis points per year. In the event that three-month LIBOR is less than zero, three-month LIBOR shall be deemed to be zero. The Company may redeem the Series B Preferred Stock at its option, subject to regulatory approval, on or after October 1, 2024, as described in the prospectus supplement relating to the offering filed with the SEC on August 13, 2019.

8% Preferred Stock. The Company previously issued a total of 41,625 shares of 8% Non-Cumulative, Perpetual Preferred Stock, without par value, with a liquidation preference of $1,000.00 per share (“8% Preferred Stock”) in private placement offerings.

Dividends on the 8% Preferred Stock, to the extent declared by the Company’s board, are payable quarterly at an annual rate of $80.00 per share. The Company may redeem the 8% Preferred Stock at its option, subject to regulatory approval, on or after December 31, 2020.

Common Shares/Dividends. As of December 31, 2019, the Company had 28,706,438 common shares issued and outstanding. In 2019 the Board declared quarterly dividends at an annual rate of $0.28 per share**.**

Capital Adequacy.

The following table presents the capital ratios under the Basel III capital framework:

	December 31, 2019 Actual	**December 31, 2018 Actual**	**Minimum Capital Levels as of Jan. 1, 2017**	**Well-Capitalized Basel III Ratio as of Jan. 1, 2015 Under Prompt Corrective Action Regulations**
Merchants Bancorp				
Common Equity Tier 1 (to risk-weighted assets)	7.4 %	10.6 %	4.5 %	N/A
Tier 1 Leverage Ratio	9.4 %	10.0 %	4.0 %	N/A
Tier 1 Capital	11.3 %	11.9 %	6.0 %	N/A
Total Capital (to risk-weighted assets)	11.6 %	12.3 %	8.0 %	N/A
Merchants Bank				
Common Equity Tier 1 (to risk-weighted assets)	11.7 %	12.9 %	4.5 %	≥6.5 %
Tier 1 Leverage Ratio	9.7 %	11.0 %	4.0 %	≥5.0 %
Tier 1 Capital	11.7 %	12.9 %	6.0 %	≥8.0 %
Total Capital (to risk-weighted assets)	12.0 %	13.3 %	8.0 %	≥10.0 %
FMBI				
Common Equity Tier 1 (to risk-weighted assets)	12.8 %	18.4 %	4.5 %	≥6.5 %
Tier 1 Leverage Ratio	11.7 %	10.8 %	4.0 %	≥5.0 %
Tier 1 Capital	12.8 %	18.4 %	6.0 %	≥8.0 %
Total Capital (to risk-weighted assets)	13.1 %	18.6 %	8.0 %	≥10.0 %

At December 31, 2019, the Company exceeded all of its regulatory capital requirements with a Tier 1 leverage capital level of $621.6 million, or 9.4% of adjusted total assets, which is above the required level of $264.3 million, or 4.0%; total risk-based capital of $637.5 million, or 11.6% of risk-weighted assets, which is above the required level of $440.1 million, or 8.0%; and common equity Tier 1 capital of $409.0 million, or 7.4% of risk-weighted assets, which is above the required level of $247.5 million, or 4.5% of risk-weighted assets. Management is not aware of any conditions or events since the most recent notification that would change our category.

At December 31, 2019, Merchants Bank exceeded all of its regulatory capital requirements with a Tier 1 leverage capital level of $623.7 million, or 9.7% of adjusted total assets, which is above the required level of $257.5 million, or 4.0%; total risk-based capital of $639.1 million, or 12.0% of risk-weighted assets, which is above the

required level of $426.7 million, or 8.0%; and common equity Tier 1 capital of $623.7 million, or 11.7% of risk-weighted assets, which is above the required level of $240.0 million, or 4.5% of risk-weighted assets. Accordingly, Merchants Bank was categorized as well capitalized at December 31, 2019. Management is not aware of any conditions or events since the most recent notification that would change our category.

At December 31, 2019, FMBI exceeded all of its regulatory capital requirements with a Tier 1 leverage capital level of $21.3 million, or 11.7% of adjusted total assets, which is above the required level of $7.3 million, or 4.0%; total risk-based capital of $21.7 million, or 13.1% of risk-weighted assets, which is above the required level of $13.3 million, or 8.0%; and common equity Tier 1 capital of $21.3 million, or 12.8% of risk-weighted assets, which is above the required level of $7.5 million, or 4.5% of risk-weighted assets. Accordingly, FMBI was categorized as well capitalized at December 31, 2019. Management is not aware of any conditions or events since the most recent notification that would change our category.

In November 2017 the federal regulators finalized and adopted the Transitions Rule. If the Transitions Rule had not been adopted, we would have had to make certain deductions and increases to increases in risk-weighting for the purposes of our capital calculations, which would have resulted in us reporting a lower amount of capital in 2018 and 2019. Additionally, the July 2019 the federal regulators finalized and adopted the Simplification Rule, which generally will become effective on January 1, 2020. Under the Simplification Rule the threshold of MSR allowable for the purposes of Common Equity Tier 1 capital was increased from 15% to 25% of common equity, which will benefit us because it will reduce the deductions to capital that have traditionally been required, including in 2018 and 2019, but we will be required to risk-weight the non-deducted portion of our MSRs at 250% unless we elect to use CBLR which will also become effective on January 1, 2020. However, starting in the first quarter of 2020 we expect to elect to use CBLR. Under CBLR, so long as we remain a qualifying depository institution and our leverage ratio remains above 9%, subject to a limited two quarter grace period, we will not be required to calculate and report risk-based capital ratios. We anticipate that making such an election could reduce the level of capital for us to maintain our well capitalized status and will allow us to consider offering products which would have otherwise been cost prohibitive to us under Basel III (i.e., the risk-weighting requirements). *See Item 1 - "Supervision and Regulation—Merchants Bank and FMBI—Capital Requirements and Basel III" for further information about the Transitions Rule, Simplification Rule, and CBLR.*

Contractual obligations

The following table summarizes aggregated information about our outstanding contractual obligations and other long-term liabilities as of December 31, 2019. The payment amounts represent those amounts contractually due to the recipients.

	Payments Due by Period				
(Dollars in thousands)	**Total**	**Less Than One Year**	**One to Three Years**	**Three to Five Years**	**More than Five Years**
Deposits without a stated maturity	$ 3,303,736	$ 3,303,736	$ —	$ —	$ —
Time deposits	2,174,339	2,084,369	82,123	7,847	—
Borrowings	181,439	164,329	15,136	403	1,571
Operating lease obligations	7,917	1,564	2,591	2,211	1,551
Total	$ 5,667,431	$ 5,553,998	$ 99,850	$ 10,461	$ 3,122

Borrowings are fully described in Note 11 of the Consolidated Financial Statements as of December 31, 2019 and 2018. Operating lease obligations are in place primarily for facilities and land on which banking facilities are located. See Note 23 of our Consolidated Financial Statements as of December 31, 2019, 2018, and 2017 for additional information.

Off-Balance Sheet Arrangements.

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

For information about our loan commitments, unused lines of credit and standby letters of credit, see Note 23 of the Notes to our Consolidated Financial Statements.

We have not engaged in any other off-balance-sheet transactions in the normal course of our lending activities.

Critical Accounting Policies and Estimates

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

As an “emerging growth company” we may delay adoption of new or revised accounting pronouncements applicable to public companies until such pronouncements are made applicable to private companies. We intend to take advantage of the benefits of this extended transition period. Accordingly, our financial statements may not be comparable to companies that comply with such new or revised accounting standards.

The following represent our critical accounting policies:

Allowance for Loan Losses. The allowance for loan losses is the estimated amount considered necessary to cover inherent, but unconfirmed, credit losses in the loan portfolio at the balance sheet date. The allowance is established through the provision for loan losses, which is included in net interest income. In determining the allowance for loan losses, management makes significant estimates and has identified this policy as one of our most critical accounting policies.

Management performs a quarterly evaluation of the allowance for loan losses. Consideration is given to a variety of factors in establishing this estimate including, but not limited to, current economic conditions, delinquency statistics, geographic and industry concentrations, the adequacy of the underlying collateral, the financial strength of the borrower, results of internal loan reviews and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant change.

The analysis has two components, specific and general allowances. The specific allowance is for unconfirmed losses related to loans that are determined to be impaired. Impairment is measured by determining the present value of expected future cash flows or, for collateral-dependent loans, the fair value of the collateral, adjusted for market conditions and selling expenses. If the fair value of the loan is less than the loan’s carrying value, a specific reserve is established for the difference. The general allowance, which is for loans reviewed collectively, is determined by segregating the remaining loans by type of loan, risk weighting (if applicable) and payment history. We also analyze historical loss experience, delinquency trends, general economic conditions and geographic and industry concentrations. This analysis establishes historical loss percentages and qualitative factors that are applied to the loan groups to determine the amount of the allowance for loan losses necessary for loans that are reviewed collectively. The qualitative component is critical in determining the allowance for loan losses as certain trends may indicate the need for changes to the allowance for loan losses based on factors beyond the historical loss history. Not incorporating a qualitative component could misstate the allowance for loan losses. Actual loan losses may be significantly more than the allowances we have established which could result in a material negative effect on our financial results.

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

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

Fair Value Measurements. The fair value of a financial instrument is defined as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. We estimate the fair value of a financial instrument and any related asset impairment using a variety of valuation methods. Where financial instruments are actively traded and have quoted market prices, quoted market prices are used for fair value. When the financial instruments are not actively traded, other observable market inputs, such as quoted prices of securities with similar characteristics, may be used, if available, to determine fair value. When observable market prices do not exist, we estimate fair value. These estimates are subjective in nature and imprecision in estimating these factors can impact the amount of gain or loss recorded. A more detailed description of the fair values measured at each level of the fair value hierarchy and the methodology utilized by us can be found in Note 21 of our Consolidated Financial Statements "Disclosures About Fair Value of Assets and Liabilities."

Recently Issued Accounting Pronouncements

For a discussion of the expected impact of accounting pronouncements recently issued but not adopted by us as of December 31, 2019, see Note 26 of our Consolidated Financial Statements "Recent Accounting Pronouncements."

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

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

Interest Rate Risk

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

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

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

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

to generate lower net interest income, as rates paid on our interest-bearing liabilities would reprice upward more quickly than rates earned on our interest-earning assets, thus compressing our net interest margin.

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

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

We report NII at Risk to isolate the change in income related solely to interest earning assets and interest-bearing liabilities. The NII at Risk results reflect the analysis used quarterly by management. It models gradual −200, −100, +100 and +200 basis point parallel shifts in market interest rates, implied by the forward yield curve over the next one-year period.

The following table presents NII at Risk for Merchants Bank as of December 31, 2019, 2018, and 2017:

	Net Interest Income Sensitivity Twelve Months Forward			
	- 200	**- 100**	**+ 100**	**+ 200**
	(Dollars in thousands)			
December 31, 2019:				
Dollar change	$ (10,311)	$ (16,293)	$ 17,501	$ 34,703
Percent change	(7.8)%	(12.3)%	13.2 %	26.2 %
December 31, 2018:				
Dollar change	$ (25,230)	$ (11,716)	$ 11,225	$ 22,407
Percent change	(24.1)%	(11.2)%	10.7 %	21.4 %
December 31, 2017:				
Dollar change	$ (22,500)	$ (14,336)	$ 11,578	$ 23,134
Percent change	(22.9)%	(14.6)%	11.8 %	23.6 %

Our interest rate risk management policy limits the change in our net interest income to 20% for a +/- 100 basis point move in interest rates, and 30% for a +/- 200 basis point move in rates. At both December 31, 2019 and 2018 we estimated that we are within policy limits set by our board of directors for the −200, −100, +100, and +200 basis point scenarios.

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

	Economic Value of Equity Sensitivity (Shock)			
	Immediate Change in Rates			
	- 200	**- 100**	**+ 100**	**+ 200**
	(Dollars in thousands)			
December 31, 2019:				
Dollar change	$ (3)	$ (1,154)	$ (3,130)	$ (7,615)
Percent change	— %	(0.2)%	(0.5)%	(1.2)%
December 31, 2018:				
Dollar change	$ 4,746	$ 3,193	$ (4,622)	$ (9,757)
Percent change	1.1 %	0.8 %	(1.1)%	(2.3)%
December 31, 2017:				
Dollar change	$ 5,816	$ 3,524	$ (6,718)	$ (14,803)
Percent change	1.4 %	0.9 %	(1.6)%	(3.6)%

Our interest rate risk management policy limits the change in our EVE to 15% for a +/- 100 basis point move in interest rates, and 20% for a +/- 200 basis point move in rates. We are within policy limits set by our board of directors for the −200, −100, +100, and +200 basis point scenarios. The EVE reported at December 31, 2019 projects that as interest rates increase (decrease) immediately, the economic value of equity position will be expected to decrease (increase). When interest rates rise, fixed rate assets generally lose economic value; the longer the duration, the greater the value lost. The opposite is true when interest rates fall.

Item 8. Financial Statements and Supplementary Data.

Index to Consolidated Financial Statements of Merchants Bancorp

Independent Auditors' Report	59
Consolidated Financial Statements	
Balance Sheets as of December 31, 2019 and 2018	60
Statements of Income for the years ended December 31, 2019, 2018 and 2017	61
Statements of Comprehensive Income for the years ended December 31, 2019, 2018 and 2017	62
Statements of Shareholders' Equity for the years ended December 31, 2019, 2018 and 2017	63
Statements of Cash Flows for the years ended December 31, 2019, 2018 and 2017	64
Notes to Financial Statements	65

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

Report of Independent Registered Public Accounting Firm

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Merchants Bancorp (Company) as of December 31, 2019 and 2018, the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes (collectively referred to as the "financial statements"). In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting in accordance with the standards of the PCAOB. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion in accordance with the standards of the PCAOB.

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

/s/ BKD, LLP
BKD, LLP

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

Indianapolis, Indiana
March 16, 2020

Merchants Bancorp

Consolidated Balance Sheets

December 31, 2019 and 2018

	December 31, 2019	December 31, 2018
Assets		
Cash and due from banks	$ 13,909	$ 25,855
Interest-earning demand accounts	492,800	310,669
Cash and cash equivalents	506,709	336,524
Securities purchased under agreements to resell	6,723	6,875
Trading securities	269,891	163,419
Available for sale securities	290,243	331,071
Federal Home Loan Bank (FHLB) stock	20,369	7,974
Loans held for sale (includes $19,592 and $11,886 at fair value, respectively)	2,093,789	832,455
Loans receivable, net of allowance for loan losses of $15,842 and $12,704, respectively	3,012,468	2,045,423
Premises and equipment, net	29,274	15,136
Mortgage servicing rights	74,387	77,844
Interest receivable	18,359	13,827
Goodwill	15,845	17,477
Intangible assets, net	3,799	3,542
Other assets and receivables	30,072	32,596
Total assets	$ 6,371,928	$ 3,884,163
Liabilities and Shareholders' Equity		
Liabilities		
Deposits		
Noninterest-bearing	$ 272,037	$ 182,879
Interest-bearing	5,206,038	3,048,207
Total deposits	5,478,075	3,231,086
Borrowings	181,439	195,453
Deferred and current tax liabilities, net	16,917	15,444
Other liabilities	41,769	20,943
Total liabilities	5,718,200	3,462,926
Commitments and Contingencies		
Shareholders' Equity		
Common stock, without par value		
Authorized - 50,000,000 shares		
Issued and outstanding - 28,706,438 shares at December 31, 2019 and 28,694,036 shares at December 31, 2018	135,640	135,057
Preferred stock, without par value - 5,000,000 total shares authorized		
8% Preferred stock - $1,000 per share liquidation preference		
Authorized - 50,000 shares		
Issued and outstanding - 41,625 shares	41,581	41,581
7% Series A Preferred stock - $25 per share liquidation preference		
Authorized - 3,500,000 shares		
Issued and outstanding - 2,081,800 shares	50,221	—
6% Series B Preferred stock - $1,000 per share liquidation preference		
Authorized - 125,000 shares		
Issued and outstanding - 125,000 shares (equivalent to 5,000,000 depositary shares)	120,844	—
Retained earnings	304,984	244,909
Accumulated other comprehensive income (loss)	458	(310)
Total shareholders' equity	653,728	421,237
Total liabilities and shareholders' equity	$ 6,371,928	$ 3,884,163

See Notes to Consolidated Financial Statements

Merchants Bancorp

Consolidated Statements of Income

Years Ended December 31, 2019, 2018 and 2017

	Year Ended December 31,		
	2019	2018	2017
Interest Income			
Loans	$ 186,428	$ 119,457	$ 79,922
Investment securities:			
Trading	6,690	5,012	5,187
Available for sale - taxable	6,208	6,448	4,531
Available for sale - tax exempt	272	—	—
Federal Home Loan Bank stock	932	385	321
Other	11,465	9,261	4,426
Total interest income	211,995	140,563	94,387
Interest Expense			
Deposits	84,661	42,216	20,003
Borrowed funds	5,036	8,376	7,787
Total interest expense	89,697	50,592	27,790
Net interest income	122,298	89,971	66,597
Provision for loan losses	3,940	4,629	2,472
Net Interest Income After Provision for Loan Losses	118,358	85,342	64,125
Noninterest Income			
Gain on sale of loans	35,411	39,266	37,790
Loan servicing fees, net	(1,118)	5,741	6,273
Mortgage warehouse fees	7,145	2,550	2,608
Gains/(losses) on sale of investments available for sale (includes $476, $0, and $0, respectively, related to accumulated other comprehensive earnings reclassifications)	476	—	—
Other income	5,175	2,028	1,009
Total noninterest income	47,089	49,585	47,680
Noninterest Expense			
Salaries and employee benefits	38,093	32,240	21,472
Loan expenses	4,534	4,621	4,097
Occupancy and equipment	4,609	2,788	1,602
Professional fees	2,326	2,585	1,516
Deposit insurance expense	2,747	1,024	930
Technology expense	2,623	1,544	1,171
Other expense	8,381	6,098	3,856
Total noninterest expense	63,313	50,900	34,644
Income Before Income Taxes	102,134	84,027	77,161
Provision for income taxes (includes $(117), $0, and $0, respectively, related to income tax (expense)/benefit for reclassification items)	24,805	21,153	22,477
Net Income	$ 77,329	$ 62,874	$ 54,684
Dividends on preferred stock	(9,216)	(3,330)	(3,330)
Net Income Allocated to Common Shareholders	68,113	59,544	51,354
Basic Earnings Per Share	$ 2.37	$ 2.08	$ 2.28
Diluted Earnings Per Share	$ 2.37	$ 2.07	$ 2.28
Weighted-Average Shares Outstanding			
Basic	28,705,125	28,692,955	22,551,452
Diluted	28,745,707	28,724,419	22,568,154

See Notes to Consolidated Financial Statements

Merchants Bancorp

Consolidated Statements of Comprehensive Income

Years Ended December 31, 2019, 2018 and 2017

(In thousands)

	Year Ended December 31,		
	2019	**2018**	**2017**
Net Income	$ 77,329	$ 62,874	$ 54,684
Other Comprehensive Income (Loss):			
Net change in unrealized losses on investment securities available for sale, net of (taxes) benefits of $(386), $(294), and $256, respectively	1,127	939	(378)
Less: Reclassification adjustment for gains/(losses) included in net income, net of tax (expense)/benefits of $(117), $0, and $0, respectively	359	—	—
Other comprehensive income (loss) for the period	768	939	(378)
Comprehensive Income	$ 78,097	$ 63,813	$ 54,306

See Notes to Consolidated Financial Statements

Merchants Bancorp

Consolidated Statements of Shareholders' Equity

Years Ended December 31, 2019, 2018 and 2017

(In thousands, except share and per share data)

	Common Stock		8% Preferred Stock		7% Preferred Stock		6% Preferred Stock		Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount			
Balance, January 1, 2017	21,111,200	20,061	41,625	41,581	—	—	—	—	145,274	(628)	206,288
Net income	—	—	—	—	—	—	—	—	54,684	—	54,684
Shares issued for stock compensation plans	3,196	458	—	—	—	—	—	—	—	—	458
Shares issued for MCS acquisition	383,271	8,127	—	—	—	—	—	—	—	—	8,127
Dividends on preferred stock, $80.00 per share, annually	—	—	—	—	—	—	—	—	(3,330)	—	(3,330)
Dividends on common stock, $0.20 per share, annually	—	—	—	—	—	—	—	—	(4,620)	—	(4,620)
Initial public offering, net of issuance costs	7,187,500	106,245	—	—	—	—	—	—	—	—	106,245
Other comprehensive loss	—	—	—	—	—	—	—	—	—	(378)	(378)
Balance, December 31, 2017	28,685,167	$ 134,891	41,625	$ 41,581	—	$ —	—	$ —	$ 192,008	$ (1,006)	$ 367,474
Net income	—	—	—	—	—	—	—	—	62,874	—	62,874
Shares issued for stock compensation plans	8,869	166	—	—	—	—	—	—	—	—	166
Dividends on preferred stock, $80.00 per share, annually	—	—	—	—	—	—	—	—	(3,330)	—	(3,330)
Dividends on common stock, $0.24 per share, annually	—	—	—	—	—	—	—	—	(6,886)	—	(6,886)
Reclassification upon adoption of ASU 2018-02	—	—	—	—	—	—	—	—	243	(243)	—
Other comprehensive income	—	—	—	—	—	—	—	—	—	939	939
Balance, December 31, 2018	28,694,036	$ 135,057	41,625	$ 41,581	—	$ —	—	$ —	$ 244,909	$ (310)	$ 421,237
Net income	—	—	—	—	—	—	—	—	77,329	—	77,329
Shares issued for stock compensation plans	12,402	583	—	—	—	—	—	—	—	—	583
Issuance of 7% preferred stock, net of offering expenses of $1,824	—	—	—	—	2,955,800	72,071	—	—	—	—	72,071
Repurchase of 7% preferred stock	—	—	—	—	(874,000)	(21,850)	—	—	—	—	(21,850)
Issuance of 6% preferred stock, net of offering expenses of $4,156	—	—	—	—	—	—	125,000	120,844	—	—	120,844
Dividends on 8% preferred stock, $80.00 per share, annually	—	—	—	—	—	—	—	—	(3,330)	—	(3,330)
Dividends on 7% preferred stock, $1.75 per share, annually, pro-rated	—	—	—	—	—	—	—	—	(3,115)	—	(3,115)
Dividends on 6% preferred stock, $60.00 per share, annually, pro-rated	—	—	—	—	—	—	—	—	(2,771)	—	(2,771)
Dividends on common stock, $0.28 per share, annually	—	—	—	—	—	—	—	—	(8,038)	—	(8,038)
Other comprehensive income	—	—	—	—	—	—	—	—	—	768	768
Balance, December 31, 2019	28,706,438	$ 135,640	41,625	$ 41,581	2,081,800	$ 50,221	125,000	$ 120,844	$ 304,984	$ 458	$ 653,728

See Notes to Consolidated Financial Statements

Merchants Bancorp

Consolidated Statements of Cash Flows

Years Ended December 31, 2019, 2018 and 2017

(In thousands)

	Year Ended December 31,		
	2019	2018	2017
Operating activities:			
Net income	$ 77,329	$ 62,874	$ 54,684
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	852	461	296
Provision for loan losses	3,940	4,629	2,472
Deferred income tax, net	(978)	2,313	(2,415)
Gain on sale of securities	(476)	—	—
Gain on sale of loans	(35,411)	(39,266)	(37,790)
Proceeds from sales of loans	32,792,977	18,027,460	18,498,028
Loans and participations originated and purchased for sale	(34,025,666)	(17,832,035)	(18,702,694)
Change in mortgage servicing rights for paydowns and fair value adjustments	10,789	2,348	2,554
Net change in:			
Trading securities	(106,472)	(22,582)	(3,162)
Other assets and receivables	(3,663)	(10,023)	11,501
Other liabilities	24,046	4,164	(850)
Other	5,730	3,992	1,490
Net cash provided by (used in) operating activities	(1,257,003)	204,335	(175,886)
Investing activities:			
Net change in securities purchased under agreements to resell	152	168	(1,651)
Purchases of available-for-sale securities	(647,374)	(47,040)	(199,635)
Proceeds from the sale of available-for-sale securities	37,817	6,431	—
Proceeds from calls, maturities and paydowns of available-for-sale securities	651,798	188,252	116,506
Purchases of loans	(87,302)	(138,965)	(133,329)
Net change in loans receivable	(885,150)	(484,102)	(300,889)
Purchase of Federal Home Loan Bank stock	(15,875)	(956)	—
Proceeds from sale of Federal Home Loan Bank stock	3,481	700	—
Proceeds from sale of assets	—	10	—
Purchases of premises and equipment	(13,983)	(9,195)	(788)
Purchases of mortgage servicing rights	—	(6,313)	(1,209)
Purchase of limited partnership interests and other tax credits	(1,365)	(3,810)	(2,694)
Cash (paid) received in acquisition of subsidiary	—	(14,320)	363
Other investing activities	126	74	189
Net cash used in investing activities	(957,675)	(509,066)	(523,137)
Financing activities:			
Net change in deposits	2,247,064	155,002	514,940
Proceeds from Federal Home Loan Bank borrowings	8,917,286	1,089,107	754,150
Repayment of Federal Home Loan Bank borrowings	(8,907,917)	(931,994)	(754,544)
Payments of contingent consideration	(1,999)	(745)	—
Proceeds from issuance of common stock	—	—	106,245
Proceeds from issuance of preferred stock	192,915	—	—
Repurchase of preferred stock	(21,850)	—	—
Proceeds from notes payable	6,318	19,116	—
Payments on notes payable	(29,700)	(38,534)	—
Dividends	(17,254)	(10,216)	(7,950)
Net cash provided by financing activities	2,384,863	281,736	612,841
Net Change in Cash and Cash Equivalents	170,185	(22,995)	(86,182)
Cash and Cash Equivalents, Beginning of Period	336,524	359,519	445,701
Cash and Cash Equivalents, End of Period	$ 506,709	$ 336,524	$ 359,519
Additional Cash Flows Information:			
Interest paid	$ 81,892	$ 49,276	$ 26,763
Income taxes paid	19,326	16,965	27,050
The Company purchased all of the capital stock of FMBI on January 2, 2018, the capital stock of FMNBP on October 1, 2018, and the assets of NattyMac, LLC on December 31, 2018. The Company also purchased all of the capital stock for MCS on August 15, 2017. In conjunction with the acquisitions, liabilities were assumed as follows:			
Fair value of assets acquired	$ —	$ 168,153	$ 12,666
Cash paid for the capital stock/fair value common stock issued	—	29,872	8,127
Fair value of liabilities assumed	—	138,281	4,539

See Notes to Consolidated Financial Statements.

Merchants Bancorp

Notes to Consolidated Financial Statements

Years Ended December 31, 2019 and 2018

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

Nature of Operations and Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Merchants Bancorp, a registered bank holding company (the "Company") and its wholly owned subsidiaries, Merchants Bank of Indiana ("Merchants Bank") and Farmers-Merchants Bank of Illinois ("FMBI," formerly Joy State Bank prior to October 22, 2018). Merchants Bank's direct and indirect subsidiaries include Merchants Capital Corp. ("MCC"), Merchants Capital Servicing, LLC ("MCS"), Ash Realty Holdings, LLC ("Ash Realty"), MBI Midtown West, LLC ("MMW"), Natty Mac Funding, Inc. ("NMF," which became dormant in the first quarter of 2019 after the Company's acquisitions of the assets of NattyMac, LLC ("NattyMac")), and OneTrust Funding, Inc. The Company also acquired Farmers-Merchants National Bank of Paxton ("FMNBP") on October 1, 2018 through a merger with FMBI, with FMBI as the surviving entity. In August 2019 the company also formed PR Mortgage Investment, LP ("PRMI"), PRMIGP, LLC ("PRMIGP"), and PR Mortgage Investment Management, LLC ("PRMIM"). All these entities are collectively referred to as the "Company". All significant intercompany accounts and transactions have been eliminated in consolidation.

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

FMBI operates under an Illinois state bank charter and provides full banking services. As a state bank and non-Federal Reserve member, it is subject to the regulation of the Illinois Department of Financial and Professional Regulation ("IDFPR") and the FDIC. FMBI operates from five offices located in Joy, New Boston, Paxton, Melvin, and Piper City, Illinois.

MCC is primarily engaged in mortgage banking, specializing in lending for multi-family rental properties and healthcare facilities. It is an FHA approved mortgagee and a Ginnie Mae, Fannie Mae, and Freddie Mac issuer.

Ash Realty is primarily for the purpose of acquiring, holding and liquidating real estate acquired by Merchants Bank as a result of various foreclosures.

Prior to the Company acquiring all the assets of NattyMac from Home Point Financial Corporation ("Home Point") on December 31, 2018, NMF provided loan participations and participation warehouse financing to Home Point, its subsidiaries, and customers. This entity is no longer active.

MMW is primarily for the purposes of holding the land and building for the Company's new headquarters building that was completed in 2019.

OneTrust Funding, Inc. is primarily for the purposes of facilitating certain warehouse financing arrangements, similar to those between NMF and Home Point.

PRMI was formed as a limited partnership in a real estate financing fund, while PRMIGP will serve as the general partner of the fund and PRMIM will serve as the management company of the fund on behalf of PRMIGP.

Recent Acquisitions

On August 15, 2017, Merchants Bank acquired 100% of the equity interests of MCS (formerly RICHMAC Funding, LLC), which was a national multi-family housing mortgage lender and servicer. The purchase price was paid in shares of Company common stock with a value of $8.1 million. As of December 31, 2018, the Company recorded goodwill and intangible assets totaling $3.8 million and $1.6 million, respectively, in connection with the acquisition. As a result of the acquisition, the Company expanded its product offerings and benefited from economies of scale. The acquisition did not materially impact the Company's financial position, results of operations or cash flows.

On May 8, 2017, the Company entered into a Stock Purchase Agreement to acquire FMBI (formerly Joy State Bank). The acquisition closed on January 2, 2018 at a total cost of approximately $5.5 million. At December 31, 2017 Joy State Bank had $43 million in assets. The Company recorded goodwill and intangible assets totaling $988,000 and $478,000, respectively, in connection with the acquisition. The intangible assets consisted of core deposit intangibles that are being amortized over 10 years on an accelerated basis. The acquired time deposits of $16.7 million were recorded at a fair value of $16.9 million. The fair value premium of $185,000 is being accreted against interest expense over 20 months. The acquired loan portfolio of $27.9 million was recorded at a fair value of $27.5 million. The fair value discount of $458,000 is being accreted to interest income on a straight-line basis over an average of 39 months in accordance with ASC 310-20. While there were some loans identified for potential classification under ASC 310-30, they were not material to the transaction. On October 22, 2018, the Company changed the name of Joy State Bank to Farmers-Merchants Bank of Illinois ("FMBI"). Certain fair value measurements and the purchase price allocation are still being evaluated by management and are subject to change during the measurement period. As a result of the acquisition, the Company increased its deposit base and benefited from economies of scale. The acquisition did not materially impact the Company's financial position, results of operations or cash flows.

On October 1, 2018, the Company acquired FM Bancorp, Inc., a bank holding company, and its wholly owned subsidiary, FMNBP. On that date, FM Bancorp, Inc. ultimately merged with and into the Company, with the Company as the surviving entity, and FMNBP merged with and into Joy State Bank, with Joy State Bank as the surviving bank. Effective October 22, 2018, Joy State Bank's name changed to Farmers-Merchants Bank of Illinois ("FMBI"). Under the terms of the merger agreement, shareholders of the 27,537 outstanding shares of FM Bancorp, Inc. were compensated $795.29 per share, for a total purchase price of $21.9 million. As of December 31, 2018, FM Bancorp, Inc. and Farmers-Merchants National Bank of Paxton had total assets of approximately $110.0 million, available for sale securities of $66.3 million, deposits of approximately $95.7 million, and net loan receivables of approximately $35.0 million. The Company recorded goodwill and intangible assets totaling $6.9 million and $1.9 million. The intangible assets consisted of core deposit intangibles that are being amortized over 10 years on an accelerated basis. The acquired available for sale securities of $66.3 million were recorded at fair value. A fair value discount associated with securities of $1.0 million is being accreted into interest income, in accordance with ASC 310-20. While there were some loans identified for potential classification under ASC 310-30, they were not material to the transaction. The acquired gross loan portfolio of $35.4 million was recorded at a fair value of $34.8 million. The fair value discount of $625,000 includes a discount related to interest assumptions for $279,000 and to credit assumptions for $346,000. The portion related to interest assumptions is being accreted into interest income on a straight-line basis over an average of 72 months in accordance with ASC 310-20. The discount portion related to credit assumptions is being accreted into interest income over the life of the loan. The acquired deposits of $95.7 million were recorded at a fair value of $95.7 million. As a result of the acquisition, the Company increased its deposit base and benefited from economies of scale. The acquisition did not materially impact the Company's financial position, results of operations or cash flows.

On December 31, 2018, the Company acquired the assets of NattyMac, LLC, a warehouse lender operating out of Clearwater, Florida, from Home Point. The Company also fully repaid Home Point the balance of, and all interest owed on, the $30 million subordinated debt it had previously invested in the Company. Goodwill and intangible assets of $3.7 million and $1.6 million, respectively, have been recorded by the Company. The intangible assets related to customer lists that are being amortized using the straight-line method over 21 months. As a result of the acquisition, the Company expects to increase its geographic footprint in the warehouse business, reduce its costs of borrowing, increase the earnings generated from its warehouse business, and benefit from its experienced talent pool. The acquisition did not materially impact the Company's financial position, results of operations or cash flows.

Given the impact of the acquisitions was immaterial to the Company and its results of operations, pro forma information has not been included.

Use of Estimates

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

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

Cash and Cash Equivalents

The Company considers all liquid investments with original maturities of three months or less to be cash equivalents. Cash equivalents consist primarily of cash amounts due from depository institutions, interest-bearing deposits in other banks, money market accounts, and federal funds sold.

At December 31, 2019, the Company's cash accounts exceeded federally insured limits by approximately $492.1 million. Included in this amount is approximately $478.8 million with the Federal Reserve and $2.3 million with the Federal Home Loan Bank of Indianapolis ("FHLBI"), and $20,000 with the Federal Home Loan Bank of Chicago ("FHLBC").

At December 31, 2018, the Company's cash accounts exceeded federally insured limits by approximately $331.2 million. Included in this amount is approximately $295.4 million with the FHLBI, $12.9 million with the FHLBC, and $15,000 with the Federal Home Loan Bank of Chicago.

Securities purchased under agreements to resell

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

Trading Activities

The Company engages in trading activities. Securities that are held principally for resale in the near term are recorded in the trading assets account at fair value with changes in fair value recorded in earnings. Trading securities include FHA and conventional participation certificates. Interest is included in net interest income.

Securities

Certain debt securities that management has the positive intent and ability to hold to maturity are classified as "held to maturity" and recorded at amortized cost. The Company had no securities held to maturity at December 31, 2019 or 2018. Securities not classified as held to maturity or trading are classified as "available for sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

For debt securities with fair value below amortized cost when the Company does not intend to sell a debt security, and it is more likely than not the Company will not have to sell the security before recovery of its cost basis, it recognizes the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income. For held-to-maturity debt securities, the amount of other-than-temporary impairment recorded in other comprehensive income for the noncredit portion of a previous other-than-temporary

impairment is amortized prospectively over the remaining life of the security on the basis of the timing of future estimated cash flows of the security.

Loans Held for Sale under Mortgage Banking Activities

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

Other mortgage loans originated and intended for sale in the secondary market, for which the fair value option has been elected, are carried at fair value at each balance sheet date. The Company believes that the fair value is the best indicator of the resolution of these loans. The difference between the cost and fair value was not material at December 31, 2019.

For all loans held for sale, interest earned from the time of funding to the time of sale is accrued and recognized as interest income. Gains and losses on loan sales are recorded in noninterest income, and generally direct loan origination costs and fees are deferred at origination of the loan and are recognized in noninterest income and noninterest expense upon sale of the loan.

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

Loans

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

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

The accrual of interest on loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Past-due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

For loans that are placed on nonaccrual or that are charged off, all accrued interest is reversed against interest income. The interest on these loans is applied to the principal balance until the loan can be returned to an accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

For all loan portfolio segments, the Company promptly charges off loans, or portions thereof, when available information confirms that specific loans are uncollectable based on information that includes, but is not limited to, (1) the deteriorating financial condition of the borrower, (2) declining collateral values, and/or (3) legal action, including bankruptcy, that impairs the borrower's ability to adequately meet its obligations. For impaired loans that are considered to be solely collateral dependent, a partial charge-off is recorded when a loss has been confirmed by an updated appraisal or other appropriate valuation of the collateral.

When cash payments are received on impaired loans in each loan class, the Company records the payment as interest income unless collection of the remaining recorded principal amount is doubtful, at which time payments are

used to reduce the principal balance of the loan. Troubled debt restructured loans recognize interest income on an accrual basis at the renegotiated rate if the loan is in compliance with the modified terms.

The Company uses warehouse loans or credit to fund mortgage loans held for sale from closing until sale to an investor. Under a warehousing arrangement the Company funds a mortgage loan as secured financing. The warehousing arrangement is secured by the underlying mortgages and a combination of deposits, personal guarantees and advance rates.

The Company holds the collateral until it is sent under a bailee arrangement instructing the investor to send proceeds to the Company. Typical investors are large financial institutions or government agencies.

Interest earned from the time of funding to the time of sale is recognized as interest income as accrued. Fees earned agreements are recognized when collected as noninterest income.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to net interest income. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses 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 volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For those loans that are classified as impaired, an allowance is established when the discounted cash flows, collateral value, or observable market price of the impaired loan is lower than the carrying value of that loan. The general component covers non-impaired loans and is based on historical charge off experience and expected loss given default derived from the Company's internal risk rating process. Other adjustments may be made to the allowance for pools of loans after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss or risk rating data.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial and construction loans by the fair value of the collateral if the loan is collateral dependent, the loan's obtainable market price, or present value of expected future cash flows discounted at the loan's effective interest rate. For impaired loans where the Company utilizes discounted cash flows to determine the level of impairment, the Company includes the entire change in the present value of cash flows as bad debt expense.

Groups of loans with similar risk characteristics are collectively evaluated for impairment based on the group's historical loss experience adjusted for changes in trends, conditions and other relevant factors that affect repayment of the loans. Accordingly, the Company does not separately identify individual consumer and residential loans for impairment measurements, unless such loans are the subject of a restructuring agreement due to financial difficulties of the borrower.

Merchants Bancorp

Notes to Consolidated Financial Statements

Years Ended December 31, 2019 and 2018

In the course of working with borrowers, the Company may choose to restructure the contractual terms of certain loans. In restructuring the loan, the Company attempts to work out an alternative payment schedule with the borrower in order to optimize collectability of the loan. A troubled debt restructuring (TDR) occurs when, for economic or legal reasons related to a borrower's financial difficulties, the Company grants a concession to the borrower that it would not otherwise consider. Terms may be modified to fit the ability of the borrower to repay in line with its current financial status, and the restructuring of the loan may include the transfer of assets from the borrower to satisfy the debt, a modification of loan terms, or a combination of the two.

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

With regard to determination of the amount of the allowance for credit losses, restructured loans are considered to be impaired. As a result, the determination of the amount of impaired loans for each portfolio segment within troubled debt restructurings is the same as detailed previously above.

Premises and Equipment

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

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

Buildings	10 to 40 years
Leasehold improvements	5 to 39 years
Furniture, fixtures and equipment	3 to 10 years
Vehicles	5 years

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

Federal Home Loan Bank Stock

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

Other Real Estate Owned

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

Mortgage Servicing Rights

Mortgage servicing assets are recognized separately when rights are acquired through purchase or through sale of financial assets. Under the servicing assets and liabilities accounting guidance (ASC 860-50), servicing rights

resulting from the sale or securitization of loans originated by the Company are initially measured at fair value at the date of transfer. The Company has elected to initially and subsequently measure the mortgage servicing rights for mortgage loans using the fair value method. Under the fair value method, the servicing rights are carried in the balance sheet at fair value and the changes in fair value are reported in earnings in the period in which the changes occur.

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

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

Goodwill and Intangible Assets

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

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

Investment in Qualified Affordable Housing Limited Partnerships

The Company has elected to account for its investment in affordable housing tax credit limited partnerships using the proportional amortization method described in FASB ASU 2014‑01, "Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects (A Consensus of the FASB Emerging Issues Task Force)." Under the proportional amortization method, an investor amortizes the initial cost of the investment to income tax expense in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense. The investment in the limited partnerships is included in other assets in the consolidated balance sheets.

Income Taxes

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

Uncertain tax positions are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances and information available at the reporting date and is subject to management's judgment. With a few exceptions, the Company is no longer subject to U.S. federal, state and local or non-U.S. income tax examinations by tax authorities for years before 2016.

The Company recognizes interest and penalties, if any, on income taxes as a component of income tax expense.

The Company files consolidated income tax returns with its subsidiaries.

Earnings Per Share

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

Share-based Compensation Plan

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

In 2018, the Compensation Committee of the Board of Directors also approved a plan for non-executive directors to receive a portion of their annual fees in the form of common stock, which is typically issued once per year, subsequent to the annual meeting of shareholders.

Revenue Recognition

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

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

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

The Company also earns other noninterest income through a variety of financial and transaction services provided to corporate and consumer clients such as deposit service charges, debit card network fees, collection fees, safe deposit box rental fees and gain/(loss) on sale of other real estate owned. Revenue is recorded for noninterest income based on the contractual terms for the service or transaction performed.

Comprehensive Income

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

Derivative Financial Instruments

The Company occasionally enters into derivative financial instruments as part of its interest rate risk management strategies. These derivative financial instruments consist primarily of interest rate swaps and forward sale commitments. These derivative instruments are recorded on the Consolidated Statements of Financial Condition, as either an asset or liability, at their fair value. Changes in fair value are recognized in noninterest income on the Consolidated Statements of Income. The Company also began offering interest rate swaps to some customers through a third-party dealer. These derivatives generally work together as an economic interest rate hedge, but the Company does not designate them for hedge accounting treatment. Consequently, changes in fair value of the corresponding derivative financial asset or liability are recorded as either a charge or credit to current earnings during the period in which the changes occurred, typically resulting in no net earnings impact.

Reclassifications

Certain reclassifications have been made to the 2018 and 2017 financial statements to conform to the financial statement presentation as of and for the year ended December 31, 2019. These reclassifications had no effect on net income.

Note 2: Restriction on Cash and Due From Banks

The Company is required to maintain reserve funds in cash and/or on deposit with the Federal Reserve. The reserve required at December 31, 2019 and 2018 was $184.5 million and $114.2 million, respectively.

Note 3: Securities

Trading Securities

Securities that are held principally for resale in the near term are recorded as trading securities at fair value. Trading securities include FHA and conventional Fannie Mae and Freddie Mac participation certificates. The unrealized gains included in earnings for trading securities totaled $3.1 million and $870,000 at December 31, 2019 and 2018, respectively.

Securities Available-For-Sale

The amortized cost and approximate fair values, together with gross unrealized gains and losses, of securities are as follows:

	December 31, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
	(In thousands)			
Available-for-sale securities:				
Treasury notes	$ 4,744	$ 21	$ —	$ 4,765
Federal agencies	244,986	24	37	244,973
Municipals	5,577	360	—	5,937
Mortgage-backed - Government-sponsored entity (GSE) - residential	34,357	213	2	34,568
Total available-for-sale securities	$ 289,664	$ 618	$ 39	$ 290,243

	December 31, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
	(In thousands)			
Available-for-sale securities:				
Treasury notes	$ 11,928	$ 26	$ 13	$ 11,941
Federal agencies	237,894	8	972	236,930
Municipals	21,014	336	18	21,332
Mortgage-backed - Government-sponsored entity (GSE) - residential	60,693	254	79	60,868
Total available-for-sale securities	$ 331,529	$ 624	$ 1,082	$ 331,071

The amortized cost and fair value of available-for-sale securities at December 31, 2019 by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date are shown separately.

	December 31, 2019	
	Amortized Cost	Fair Value
Contractual Maturity	(In thousands)	
Within one year	$ 23,250	$ 23,233
After one through five years	226,748	226,783
After five through ten years	—	—
After ten years	5,309	5,659
	255,307	255,675
Mortgage-backed - Government-sponsored entity (GSE) - residential	34,357	34,568
	$ 289,664	$ 290,243

Certain investments in debt securities are reported in the consolidated financial statements at an amount less than their historical cost. Total fair value of these investments at December 31, 2019 and 2018 was $95.8 million and $240.2 million, respectively, which is approximately 33%, and 73%, respectively, of the Company's available-for-sale investment portfolio.

The following tables show the Company's gross unrealized losses and fair value of the Company's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment class and

length of time that individual securities have been in a continuous unrealized loss position at December 31, 2019, and 2018:

	December 31, 2019					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(In thousands)					
Available-for-sale securities:						
Treasury notes	$ —	$ —	$ —	$ —	$ —	$ —
Federal agencies	94,963	37	—	—	94,963	37
Municipals	—	—	—	—	—	—
Mortgage-backed - Government-sponsored entity (GSE) - residential	809	2	—	—	809	2
	$95,772	$ 39	$ —	$ —	$95,772	$ 39

	December 31, 2018					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(In thousands)					
Available-for-sale securities:						
Treasury notes	$ 1,990	$ 8	$ 995	$ 5	$ 2,985	$ 13
Federal agencies	28,296	97	191,280	875	219,576	972
Municipals	2,051	18	—	—	2,051	18
Mortgage-backed - Government-sponsored entity (GSE) - residential	15,543	79	—	—	15,543	79
	$47,880	$ 202	$192,275	$ 880	$240,155	$ 1,082

Unrealized losses on securities have not been recognized to income because the Company has the intent and ability to hold the securities for the foreseeable future, and the decline in fair value is primarily due to increased market interest rates. The fair value is expected to recover as the bonds approach the maturity date.

During the year ended December 31, 2019, proceeds from the sale of securities available for sale were $37.8 million, and a net gain of $476,000 was recognized, consisting of gross gains of $713,000 and gross losses of $237,000. During the year ended December 31, 2018, proceeds from the sale of securities available for sale were $6.4 million, and no gains or losses were recognized. There were no sales of securities available for sale during the year ended December 31, 2017.

The carrying value of securities pledged as collateral, to secure borrowings, pubic deposits and for other purposes, was $290.2 million, and $281.2 million at December 31, 2019 and 2018, respectively.

Note 4: Loans and Allowance for Loan Losses

Classes of loans at December 31, 2019 and 2018, include:

	December 31, 2019	December 31, 2018
	(In thousands)	
Mortgage warehouse lines of credit	$ 765,151	$ 337,332
Residential real estate	413,835	410,871
Multi-family and healthcare financing	1,347,125	914,393
Commercial and commercial real estate	398,601	299,194
Agricultural production and real estate	85,210	79,255
Consumer and margin loans	18,388	17,082
	3,028,310	2,058,127
Less		
Allowance for loan losses	15,842	12,704
Loans Receivable	$ 3,012,468	$ 2,045,423

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

Mortgage Warehouse Lines of Credit (MTG WHLOC): Under its warehouse program, the Company provides warehouse financing arrangements to approved mortgage companies for the origination and sale of residential mortgage loans and to a lesser extent multi-family loans. Agency eligible, governmental and jumbo residential mortgage loans that are secured by mortgages placed on existing one-to-four family dwellings may be originated or purchased and placed on each mortgage warehouse line.

As a secured line of credit, collateral pledged to the Company secures each individual mortgage until the lender sells the loan in the secondary market. A traditional secured warehouse line of credit typically carries a base interest rate of 30-day LIBOR, plus a margin, or mortgage note rate, less a margin. The interest rate will typically not go below an agreed upon threshold.

Risk is evident if there is a change in the fair value of mortgage loans originated by mortgage bankers in warehouse, the sale of which is the expected source of repayment of the borrowings under a warehouse line of credit.

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

Multi-Family and Healthcare Financing (MF RE): The Company engages in multi-family and healthcare financing, including construction loans, specializing in originating and servicing loans for multi-family rental and senior living properties. In addition, the Company originates loans secured by an assignment of federal income tax credits by partnerships invested in multi-family real estate projects. Construction and land loans are generally based upon estimates of costs and estimated value of the completed project and include independent appraisal reviews and a financial analysis of the developers and property owners. Sources of repayment of these loans may include permanent loans, sales of developed property or an interim loan commitment from the Company until permanent agency-eligible financing is obtained. These loans are considered to be higher risk than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, general economic conditions and the availability of long-term financing. Credit risk in these loans may be impacted by the creditworthiness of a borrower, property values and the local economy in the Company's market area. Repayment of these loans depends on the successful operation of a business or property and the borrower's cash flows.

Merchants Bancorp

Notes to Consolidated Financial Statements

Years Ended December 31, 2019 and 2018

Commercial Lending and Commercial Real Estate Loans (CML & CRE): The commercial lending and commercial real estate portfolio includes loans to commercial customers for use in financing working capital needs, equipment purchases and expansions, as well as loans to commercial customers to finance land and improvements. It also includes loans collateralized by mortgage servicing rights of mortgage warehouse customers. The loans in this category are repaid primarily from the cash flow of a borrower's principal business operation. Credit risk in these loans is driven by creditworthiness of a borrower and the economic conditions that impact the cash flow stability from business operations.

Agricultural Production and Real Estate Loans (AG & AGRE): Agricultural production loans are generally comprised of seasonal operating lines of credit to grain farmers to plant and harvest corn and soybeans and term loans to fund the purchase of equipment. The Company also offers long-term financing to purchase agricultural real estate. Specific underwriting standards have been established for agricultural related loans including the establishment of projections for each operating year based on industry developed estimates of farm input costs and expected commodity yields and prices. Operating lines are typically written for one year and secured by the crop and other farm assets as considered necessary. The Company is approved to sell agricultural loans in the secondary market through the Federal Agricultural Mortgage Corporation and uses this relationship to manage interest rate risk within the portfolio.

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

The following tables present by loan portfolio segment, the activity in the allowance for loan losses for the years ended December 31, 2019, 2018 and 2017 and the recorded investment in loans and impairment method as of December 31, 2019, 2018 and 2017:

	At or For the Year Ended December 31, 2019						
	MTG WHLOC	RES RE	MF RE	CML & CRE	AG & AGRE	CON & MAR	TOTAL
	(In thousands)						
Allowance for loan losses							
Balance, beginning of period	$ 1,068	$ 1,986	$ 6,030	$ 3,051	$ 429	$ 140	$ 12,704
Provision for loan losses	952	56	988	1,817	94	33	3,940
Loans charged to the allowance	(107)	—	—	(857)	—	—	(964)
Recoveries of loans previously charged off	—	—	—	162	—	—	162
Balance, end of period	$ 1,913	$ 2,042	$ 7,018	$ 4,173	$ 523	$ 173	$ 15,842
Ending balance: individually evaluated for impairment	$ —	$ 23	$ —	$ 650	$ —	$ 8	$ 681
Ending balance: collectively evaluated for impairment	$ 1,913	$ 2,019	$ 7,018	$ 3,523	$ 523	$ 165	$ 15,161
Loans							
Ending balance	$ 765,151	$ 413,835	$ 1,347,125	$ 398,601	$ 85,210	$ 18,388	$ 3,028,310
Ending balance individually evaluated for impairment	$ 233	$ 3,109	$ —	$ 9,152	$ —	$ 23	$ 12,517
Ending balance collectively evaluated for impairment	$ 764,918	$ 410,726	$ 1,347,125	$ 389,449	$ 85,210	$ 18,365	$ 3,015,793

Merchants Bancorp

Notes to Consolidated Financial Statements

Years Ended December 31, 2019 and 2018

	At or For the Year Ended December 31, 2018						
	MTG WHLOC	RES RE	MF RE	CML & CRE	AG & AGRE	CON & MAR	TOTAL
	(In thousands)						
Allowance for loan losses							
Balance, beginning of period	$ 283	$ 1,587	$ 3,502	$ 2,362	$ 320	$ 257	$ 8,311
Provision (credit) for loan losses	785	399	2,528	779	109	29	4,629
Loans charged to the allowance	—	—	—	(90)	—	(146)	(236)
Recoveries of loans previously charged off	—	—	—	—	—	—	—
Balance, end of period	$ 1,068	$ 1,986	$ 6,030	$ 3,051	$ 429	$ 140	$ 12,704
Ending balance: individually evaluated for impairment	$ 225	$ —	$ —	$ 400	$ 20	$ —	$ 645
Ending balance: collectively evaluated for impairment	$ 843	$ 1,986	$ 6,030	$ 2,651	$ 409	$ 140	$ 12,059
Loans							
Ending balance	$ 337,332	$ 410,871	$ 914,393	$ 299,194	$ 79,255	$ 17,082	$ 2,058,127
Ending balance individually evaluated for impairment	$ 575	$ 1,606	$ —	$ 8,576	$ 370	$ 58	$ 11,185
Ending balance collectively evaluated for impairment	$ 336,757	$ 409,265	$ 914,393	$ 290,618	$ 78,885	$ 17,024	$ 2,046,942

	For the Year Ended December 31, 2017						
	MTG WHLOC	RES RE	MF RE	CML & CRE	AG & AGRE	CON & MAR	TOTAL
	(In thousands)						
Allowance for loan losses							
Balance, beginning of year	$ 373	$ 2,170	$ 1,962	$ 1,374	$ 269	$ 102	$ 6,250
Provision for loan losses	(90)	(583)	1,540	1,399	51	155	2,472
Loans charged to the allowance	—	—	—	(546)	—	—	(546)
Recoveries of loans previously charged off	—	—	—	135	—	—	135
Balance, end of year	$ 283	$ 1,587	$ 3,502	$ 2,362	$ 320	$ 257	$ 8,311

Internal Risk Categories

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

Average or above - Loans to borrowers of satisfactory financial strength or better. Earnings performance is consistent with primary and secondary sources of repayment that are well defined and adequate to retire the debt in a timely and orderly fashion. These businesses would generally exhibit satisfactory asset quality and liquidity with moderate leverage, average performance to their peer group and experienced management in key positions. These loans are disclosed as “Acceptable and Above” in the following table.

Acceptable - Loans to borrowers involving more than average risk and which contain certain characteristics that require some supervision and attention by the lender. Asset quality is acceptable, but debt capacity is modest and little excess liquidity is available. The borrower may be fully leveraged and unable to sustain major setbacks. Covenants are structured to ensure adequate protection. Borrower’s management may have limited experience and depth. This category includes loans which are highly leveraged due to regulatory constraints, as well as loans involving reasonable exceptions to policy. These loans are disclosed as “Acceptable and Above” in the following table.

Special Mention (Watch) - This is a loan that is sound and collectable but contains considerable risk. Loans classified as special mention have a potential weakness that deserves management’s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution’s credit position at some future date.

Substandard - Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful - Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

The following tables present the credit risk profile of the Company's loan portfolio based on internal rating category and payment activity as of December 31, 2019 and 2018:

	December 31, 2019						
	MTG WHLOC	RES RE	MF RE	CML & CRE	AG & AGRE	CON & MAR	TOTAL
	(In thousands)						
Special Mention (Watch)	$ —	$ 2,472	$ 41,882	$ 13,806	$ 2,114	$ 31	$ 60,305
Substandard	233	3,109	—	9,152	—	23	12,517
Doubtful	—	—	—	—	—	—	—
Acceptable and Above	764,918	408,254	1,305,243	375,643	83,096	18,334	2,955,488
Total	$ 765,151	$ 413,835	$ 1,347,125	$ 398,601	$ 85,210	$ 18,388	$ 3,028,310

	December 31, 2018						
	MTG WHLOC	RES RE	MF RE	CML & CRE	AG & AGRE	CON & MAR	TOTAL
	(In thousands)						
Special Mention (Watch)	$ —	$ 443	$ 71,734	$ 14,650	$ 3,096	$ 681	$ 90,604
Substandard	575	1,606	—	8,576	370	58	11,185
Doubtful	—	—	—	—	—	—	—
Acceptable and Above	336,757	408,822	842,659	275,968	75,789	16,343	1,956,338
Total	$ 337,332	$ 410,871	$ 914,393	$ 299,194	$ 79,255	$ 17,082	$2,058,127

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

The following tables present the Company's loan portfolio aging analysis of the recorded investment in loans as of December 31, 2019 and 2018:

	December 31, 2019					
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans
	(In thousands)					
MTG WHLOC	$ —	$ —	$ —	$ —	$ 765,151	$ 765,151
RES RE	3,089	562	2,324	5,975	407,860	413,835
MF RE	—	—	—	—	1,347,125	1,347,125
CML & CRE	2,293	335	1,663	4,291	394,310	398,601
AG & AGRE	2,047	—	195	2,242	82,968	85,210
CON & MAR	50	31	19	100	18,288	18,388
	$ 7,479	$ 928	$ 4,201	$ 12,608	$3,015,702	$3,028,310

Merchants Bancorp

Notes to Consolidated Financial Statements

Years Ended December 31, 2019 and 2018

	December 31, 2018					
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans
	(In thousands)					
MTG WHLOC	$ —	$ —	$ 324	$ 324	$ 337,008	$ 337,332
RES RE	579	178	825	1,582	409,289	410,871
MF RE	—	—	—	—	914,393	914,393
CML & CRE	245	52	253	550	298,644	299,194
AG & AGRE	91	—	588	679	78,576	79,255
CON & MAR	2	52	28	82	17,000	17,082
	$ 917	$ 282	$ 2,018	$ 3,217	$ 2,054,910	$ 2,058,127

A loan is considered impaired, in accordance with the impairment accounting guidance (ASC 310-10-35-16), when based on current information and events, it is probable the Company will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan. Impaired loans include nonperforming commercial loans but also include loans modified in troubled debt restructurings.

The following tables present impaired loans and specific valuation allowance information based on class level as of December 31, 2019 and 2018:

	December 31, 2019						
	MTG WHLOC	RES RE	MF RE	CML & CRE	AG & AGRE	CON & MAR	TOTAL
	(In thousands)						
Impaired loans without a specific allowance:							
Recorded investment	$ 233	$ 2,899	$ —	$ 6,662	$ —	$ 12	$ 9,806
Unpaid principal balance	233	2,899	—	6,662	—	12	9,806
Impaired loans with a specific allowance:							
Recorded investment	—	210	—	2,490	—	11	2,711
Unpaid principal balance	—	210	—	2,490	—	11	2,711
Specific allowance	—	23	—	650	—	8	681
Total impaired loans:							
Recorded investment	233	3,109	—	9,152	—	23	12,517
Unpaid principal balance	233	3,109	—	9,152	—	23	12,517
Specific allowance	—	23	—	650	—	8	681

	December 31, 2018						
	MTG WHLOC	RES RE	MF RE	CML & CRE	AG & AGRE	CON & MAR	TOTAL
	(In thousands)						
Impaired loans without a specific allowance:							
Recorded investment	$ 251	$ 1,606	$ —	$ 5,636	$ 88	$ 58	$ 7,639
Unpaid principal balance	251	1,606	—	5,636	88	58	7,639
Impaired loans with a specific allowance:							
Recorded investment	324	—	—	2,940	282	—	3,546
Unpaid principal balance	324	—	—	2,940	282	—	3,546
Specific allowance	225	—	—	400	20	—	645
Total impaired loans:							
Recorded investment	575	1,606	—	8,576	370	58	11,185
Unpaid principal balance	575	1,606	—	8,576	370	58	11,185
Specific allowance	225	—	—	400	20	—	645

Merchants Bancorp

Notes to Consolidated Financial Statements

Years Ended December 31, 2019 and 2018

The following tables present by portfolio class, information related to the average recorded investment and interest income recognized on impaired loans for the years ended December 31, 2019, 2018and 2017:

	December 31, 2019						
	MTG WHLOC	RES RE	MF RE	CML & CRE	AG & AGRE	CON & MAR	TOTAL
	(In thousands)						
Average recorded investment in impaired loans	$ 242	$ 3,175	$ —	$ 8,675	$ —	$ 25	$ 12,117
Interest income recognized	—	71	—	463	—	—	534

	December 31, 2018						
	MTG WHLOC	RES RE	MF RE	CML & CRE	AG & AGRE	CON & MAR	TOTAL
	(In thousands)						
Average recorded investment in impaired loans	$ 932	$ 1,485	$ —	$ 8,872	$ 489	$ 52	$ 11,830
Interest income recognized	59	50	—	375	43	1	528

	December 31, 2017						
	MTG WHLOC	RES RE	MF RE	CML & CRE	AG & AGRE	CON & MAR	TOTAL
	(In thousands)						
Average recorded investment in impaired loans	$ —	$ 156	$ —	$ 3,703	$ 282	$ 197	$ 4,338
Interest income recognized	—	1	—	182	—	—	183

The following table presents the Company's nonaccrual loans and loans past due 90 days or more and still accruing at December 31, 2019 and 2018.

	December 31, 2019		December 31, 2018	
	Nonaccrual	Total Loans > 90 Days & Accruing	Nonaccrual	Total Loans > 90 Days & Accruing
	(In thousands)			
MTG WHLOC	$ 233	$ —	$ 575	$ —
RES RE	740	1,851	893	74
MF RE	—	—	—	—
CML & CRE	1,118	486	136	117
AG & AGRE	—	231	282	307
CON & MAR	18	1	18	9
	$ 2,109	$ 2,569	$ 1,904	$ 507

No troubled loans were restructured during 2019. During 2018, the Company had one newly classified troubled debt restructuring in the CML & CRE loan class. The loan had a pre and post modification balance of $2.0 million. During 2017, the Company had one newly classified troubled debt restructuring to the same borrower in the CML & CRE loan class. This loan also had a pre and post modification balance of $2.0 million. The modifications on both loans included a combination of term and rate concessions which reflect the unlikeliness of the borrower being able to obtain similar financing from another financial institution. For 2019, 2018 and 2017, no troubled debt restructurings modified in the prior 12 months subsequently defaulted.

There was one customer with a residential loan balance of $725,000 in the process of foreclosure at December 31, 2019. No residential loans were in the process of foreclosure at December 31, 2018.

Merchants Bancorp

Notes to Consolidated Financial Statements

Years Ended December 31, 2019 and 2018

Note 5: Derivative Financial Instruments

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

Forward Sales Commitments and Interest Rate Lock Commitments

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

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

The following table presents the notional amount and fair value of interest rate locks and forward contracts utilized by the Company at December 31, 2019 and December 31, 2018.

December 31, 2019	Notional Amount (In thousands)	Balance Sheet Location	Fair Value Asset (In thousands)	Fair Value (Liability)
Interest rate lock commitments	$ 17,826	Derivative assets/liabilities	$ 186	$ —
Forward contracts	34,268	Derivative assets/liabilities	—	27
			$ 186	$ 27

December 31, 2018	Notional Amount (In thousands)	Balance Sheet Location	Fair Value Asset (In thousands)	Fair Value (Liability)
Interest rate lock commitments	$ 8,812	Derivative assets/liabilities	$ 70	$ —
Forward contracts	19,640	Derivative assets/liabilities	—	9
			$ 70	$ 9

Fair values of derivative financial instruments were estimated using changes in mortgage interest rates from the date the Company entered into the interest rate lock commitment and the balance sheet date. The following tables summarizes the periodic changes in the fair value of the derivative financial instruments on the consolidated statements of income for the years ended December 31, 2019, 2018, and 2017.

	Year Ended December 31, 2019	2018 (In thousands)	2017
Interest rate lock commitments	$ 116	$ 70	$ —
Forward contracts [(1)]	(53)	(64)	—
Net gains (losses)	63	$ 6	$ —

(1) Amounts include pair-off settlements.

Derivatives on Behalf of Customers

The Company began offering derivative contracts to some customers in connection with their risk management needs during the year ended December 31, 2019. These derivatives include interest rate swaps. The Company manages the risk associated with these contracts by entering into an equal and offsetting derivative with a third-party dealer. These derivatives generally work together as an economic interest rate hedge, but the Company does not designate them for hedge accounting treatment. Consequently, changes in fair value of the corresponding derivative financial asset or liability were recorded as either a charge or credit to current earnings during the period in which the changes occurred, typically resulting in no net earnings impact. The fair values of derivative assets and liabilities related to derivatives for customers with interest rate swaps were recorded in the condensed consolidated balance sheets as follows:

	Notional Amount	Balance Sheet Location	Fair Value	
			Asset	Liability
	(In thousands)		(In thousands)	
December 31, 2019	$ 58,067	Other assets/liabilities	$ 511	$ 511
December 31, 2018	—	Other assets/liabilities	$ —	$ —

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

	Year Ended December 31,		
	2019	2018	2017
	(In thousands)		
Gross swap gains	$ 511	$ —	$ —
Gross swap losses	(511)	—	—
Net swap gains (losses)	—	$ —	$ —

The Company pledged $590,000 and $0 in collateral to secure its obligations under swap contracts at December 31, 2019 and December 31, 2018, respectively.

Note 6: Loan Servicing

Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets and represent agency eligible multi-family loans. The risks inherent in mortgage servicing assets relate primarily to changes in prepayments that result from shifts in mortgage interest rates. Call protection is in place to deter from prepayments on a 10-year sliding scale. The unpaid principal balances of mortgage and other loans serviced for others were $6.3 billion and $5.8 billion at December 31, 2019 and 2018, respectively. Mortgage loans sub-serviced for others are not included in the accompanying balance sheets. The unpaid principal balances of loans sub-serviced for others were $3.8 billion and $3.1 billion at December 31, 2019 and 2018, respectively.

Merchants Bancorp

Notes to Consolidated Financial Statements

Years Ended December 31, 2019 and 2018

The following summarizes the activity in mortgage servicing rights measured using the fair value method for the years ended December 31, 2019, 2018, and 2017:

	For the Year Ended December 31,		
	2019	2018	2017
	(In thousands)		
Balance, beginning of period	$ 77,844	$ 66,079	$ 53,670
Additions			
Originated and purchased servicing	7,332	14,113	10,993
Acquisition of MCS	—	—	3,970
Subtractions			
Paydowns	(5,994)	(4,196)	(5,504)
Changes in fair value due to changes in valuation inputs or assumptions used in the valuation model	(4,795)	1,848	2,950
Balance, end of period	$ 74,387	$ 77,844	$ 66,079

Contractually specified servicing fees for retained, purchased and sub-serviced loans were $9.7 million, $8.7 million, and $8.8 million for the years ended December 31, 2019, 2018 and 2017, respectively.

In connection with certain loan servicing and sub-servicing agreements, the Company is to reconcile the payments received monthly on these loans, for principal and interest, taxes, insurance, and reserves for replacements. The funds are required to be maintained in separate trust accounts and not commingled with the Company's general operating funds. At December 31, 2019 and 2018, MCC held restricted escrow funds for these loans, amounting to $459.3 million and $412.4 million, respectively.

Note 7: Goodwill and Intangibles

Goodwill at December 31, 2019 decreased by approximately $1.6 million, compared with December 31, 2018, primarily as a result of purchase accounting adjustments to the FMNBP and NattyMac, LLC acquisitions. Included in those adjustments was a $1.6 million transfer of goodwill, related to the NattyMac, LLC acquisition, to intangible assets. Goodwill represents the amount by which the cost of an acquisition exceeded the fair value of net assets acquired. Goodwill is tested for impairment as of year-end, or more frequently if events and circumstances exist that indicate a goodwill impairment test should be performed. Based upon management's assessment and evaluation of goodwill at year-end, the likelihood that an impairment of the current carrying amount of goodwill has occurred is considered remote.

	2019				2018				2017			
	Multifamily	Banking	Warehouse	Total	Multifamily	Banking	Warehouse	Total	Multifamily	Banking	Warehouse	Total
	(In thousands)				(In thousands)				(In thousands)			
Balance, beginning of period	$ 3,791	$ 8,686	$ 5,000	$ 17,477	$ 3,379	$ 523	$ —	$ 3,902	$ —	$ 523	$ —	$ 523
Goodwill acquired during the period	—	—	—	—	—	8,163	5,000	13,163	3,379	—	—	3,379
Post-acquisition adjustments	—	(333)	(1,299)	(1,632)	412	—	—	412	—	—	—	—
Impairment losses	—	—	—	—	—	—	—	—	—	—	—	—
Balance, end of period	$ 3,791	$ 8,353	$ 3,701	$ 15,845	$ 3,791	$ 8,686	$ 5,000	$ 17,477	$ 3,379	$ 523	$ —	$ 3,902

In conjunction with the acquisition of the assets of NattyMac, LLC on December 31, 2018, the Company recorded goodwill of $3.7 million in the Warehouse segment, after reflecting a $1.6 million transfer to intangible assets and a $271,000 purchase accounting adjustment related to contingent consideration that increased goodwill during 2019.

Intangible assets of $1.6 million, related to customer lists, were recorded and are being amortized over 21 months using the straight-line method. Amortization of these intangible assets was $673,000 for the year ended December 31, 2019.

In conjunction with the acquisition of FMNBP on October 1, 2018, the Company recorded goodwill of $6.9 million in the Banking segment as of December 31, 2019, after reflecting a $333,000 purchase accounting adjustment, primarily related to the valuation of securities, that decreased goodwill during 2019. The Company also recorded intangible assets for core deposits, as summarized below. The core deposit intangibles are being amortized over 10 years using the accelerated sum of the years digits method. Amortization for these intangible assets was $339,000 and $85,000 for the years ended December 31, 2019 and December 31, 2018, respectively.

In conjunction with the acquisition of FMBI on January 2, 2018, the Company recorded goodwill of $988,000 in the Banking segment as of December 31, 2019. The Company also recorded intangible assets for core deposits, as summarized below. The core deposit intangibles are being amortized over 10 years using the accelerated sum of the years digits method. Amortization for these intangible assets was $82,000 and $84,000 for the years ended December 31, 2019 and December 31, 2018, respectively.

In conjunction with the acquisition of MCS on August 15, 2017, the Company recorded goodwill of $3.8 million in the Multi-family segment, after reflecting a purchase accounting adjustment of $412,000, related to contingent consideration for loans closed after the acquisition date, that increased goodwill during the year ended December 31, 2018. The Company also recorded intangible assets for licenses and trade names as summarized below. The licenses are being amortized over 84 months and trade names are being amortized over 120 months, both using the straight-line method. Amortization of these intangible assets was $218,000 for the year ended December 31, 2019, $218,000 for the year ended December 31, 2018, and $82,000 for the year ended December 31, 2017.

	2019			**2018**			**2017**		
	Gross Carrying Amount	**Accumulated Amortization**	**Total**	**Gross Carrying Amount**	**Accumulated Amortization**	**Total**	**Gross Carrying Amount**	**Accumulated Amortization**	**Total**
	(In thousands)			**(In thousands)**			**(In thousands)**		
Licenses	$ 1,370	$ (465)	$ 905	$ 1,370	$ (269)	$ 1,101	$ 1,370	$ (74)	$ 1,296
Trade names	224	(53)	171	224	(31)	193	224	(8)	216
Customer list	1,570	(673)	897	—	—	—	—	—	—
Core deposit intangible	2,417	(591)	1,826	2,417	(169)	2,248	—	—	—
Total intangible Assets	$ 5,581	$ (1,782)	$ 3,799	$ 4,011	$ (469)	$ 3,542	$ 1,594	$ (82)	$ 1,512

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

Year ending December 31,	
2020	$ 1,516
2021	577
2022	521
2023	462
2024	335
Thereafter	388
Total	$ 3,799

Merchants Bancorp

Notes to Consolidated Financial Statements

Years Ended December 31, 2019 and 2018

Note 8: Premises and Equipment

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

	December 31,	
	2019	2018
	(In thousands)	
Land	$ 3,072	$ 3,072
Buildings	22,775	4,095
Building in progress	—	8,272
Leasehold improvements	53	83
Furniture, fixtures and equipment	6,445	2,427
Total cost	32,345	17,949
Accumulated depreciation	(3,071)	(2,813)
Net premises and equipment	$ 29,274	$ 15,136

Note 9: Other Assets and Receivables

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

Investment in Qualified Affordable Housing Limited Partnerships

The Company invests in qualified affordable housing limited partnerships. At December 31, 2019 and 2018, the balance of the investments for qualified affordable housing limited partnerships was $14.9 million and $17.2 million, respectively. The Company does not expect to contribute any additional investments related to the partnerships outstanding at December 31, 2019. During the years ended December 31, 2019 and 2018, the Company recorded amortization expense of $2.3 million and $1.2 million, respectively. Tax credits related to these investments were $2.5 million for the 2019 tax year and was $1.5 for the 2018 tax year. The Company expects to receive additional tax credits and other benefits in 2020 and will continue to amortize this investment based on the proportional amortization method.

Other items included in other assets and receivables on the balance sheet are not individually significant.

Note 10: Deposits

Deposits were comprised of the following at and December 31, 2019 and 2018:

	December 31,	
	2019	2018
	(In thousands)	
Demand deposits	$ 2,099,373	$ 1,548,969
Savings deposits	1,204,363	1,001,663
Certificates of deposit	2,174,339	680,454
Total deposits	$ 5,478,075	$ 3,231,086

Merchants Bancorp

Notes to Consolidated Financial Statements

Years Ended December 31, 2019 and 2018

At December 31, 2019, the scheduled maturities of time deposits are as follows:

	December 31, 2019 (In thousands)
Due within one year	$ 2,084,369
Due in one year to two years	57,085
Due in two years to three years	25,038
Due in three years to four years	6,284
Due in four years to five years	1,563
	$ 2,174,339

Certificates of deposit of $250,000 or more totaled $128.9 million at December 31, 2019 and $46.7 million at December 31, 2018.

Brokered deposit amounts at December 31, 2019 and 2018, were as follows:

	December 31,	
	2019	2018
	(In thousands)	
Brokered certificates of deposit	$ 1,962,389	$ 578,471
Brokered savings deposits	184,603	109,607
Brokered deposit on demand accounts	10,001	300,134
	$ 2,156,993	$ 988,212

Note 11: Borrowings

Borrowings were comprised of the following at December 31, 2019 and 2018:

	December 31,	
	2019	2018
	(In thousands)	
Lines of credit	$ 6,540	$ 33,150
Short-term subordinated debt	12,200	10,582
FHLB advances	162,699	151,721
Total borrowings	$ 181,439	$ 195,453

The Company has a revolving line of credit ("LOC") with the FHLB. This arrangement has a maximum borrowing limit of collateral pledged, with an outstanding balance at both December 31, 2019 and 2018 of $6.5 million and $8.2 million, respectively. The floating interest rate on the LOC is set daily at a fixed spread to the actual Federal Funds rate earned by the FHLB, or 1.77% at December 31, 2019 and 2.61% at December 31, 2018. The LOC is automatically renewed daily, unless either party notifies the other of its desire not to continue the arrangement.

During 2019 the Company also paid off a LOC with a bank for up to $25.0 million and allowed it to expire in August of 2019. The LOC had an outstanding balance at both December 31, 2018 of $25.0 million. The interest rate on the note was LIBOR Rate plus 1.85%, or 4.2%, at December 31, 2018. The LOC was collateralized by a pledge and first lien security interest in and to all of the issued and outstanding common stock of Merchants Bank of Indiana, the 100% owned subsidiary of the Company. The agreement also required Merchants Bank to maintain at all times a Tier 1 leverage ratio of not less than 8% and was tested on a quarterly basis.

The Company entered into a warehouse financing arrangement in April 24, 2018, whereby a customer agreed to invest up to $30 million in the Company's subordinated debt. The subordinated debt balance as of December 31, 2019 and 2018 was $12.2 million and $10.6 million, respectively. Interest on the debt is paid quarterly by the Company at a rate equal to one-month LIBOR, plus 350 basis points, plus additional interest equal to 50% of the earnings generated. The agreement is automatically renewed annually on April 24th, unless either party notifies the other party at least 180 days prior to its renewable date, of its desire not to continue the relationship.

FHLB advances and the LOC are secured by mortgage loans totaling $1.4 billion and $88.1 million at, December 31, 2019 and 2018, respectively. In addition, available for sale securities and securities purchased under agreements to resell with a carrying value of $276.7 million and $269.3. million were pledged as of December 31, 2019 and 2018, respectively. At December 31, 2019, the FHLB advances had interest rates ranging from 1.58% to 4.74%, and at December 31, 2018, the FHLB advances had interest rates ranging from 1.79% to 4.74%, and were subject to restrictions or penalties in the event of prepayment.

Maturities of FHLB advances were as follows December 31, 2019:

	December 31, 2019
	(In thousands)
Due within one year	$ 145,589
Due in one year to two years	15,077
Due in two years to three years	59
Due in three years to four years	342
Due in four years to five years	61
Thereafter	1,571
	$ 162,699

At December 31, 2019, the Company has excess borrowing capacity with the FHLB for approximately $425.0 million based on currently owned FHLB stock and $1.5 billion based on current collateral.

Note 12: Income Taxes

The provision for income taxes includes these components for the years ended December 31, 2019, 2018 and 2017:

	Year Ended December 31,		
	2019	2018	2017
	(In thousands)		
Income tax expense			
Current tax payable			
Federal	$ 21,396	$ 13,312	$ 21,413
State	4,387	5,528	3,479
Deferred tax payable			
Federal	(375)	1,583	(2,627)
State	(603)	730	212
Income tax expense	$ 24,805	$ 21,153	$ 22,477
Effective tax rate	24.3 %	29.1 %	29.1 %

Merchants Bancorp

Notes to Consolidated Financial Statements

Years Ended December 31, 2019 and 2018

A reconciliation of income tax expense at the statutory rate to the Company's actual income tax expense for the years ended December 31, 2019, 2018 and 2017, is shown below:

	Year Ended December 31,		
	2019	2018	2017
		(In thousands)	
Computed at the statutory rate (21% for 2019 and 2018, and 35% for 2017)	$ 21,448	$ 17,646	$ 27,006
Increase resulting from			
State income taxes	2,989	4,944	2,399
Effect of Tax Cuts and Jobs Act	—	—	(6,928)
Tax Credits net of related amortization	(190)	(1,533)	—
Other	558	96	—
Actual tax expense	$ 24,805	$ 21,153	$ 22,477

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

	December 31,	
	2019	2018
	(In thousands)	
Deferred tax assets		
Allowance for loan losses	$ 4,069	$ 3,366
Unrealized loss on available for sale securities	—	148
Fair value adjustments on acquisitions	228	—
Other	1,309	854
Total assets	5,606	4,368
Deferred tax liabilities		
Depreciation	(1,374)	(466)
Intangible assets	(466)	(618)
Mortgage servicing rights	(17,035)	(17,477)
Limited partnership investments	(1,791)	(2,212)
Unrealized loss on available for sale securities	(121)	—
Fair value adjustments on acquisitions	—	(3)
Total liabilities	(20,787)	(20,776)
Net deferred tax liability	$ (15,181)	$ (16,408)

On December 22, 2017, the United States enacted the Tax Cuts and Jobs Act, which significantly changes the existing U.S. tax laws, including a reduction in the corporate tax rate from 35% to 21%. As a result of enactment of the legislation, the Company recorded in the fourth quarter of 2017, an additional one-time income tax benefit of $6.9 million, primarily related to the re-measurement of certain deferred tax assets and liabilities and included an expense of $243,000 related to the adjustment of the deferred tax asset for net unrealized losses on available for sale securities.

Note 13: Regulatory Matters

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

Quantitative measures established by regulation to ensure capital adequacy require the Company, Merchants Bank, and FMBI to maintain minimum amounts and ratios (set forth in the table below). Management believes, as of December 31, 2019 and 2018, that the Company, Merchants Bank, and FMBI met all capital adequacy requirements to which they were subject.

As of December 31, 2019, the most recent notifications from the Federal Reserve categorized the Company as well capitalized and most recent notifications from the FDIC categorized Merchants Bank and FMBI as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, a company must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Company, Merchants Bank, or FMBI’s category.

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

	Actual		Minimum Amount Required for Adequately Capitalized[1]		Minimum Amount To Be Well Capitalized[1]	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in thousands)			
December 31, 2019						
Total capital[1] (to risk-weighted assets)						
Company	$ 637,472	11.6 %	$ 440,063	8.0 %	$ —	N/A
Merchants Bank	639,104	12.0 %	426,748	8.0 %	533,435	10.0 %
FMBI	21,726	13.1 %	13,306	8.0 %	16,632	10.0 %
Tier 1 capital[1] (to risk-weighted assets)						
Company	621,630	11.3 %	330,047	6.0 %	—	N/A
Merchants Bank	623,716	11.7 %	320,061	6.0 %	426,748	8.0 %
FMBI	21,272	12.8 %	9,979	6.0 %	13,306	8.0 %
Common Equity Tier 1 capital[1] (to risk-weighted assets)						
Company	408,984	7.4 %	247,536	4.5 %	—	N/A
Merchants Bank	623,716	11.7 %	240,046	4.5 %	346,733	6.5 %
FMBI	21,272	12.8 %	7,484	4.5 %	10,811	6.5 %
Tier 1 capital[1] (to average assets)						
Company	621,630	9.4 %	264,324	4.0 %	—	N/A
Merchants Bank	623,716	9.7 %	257,487	4.0 %	321,859	5.0 %
FMBI	21,272	11.7 %	7,302	4.0 %	9,128	5.0 %

(1) As defined by regulatory agencies.

Merchants Bancorp

Notes to Consolidated Financial Statements

Years Ended December 31, 2019 and 2018

	Actual		Minimum Amount Required for Adequately Capitalized[1]		Minimum Amount To Be Well Capitalized[1]	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in thousands)			
December 31, 2018						
Total capital(1) (to risk-weighted assets)						
Company	$ 393,654	12.3 %	$ 255,884	8.0 %	$ —	N/A
Merchants Bank	412,386	13.3 %	248,290	8.0 %	310,363	10.0 %
FMBI	17,537	18.6 %	7,559	8.0 %	9,448	10.0 %
Tier 1 capital(1) (to risk-weighted assets)						
Company	380,950	11.9 %	191,913	6.0 %	—	N/A
Merchants Bank	399,815	12.9 %	186,218	6.0 %	248,290	8.0 %
FMBI	17,404	18.4 %	5,669	6.0 %	7,559	8.0 %
Common Equity Tier 1 capital(1) (to risk-weighted assets)						
Company	339,369	10.6 %	143,935	4.5 %	—	N/A
Merchants Bank	399,815	12.9 %	139,663	4.5 %	201,736	6.5 %
FMBI	17,404	18.4 %	4,252	4.5 %	6,141	6.5 %
Tier 1 capital(1) (to average assets)						
Company	380,950	10.0 %	152,081	4.0 %	—	N/A
Merchants Bank	399,815	11.0 %	145,723	4.0 %	182,154	5 %
FMBI	17,404	10.8 %	6,453	4.0 %	8,066	5.0 %

(1) As defined by regulatory agencies.

Beginning January 1, 2015, the Basel III capital rules applied to Merchants Bank. The following table lists the capital categories and ratios determined by the Federal Reserve and FDIC.

Capital Category	Total Risk-based Capital ratio	Tier 1 Risk-based Capital ratio	Common Equity Tier 1 Risk-based Capital ratio	Tier 1 Leverage ratio
Well capitalized	10 %	8 %	6.5 %	5 %
Adequately capitalized	8	6	4.5	4
Undercapitalized	<8	<6	<4.5	<4
Significantly undercapitalized	<6	<4	<3	<3
Critically undercapitalized	Tangible Equity/Total Assets </= 2%			

The Basel III capital rules, among other things, (i) introduced a new capital measure called "Common Equity Tier 1" (CET1), (ii) specified that Tier 1 capital consist of CET1 and "Additional Tier 1 Capital" instruments meeting specified requirements, (iii) defined CET1 narrowly by requiring that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital and (iv) expanded the scope of the deductions/adjustments as compared to existing regulations.

Implementation of the deductions and other adjustments to CET1 began on January 1, 2015, and were phased in over a four-year period, becoming fully phased in on January 1, 2019. Additionally, under the Basel III Capital Rules, in order to avoid limitations on capital distributions of dividend payments and certain discretionary bonus payments to executive officers, a banking organization must hold a capital conservation buffer composed of capital above its minimum risk-based capital requirements. On January 1, 2019 the capital conservation buffer became fully phased in at 2.5%.

The Company's principal source of funds for dividend payments to shareholders is dividends received from Merchants Bank and FMBI. Banking regulations limit the maximum amount of dividends that a bank may pay without requesting prior approval of regulatory agencies. Under these regulations, the amount of dividends that may be paid in

any calendar year is limited to Merchants Bank's and FMBI's retained net income (as defined) for the current year plus those for the previous two years, subject to the capital requirements described above. At December 31, 2019, the amount available, without prior regulatory approval, for dividends which could be paid by Merchants Bank and FMBI to the Company was $117.7 million.

Note 14: Earnings Per Share

Earnings per share were computed as follows for years ended December 31, 2019, 2018 and 2017.

	Year Ended December 31,								
	2019			2018			2017		
	Net Income (In thousands)	Weighted-Average Shares	Per Share Amount	Net Income (In thousands)	Weighted-Average Shares	Per Share Amount	Net Income (In thousands)	Weighted-Average Shares	Per Share Amount
Net income	$ 77,329			$ 62,874			$ 54,684		
Dividends on preferred stock	(9,216)			(3,330)			(3,330)		
Net income allocated to common shareholders	$ 68,113			$ 59,544			$ 51,354		
Basic earnings per share		28,705,125	$ 2.37		28,692,955	$ 2.08		22,551,452	$ 2.28
Effect of dilutive securities—restricted stock awards		40,582			31,464			16,702	
Diluted earnings per share		28,745,707	$ 2.37		28,724,419	$ 2.07		22,568,154	$ 2.28

Note 15: Stock Splits

On July 5, 2017, the Company approved an increase of authorized common shares to 50.0 million shares, and declared a 2.5-for-1 stock split effective July 6, 2017. The presentation of authorized common shares has been retrospectively adjusted to give effect to the increase, and all share and per share amounts have been retrospectively adjusted to give effect to these splits.

Note 16: Initial Public Offering of Common Stock

On October 26, 2017, the Company issued 6,250,000 shares of common stock in its initial public offering, and on November 2, 2017, the Company issued an additional 937,500 shares of common stock to the underwriters related to their exercise of an option to purchase additional shares. The aggregate gross offering proceeds for the shares issued by the Company was $115.0 million, and after deducting underwriting discounts and offering expenses of approximately $8.8 million paid to third parties, the Company received total net proceeds of $106.2 million.

Note 17: Preferred Stock

Public Offerings of Preferred Stock

On March 28, 2019 the Company issued 2,000,000 shares of 7.00% Fixed-to-Floating Rate Series A Non-Cumulative Perpetual Preferred Stock, without par value, and with a liquidation preference of $25.00 per share (the "Series A Preferred Stock"). The aggregate gross offering proceeds for the shares issued by the Company was $50.0 million, and after deducting underwriting discounts and commissions and offering expenses of approximately $1.7 million paid to third parties, the Company received total net proceeds of $48.3 million. On April 12, 2019, the Company issued an additional 81,800 shares of Series A Preferred Stock to the underwriters related to their exercise of an option to purchase additional shares under the associated underwriting agreement, resulting in an additional $2.0 million in net proceeds, after deducting $41,000 underwriting discounts. The Series A Preferred Stock have no voting rights with respect to matters that generally require the approval of our common shareholders. Dividends on the Series A Preferred Stock, to the extent declared by the Company's board, are payable quarterly. The Company may redeem the Series A Preferred Stock, in whole or in part, at our option, on any dividend payment date on or after April 1, 2024, subject to the

approval of the appropriate federal banking agency, at the liquidation preference, plus any declared and unpaid dividends (without regard to any undeclared dividends) to, but excluding, the date of redemption.

On August 19, 2019 the Company issued 5,000,000 depositary shares, each representing a 1/40th interest in a share of its 6.00% Fixed-to-Floating Rate Series B Non-Cumulative Perpetual Preferred Stock, without par value (the "Series B Preferred Stock"), and with a liquidation preference of $1,000.00 per share (equivalent to $25.00 per depositary share). The aggregate gross offering proceeds for the shares issued by the Company was $125.0 million, and after deducting underwriting discounts and commissions and offering expenses of approximately $4.2 million paid to third parties, the Company received total net proceeds of $120.8 million. The Series B Preferred Stock have no voting rights with respect to matters that generally require the approval of our common shareholders. Dividends on the Series B Preferred Stock, to the extent declared by the Company's board, are payable quarterly. The Company may redeem the Series A Preferred Stock, in whole or in part, at our option, on any dividend payment date on or after October 1, 2024, subject to the approval of the appropriate federal banking agency, at the liquidation preference, plus any declared and unpaid dividends (without regard to any undeclared dividends) to, but excluding, the date of redemption.

Private Placement Offerings of Preferred Stock

The Company previously issued a total of 41,625 shares of 8% Non-Cumulative, Perpetual Preferred Stock, without par value, with a liquidation preference of $1,000.00 per share (8% Preferred Stock") in private placement offerings. The Company may redeem this Preferred Stock, in whole or in part, at our option, on any dividend payment date on or after December 31, 2020, subject to the approval of the appropriate federal banking agency, at the liquidation preference, plus any declared and unpaid dividends (without regard to any undeclared dividends) to, but excluding, the date of redemption.

On June 27, 2019 the Company issued an additional 874,000 shares of its 7.00% Series A Preferred Stock, without par value and with a liquidation preference of $25.00 per share, for aggregate proceeds of $21.85 million. No underwriter or placement agent was involved in this private placement and the Company did not pay any brokerage or underwriting fees or discounts in connection with the issuance of such shares. The shares were purchased primarily by related parties, including Michael Petrie, Chairman and Chief Executive Officer; Randall Rogers, Vice Chairman and a director and members of his family; Michael Dury, President of Merchants Capital; and other accredited investors.

Repurchase of Preferred Stock

On September 23, 2019 the Company repurchased and subsequently retired 874,000 shares of its 7.00% Series A Preferred Stock, for its liquidation preference of $25 per share, at an aggregate cost of $21.85 million. There were no brokerage fees in connection with the transaction.

Note 18: Related Party Transactions

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

In 2016, the Company purchased a 30% ownership in one of its key loan processing vendors, and in 2019 increased its ownership to 44.23%. The investment is accounted for using the equity method of accounting. Fees paid to this company during each of the years ended December 31, 2019, 2018, and 2017 were $3.1 million, $3.4 million, and $3.7 million, respectively. At December 31, 2019, 2018, and 2017, fees of $214,000, $226,000, and $253,000 were accrued for services received.

The Company retained a law firm of which a Board member of Merchants Bank, and previously of Merchants Bancorp through July 5, 2017, is a partner. Services rendered are primarily related to documentation of current loan

originations, and loan collections from Merchants Bank's borrowers. Fees paid to the law firm totaled $3.6 million, $3.7 million, and $3.0 million for the years ended December 31, 2019, 2018 and 2017 respectively.

During 2019 the Company purchased technology equipment and services for its new corporate headquarters building from a company owned by a Board member of Merchants Bancorp. Fees paid directly and indirectly to this company totaled $641,000 for the year ended December 31, 2019. No fees were incurred for the years ended December 31, 2018 or 2017.

On May 8, 2017, the Company entered into a purchase agreement to acquire FMBI from Mr. Petrie, the Company's Chairman and Chief Executive Officer and Mr. Rogers, a director of the Company. On October 31, 2016, the Company had entered into an Agreement and Plan of Merger to acquire FMBI. Because the timing and regulatory approval of the transaction was uncertain due to the Company's capital position at December 31, 2016, the parties agreed that Messrs. Petrie and Rogers, would acquire FMBI. The acquisition of FMBI by the Messrs. Petrie and Rogers closed on April 3, 2017. The purchase agreement provided for the Company to pay a purchase price equal to approximately $5.4 million plus an approximate cost of funds of $16,000 for each 30 days after June 30, 2017, prorated to the closing date. The purchase price was equal to the price paid by Messrs. Petrie and Rogers, plus expenses and a cost of funds equal to 3.75%. The acquisition closed on January 2, 2018 at a total cost of approximately $5.5 million. At December 31, 2017 FMBI had $43 million in assets and $36.9 million of deposits.

Note 19: Employee Benefits

Effective January 1, 2016, the Company discontinued its SIMPLE IRA plan and began offering a 401(k) plan. Pursuant to the plan agreement, matching contributions equal to 100% of the employees' elective deferrals which do not exceed 3% of the employees' compensation will be made unless management elects to make either the alternative matching contribution or the non-elective contribution. Employer contributions to the plans were $629,000, $464,000, and $294,000 for the years ended December 31, 2019, 2018, and 2017, respectively.

Note 20: Share-Based Payment Plan

Equity-based incentive awards are currently issued pursuant to the 2017 Equity Incentive Plan (the "2017 Incentive Plan"). Prior to the adoption of the 2017 Incentive Plan, the equity awards issued historically consisted of restricted stock awards issued pursuant to the Incentive Plan for Merchants Bank Executive Officers (the "Prior Incentive Plan"). As of the effective date of the 2017 Equity Incentive Plan, no further awards will be granted under the Prior Incentive Plan. However, any previously outstanding incentive award granted under the Prior Incentive Plan remains subject to the terms of such plans until the time it is no longer outstanding. During the years ended December 31, 2019 and 2018, the Company issued 10,127 and 7,039 shares, respectively, pursuant under these plans. Expense recognized for these plans totaled $533,000, $171,000, and $458,000 for the years ended December 31, 2019, 2018, and 2017, respectively. At December 31, 2019 and 2018, there were 91,266 and 83,708 unvested shares awarded under the 2017 Plan, respectively. Unrecognized compensation cost totaled $1.3 million and $1.1 million at December 31, 2019 and 2018, respectively.

During 2018, the Compensation Committee of the Board of Directors approved a plan for non-executive directors to receive a portion of their annual fees in the form of common stock equal to $10,000, rounded up to the nearest whole share. Accordingly, there were 2,275 total shares issued during the year ended December 31, 2019, reflecting $50,000 in expenses. There were 1,830 total shares issued during the year ended December 31, 2018, reflecting $50,000 in expenses.

Note 21: Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of

observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities
Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
Level 3 Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

Recurring Measurements

The following tables present the fair value measurements of assets and liabilities recognized in the accompanying balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2019 and 2018:

		Fair Value Measurements Using		
Assets	**Fair Value**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
		(In thousands)		
December 31, 2019				
Trading securities	$ 269,891	$ —	$ 269,891	$ —
Available-for-sale securities:				
Treasury notes	4,765	4,765	—	—
Federal agencies	244,973	—	244,973	—
Municipals	5,937	—	5,937	—
Mortgage-backed - Government-sponsored entity (GSE) - residential	34,568	—	34,568	—
Loans held for sale	19,592	—	19,592	—
Mortgage servicing rights	74,387	—	—	74,387
Derivative assets - interest rate lock commitments	186	—	—	186
Derivative asset - interest rate swap	511	—	511	—
Derivative liabilities - forward contracts	27	—	27	—
Derivative liabilities - interest rate swap	511	—	511	—
December 31, 2018				
Trading securities	$ 163,419	$ —	$ 163,419	$ —
Available-for-sale securities:				
Treasury notes	11,941	11,941	—	—
Federal agencies	236,930	—	236,930	—
Municipals	21,332	—	21,332	—
Mortgage-backed - Government-sponsored entity (GSE) - residential	60,868	—	60,868	—
Loans held for sale	11,886	—	11,886	—
Mortgage servicing rights	77,844	—	—	77,844
Derivative assets - interest rate lock commitments	70	—	—	70
Derivative liabilities - forward contracts	9	—	9	—

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

ended December 31, 2019 and 2018. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

Trading and Available-for-Sale Securities

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

Loans Held for Sale

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

Mortgage Servicing Rights

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

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

Derivative Financial Instruments

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

Level 3 Reconciliation

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

	Year Ended December 31,		
	2019	2018	2017
	(In thousands)		
Mortgage servicing rights			
Balance, beginning of period	$ 77,844	$ 66,079	$ 53,670
Additions			
Originated and purchased servicing	7,332	14,113	10,993
Acquisition of MCS	—	—	3,970
Subtractions			
Paydowns	(5,994)	(4,196)	(5,504)
Changes in fair value due to changes in valuation inputs or assumptions used in the valuation model	(4,795)	1,848	2,950
Balance, end of period	$ 74,387	$ 77,844	$ 66,079
Available-for-sale securities - Municipals			
Balance, beginning of period	$ —	$ 6,688	$ —
Additions			
Purchased securities	—	—	6,688
Subtractions			
Paydowns	—	(257)	—
Sales	—	(6,431)	—
Unrealized gains (losses) included in other comprehensive income	—	—	—
Balance, end of period	$ —	$ —	$ 6,688
Derivative Assets - interest rate lock commitments			
Balance, beginning of period	$ 70	$ —	$ —
Purchases	—	—	—
Changes in fair value	116	70	—
Balance, end of period	$ 186	$ 70	$ —

Nonrecurring Measurements

The following table presents the fair value measurement of assets measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2019 and 2018:

		Fair Value Measurements Using		
Assets	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In thousands)			
December 31, 2019				
Impaired loans (collateral-dependent)	$ 1,570	$ —	$ —	$ 1,570
December 31, 2018				
Impaired loans (collateral-dependent)	$ 2,639	$ —	$ —	$ 2,639

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

Collateral-Dependent Impaired Loans, Net of Allowance for Loan Losses

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

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

Unobservable (Level 3) Inputs:

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

	Fair Value (In thousands)	Valuation Technique	Unobservable Inputs	Range
At December 31, 2019:				
Collateral-dependent impaired loans	$ 1,570	Market comparable properties	Marketability discount	37%-55%
Mortgage servicing rights	$ 74,387	Discounted cash flow	Discount rate	8% - 13%
			Constant prepayment rate	1% - 39%
Derivative assets - interest rate lock commitments	$ 186	Discounted cash flow	Loan closing rates	73-99%
At December 31, 2018:				
Collateral-dependent impaired loans	$ 2,639	Market comparable properties	Marketability discount	5% - 47%
Mortgage servicing rights	$ 77,844	Discounted cash flow	Discount rate	8% - 13%
			Constant prepayment rate	1% - 36%
Derivative assets - interest rate lock commitments	$ 70	Discounted cash flow	loan closing rates	95-100%

At December 31, 2017, municipal securities of $6.7 million were classified as Level 3, as there was no active market for these or similar securities. These securities were purchased on December 28, 2017, as such, they were valued as of December 31, 2017 at their purchase price. These securities were sold as of December 31, 2018.

Sensitivity of Significant Unobservable Inputs

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

Mortgage Servicing Rights

The significant unobservable inputs used in the fair value measurement of the Company's mortgage servicing rights are discount rates and constant prepayment rates. Significant increases or decreases in any of those inputs in isolation would result in a significantly different fair value measurement.

Fair Value of Financial Instruments

The following table presents the carrying amount and estimated fair values of the Company's financial instruments not carried at fair value and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2019 and 2018.

Assets	Carrying Value	Fair Value	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
			(In thousands)		
December 31, 2019					
Financial assets:					
Cash and cash equivalents	$ 506,709	$ 506,709	$ 506,709	$ —	$ —
Securities purchased under agreements to resell	6,723	6,723	—	6,723	—
FHLB stock	20,369	20,369	—	20,369	—
Loans held for sale	2,074,197	2,074,197	—	2,074,197	—
Loans, net	3,012,468	2,999,580	—	—	2,999,580
Interest receivable	18,359	18,359	—	18,359	—
Financial liabilities:					
Deposits	5,478,075	5,478,682	3,303,736	2,174,946	—
Lines of credit	6,540	6,540	—	6,540	—
Short-term subordinated debt	12,200	12,200	—	12,200	—
FHLB advances	162,699	162,803	—	162,803	—
Interest payable	11,938	11,938	—	11,938	—
December 31, 2018					
Financial assets:					
Cash and cash equivalents	$ 336,524	$ 336,524	$ 336,524	$ —	$ —
Securities purchased under agreements to resell	6,875	6,875	—	6,875	—
FHLB stock	7,974	7,974	—	7,974	—
Loans held for sale	820,569	820,569	—	820,569	—
Loans, net	2,045,423	2,041,772	—	—	2,041,772
Interest receivable	13,827	13,827	—	13,827	—
Financial liabilities:					
Deposits	3,231,086	3,230,397	2,550,632	679,765	—
Lines of credit	33,150	33,150	—	33,150	—
Short-term subordinated debt	10,582	10,582	—	10,582	—
FHLB advances	151,721	151,723	—	151,723	—
Interest payable	4,132	4,132	—	4,132	—

Merchants Bancorp

Notes to Consolidated Financial Statements

Years Ended December 31, 2019 and 2018

Note 22: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Estimates related to the provision and allowance for loan losses are reflected in the footnotes regarding loans and the allowance for loan losses (Notes 1 and 4). Estimates related to mortgage servicing rights are reflected in the notes on mortgage servicing rights and loan servicing (Notes 1 and 6). Estimates related to fair values are reflected in the footnote regarding fair values (Note 21). Current vulnerabilities due to certain concentrations of credit risk are discussed in the footnote on commitments, credit risk, and contingencies (Note 23). Other significant estimates and concentrations not discussed in those footnotes include:

Mortgage-backed Securities and Secondary Mortgage Market Programs

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

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

Major Customer

The Company had no major customers whose business represented more than 10% of revenues during the year ended December 31, 2019 or 2018. For the year ended 2017 the Company had a major customer of the Mortgage Warehousing segment, whose business represented $14.3 million, or 10% of total revenues.

Note 23: Commitments, Credit Risk, and Contingencies

Financial Instruments

Merchants offers certain financial instruments, including commitments with contracts that contain credit risk for the Company and others that are subject to certain performance criteria and cancellation by the Company. Such commitments were as follows at December 31, 2019 and 2018:

	December 31,	
	2019	**2018**
	(In thousands)	
Commitments subject to credit risk:		
Commitments to extend credit	$ 761,068	$ 676,987
Standby letters of credit	26,944	23,030
Total commitments subject to credit risk	788,012	700,017
Commitments subject to certain performance criteria and cancellation:		
Outstanding commitments to originate loans	$ 886,017	$ 507,216
Unfunded construction draws	287,659	457,762
Unfunded lines of warehouse credit	774,424	782,431
Total commitments subject to certain performance criteria and cancellation	1,948,100	1,747,409

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

Commitments to extend credit. These are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn

upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation. Collateral held varies but may include accounts receivable, inventory, property and equipment, and income-producing commercial properties.

Standby letters of credit. These instruments are irrevocable, conditional commitments issued by the Company or by another party on behalf of the Company, for a fee, to guarantee the performance of a customer to a third party and they generally have fixed expiration dates or other termination clauses. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan commitments to customers. The Company's policy for obtaining collateral and/or guarantees and the nature thereof is generally the same as that involved extending commitments to its customers. The Company has not been required to fund nor has it incurred any losses on any standby letter of credit commitment during the years ended December 31, 2019, 2018 or 2017.

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

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

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

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

Risk-Sharing Arrangements

As a Fannie Mae multifamily lender, Merchants assumes a limited portion of the risk of loss during the remaining term on each commercial mortgage loan that is sold to Fannie Mae. Under this loss sharing agreement, Merchants bears a risk of up to one-third of incurred losses resulting from borrower defaults. Accordingly, Merchants maintained a reserve liability for this risk-sharing obligation of $277,000 at December 31, 2019 and none at December 31, 2018. There have been no loans in default during the year ended December 31, 2019, 2018 or 2017.

Leases

The Company has several non-cancellable operating leases, primarily for office space, that expire over the next 1-10 years. Rental expense for these leases was $1.8 million, $1.1 million, and $764,000 for the years ended December 31, 2019, 2018 and 2017, respectively.

Merchants Bancorp

Notes to Consolidated Financial Statements

Years Ended December 31, 2019 and 2018

Future minimum lease payments under operating leases as of December 31, 2019 are as follows:

	December 31, 2019
	(In thousands)
Due within one year	$ 1,564
Due in one year to two years	1,383
Due in two years to three years	1,208
Due in three years to four years	1,208
Due in four years to five years	1,003
Thereafter	1,551
Total minimum lease payments	$ 7,917

Other

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

Note 24: Segment Information

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

The tables below present selected business segment financial information for the years ended December 31, 2019, 2018 and 2017.

	Multi-family Mortgage Banking	Mortgage Warehousing	Banking	Other	Total
			(In thousands)		
Year Ended December 31, 2019					
Interest income	$ 1,328	$ 102,157	$ 106,443	$ 2,067	$ 211,995
Interest expense	—	50,880	45,681	(6,864)	89,697
Net interest income	1,328	51,277	60,762	8,931	122,298
Provision for loan losses	—	1,358	2,582	—	3,940
Net interest income after provision for loan losses	1,328	49,919	58,180	8,931	118,358
Noninterest income	41,682	7,178	1,005	(2,776)	47,089
Noninterest expense	22,556	11,397	17,738	11,622	63,313
Income before income taxes	20,454	45,700	41,447	(5,467)	102,134
Income taxes	5,691	10,934	9,593	(1,413)	24,805
Net income	$ 14,763	$ 34,766	$ 31,854	$ (4,054)	$ 77,329
Total assets	$ 188,866	$ 3,124,684	$ 3,018,568	$ 39,810	$ 6,371,928

Merchants Bancorp

Notes to Consolidated Financial Statements

Years Ended December 31, 2019 and 2018

	Multi-family Mortgage Banking	Mortgage Warehousing	Banking	Other	Total
			(In thousands)		
Year Ended December 31, 2018					
Interest income	$ 712	$ 58,784	$ 79,332	$ 1,735	$ 140,563
Interest expense	—	24,369	29,508	(3,285)	50,592
Net interest income	712	34,415	49,824	5,020	89,971
Provision for loan losses	—	1,372	3,257	—	4,629
Net interest income after provision for loan losses	712	33,043	46,567	5,020	85,342
Noninterest income	45,831	2,550	3,150	(1,946)	49,585
Noninterest expense	19,205	7,721	14,876	9,098	50,900
Income before income taxes	27,338	27,872	34,841	(6,024)	84,027
Income taxes	7,528	6,872	8,572	(1,819)	21,153
Net income	$ 19,810	$ 21,000	$ 26,269	$ (4,205)	$ 62,874
Total assets	$ 166,102	$ 1,430,776	$ 2,256,687	$ 30,598	$ 3,884,163

	Multi-family Mortgage Banking	Mortgage Warehousing	Banking	Other	Total
			(In thousands)		
Year Ended December 31, 2017					
Interest income	$ 414	$ 48,798	$ 44,454	$ 721	$ 94,387
Interest expense	—	13,673	14,853	(736)	27,790
Net interest income	414	35,125	29,601	1,457	66,597
Provision for loan losses	—	452	2,020	—	2,472
Net interest income after provision for loan losses	414	34,673	27,581	1,457	64,125
Noninterest income	43,715	2,836	1,943	(814)	47,680
Noninterest expense	10,911	7,710	9,835	6,188	34,644
Income before income taxes	33,218	29,799	19,689	(5,545)	77,161
Income taxes	4,557	11,558	8,279	(1,917)	22,477
Net income	$ 28,661	$ 18,241	$ 11,410	$ (3,628)	$ 54,684
Total assets	$ 134,390	$ 1,352,748	$ 1,889,140	$ 16,855	$ 3,393,133

Merchants Bancorp

Notes to Consolidated Financial Statements

Years Ended December 31, 2019 and 2018

Note 25: Condensed Financial Information (Parent Company Only)

Presented below is condensed financial information of the Company as to financial position as of December 31, 2019 and 2018, and results of operations and cash flows for the years ended December 31, 2019, 2018 and 2017:

Condensed Balance Sheets

	December 31, 2019	December 31, 2018
	(In thousands)	
Assets		
Cash and cash equivalents	$ 463	$ 2,224
Investment in subsidiaries	664,878	453,028
Other assets	2,213	2,104
Total assets	$ 667,554	$ 457,356
Liabilities		
Lines of credit	$ —	$ 25,000
Short-term subordinated debt	12,200	10,582
Other liabilities	1,626	537
Total liabilities	13,826	36,119
Shareholders' Equity	653,728	421,237
Total liabilities and shareholders' equity	$ 667,554	$ 457,356

Condensed Statements of Income and Comprehensive Income

	Year Ended December 31, 2019	2018	2017
	(In thousands)		
Income			
Dividends and return of capital from subsidiaries	43,903	37,816	13,632
Other Income	—	195	208
Total income	43,903	38,011	13,840
Expenses			
Interest expense	3,641	8,055	7,603
Salaries and employee benefits	1,611	1,216	1,617
Professional fees	335	707	341
Other	423	420	251
Total expense	6,010	10,398	9,812
Income Before Income Tax and Equity in Undistributed Income of Subsidiaries	37,893	27,613	4,028
Income Tax Benefit	(1,433)	(2,542)	(3,670)
Income Before Equity in Undistributed Income of Subsidiaries	39,326	30,155	7,698
Equity in Undistributed Income of Subsidiaries	38,003	32,719	46,986
Net Income	$ 77,329	$ 62,874	$ 54,684
Comprehensive Income	$ 78,097	$ 63,813	$ 54,306

Merchants Bancorp

Notes to Consolidated Financial Statements

Years Ended December 31, 2019 and 2018

Condensed Statements of Cash Flows

	Year Ended December 31,		
	2019	2018	2017
	(In thousands)		
Operating Activities			
Net income	$ 77,329	$ 62,874	$ 54,684
Adjustments to reconcile net income to net cash used in operating activities	(36,567)	(30,522)	(44,185)
Net cash provided by operating activities	40,762	32,352	10,499
Investing Activities			
Return of capital from/(contributed capital to) subsidiaries	(173,078)	19,368	(101,868)
Net cash paid for acquisitions	—	(27,209)	—
Other investing activity	126	74	189
Net cash used in investing activities	(172,952)	(7,767)	(101,679)
Financing Activities			
Net change in lines of credit and subordinated debt	(23,382)	(19,418)	—
Dividends paid	(17,254)	(10,216)	(7,950)
Proceeds from issuance of common stock	—	—	106,245
Proceeds from issuance of preferred stock	192,915	—	—
Repurchase of preferred stock	(21,850)	—	—
Net cash provided by (used in) financing activities	130,429	(29,634)	98,295
Net Change in Cash and Due From Banks	(1,761)	(5,049)	7,115
Cash and Due From Banks at Beginning of Year	2,224	7,273	158
Cash and Due From Banks at End of Year	$ 463	$ 2,224	7,273

Note 26: Recent Accounting Pronouncements

The Company is an emerging growth company and as such will be subject to the effective dates noted for the private companies if they differ from the effective dates noted for public companies.

FASB ASU 2014-09, Revenue from Contracts with Customers

In May 2014, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update (“ASU”) 2014-09, “Revenue from Contracts with Customers,” which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU replaces most existing revenue recognition guidance in U.S. GAAP. In March 2016 the FASB issued ASU 2016-08, “Principal versus Agent Considerations (Reporting Revenue Gross versus Net),” which clarifies the guidance in determining revenue recognition as principal versus agent. In April 2016, the FASB issued ASU 2016-10, “Identifying Performance Obligations and Licensing,” which provides guidance in accounting for immaterial performance obligations and shipping and handling. In May 2016, the FASB issued ASU 2016-12, “Narrow-Scope Improvements and Practical Expedients,” which provides clarification on assessing the collectability criterion, presentation of sales taxes, measurement date for noncash consideration and completed contracts at transition. This ASU also provides a practical expedient for contract modifications.

As an emerging growth company, these amendments were effective for annual reporting periods beginning after December 15, 2018, and for interim periods within annual periods beginning after December 15, 2019. The Company’s revenue is primarily comprised of net interest income on financial assets and financial liabilities, which is explicitly excluded from the scope of ASU 2014-09. The Company’s services that fall within the scope of this ASU are presented within noninterest income and are recognized as revenue as the Company satisfies its obligation to the customer. The services that are within scope include services charges on deposits, interchange income, collection fees, safe deposit box rental fees, and gain/(loss) on sale of other real estate owned. The Company has evaluated the nature of its contracts with customers and determined that further disaggregation of revenue from contracts with customers into more granular categories beyond what is presented in the Consolidated Statements of Income was not necessary. Because performance

obligations are satisfied as services are rendered and the transaction prices are fixed, there is little judgment involved in applying this ASU that significantly affects the determination of the amount and timing of revenue from contracts with customers. The Company adopted ASU 2014-09 on December 31, 2019, and it did not have an impact on the Company's financial position or results of operations.

FASB ASU 2016‑01, Recognition and Measurement of Financial Assets and Financial Liabilities

In January 2016, the FASB issued ASU 2016‑01, "Recognition and Measurement of Financial Assets and Financial Liabilities." For public business entities, the amendments in this update include the elimination of the requirement to disclose the method(s) and significant assumptions used to estimate fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet, the requirement to use the exit price notion when measuring fair value of financial instruments for disclosure purposes, the requirement to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument‑specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments, the requirement for separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or accompanying notes to the financial statements, and the amendments clarify that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available‑for‑sale securities in combination with the entity's other deferred tax assets. An entity should apply the amendments to this update by means of a cumulative‑effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption.

As an emerging growth company, the amendments in this update were effective for fiscal years beginning after December 15, 2018, and interim periods within years beginning after December 15, 2019. An entity should present separately in other comprehensive income the portion of the total change in the fair value of a liability at fair value in accordance with the fair value option for financial instruments. An entity should apply the amendments to this update by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. The Company adopted ASU 2016-01 on December 31, 2019, and the impact did not have a material impact on the Company's financial position or results of operation, nor did it require any cumulative-effect adjustments.

FASB ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments

In August 2016, the FASB issued Accounting Standards Update ASU 2016-15 "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments". ASU 2016-15 provides specific guidance on eight cash flow classification issues, including contingent consideration, debt prepayment or debt extinguishment costs and distributions received from equity method investees, to reduce diversity in practice. ASU 2016-15 requires a retrospective transition.

As an emerging growth company, the amendments in this update were effective for fiscal years beginning after December 15, 2018, and interim periods within years beginning after December 15, 2019. The Company adopted ASU 2016-15 on December 31, 2019 and the impact did not have a material impact on the Company's financial position or results of operation.

FASB ASU 2016‑02, Leases

In February 2016, the FASB issued ASU 2016‑02, "Leases." Under the new guidance, lessees will be required to recognize the following for all leases (with the exception of short‑term leases) at the commencement date:

- A lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and
- A right‑of‑use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term.

Under the new guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align, where necessary, lessor accounting with the lessee accounting model and Topic 606, "Revenue from Contracts with Customers." The new lease guidance simplified the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and lease liabilities. Lessees will no longer be provided with a source of off-balance sheet financing. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach.

As an emerging growth company, the amendments in ASU 2016-02 are effective for fiscal years beginning after December 15, 2020, and for interim periods for years beginning after January 1, 2021. The Company is continuing to evaluate the impact of adopting this new guidance, but it does not expect the adoption to have a material impact on the Company's financial position or results of operations.

FASB ASU 2016-13, Financial Instruments—Credit Losses

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments—Credit Losses", commonly referred to as "CECL". The amendments in this ASU replace the incurred loss model with a methodology that reflects the "current expected credit losses" over the life of the loan and requires consideration of a broader range of reasonable and supportable information to calculate credit loss estimates. ASU 2016-13 replaces the incurred loss impairment methodology with a new methodology that reflects expected credit losses over the lives of the loans and requires consideration of a broader range of information to form credit loss estimates. The ASU requires an organization to estimate all expected credit losses for financial assets measured at amortized cost, including loans and held-to-maturity debt securities, based on historical experience, current conditions, and reasonable and supportable forecasts. Additional disclosures are required.

As an emerging growth company, the amendments in ASU 2016-13 are effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years.. Because the Company's status as an emerging growth company is expected to expire on December 31, 2022, this standard will likely be implemented by December 31, 2022. The Company has established a cross-functional committee that has developed a project plan to review modeling data currently available and technology needed to ensure compliance of this standard. The committee has contracted with a vendor to assist in generating specific loan level details within our core systems, as well as compiling peer and industry data that would be useful in our modeling forecasts. While the Company generally expects to recognize a one-time cumulative effect adjustment to the allowance for loan losses as of the beginning of the first reporting period in which the new standard is effective, the Company cannot yet determine the magnitude of any such one-time adjustment or the overall impact of the new guidance on the Company's consolidated financial statements. Management continues to recognize that the implementation of this ASU may increase the balance of the allowance for loan losses and is continuing to evaluate the potential impact on the Company's financial position and results of operations.

FASB ASU No. 2017-04, Intangibles—Goodwill and Other (Topic 350)

In January 2017, the FASB issued ASU 2017-04, "Intangibles—Goodwill and Other (Topic 350)." This ASU simplifies the test for goodwill impairment. Specifically, these amendments eliminate Step 2 from the goodwill impairment test, and also eliminate the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test.

As an emerging growth company, the amendments in this ASU are effective for annual goodwill impairment tests in fiscal years beginning after December 15, 2021. Management continues to believe that the changes will not have a material effect on the Company's financial position and results of operations.

Table of Contents

Merchants Bancorp

Notes to Consolidated Financial Statements

Years Ended December 31, 2019 and 2018

Note 27: Quarterly Condensed Financial Information (Unaudited)

The following tables present the unaudited quarterly condensed financial information for the years ended December 31, 2019 and 2018:

(Dollars in thousands, except per share data)	**2019 Quarter Ended**			
	March 31	**June 30**	**September 30**	**December 31**
Interest income	$ 39,674	$ 48,761	$ 59,761	$ 63,799
Interest expense	15,543	20,839	27,137	26,178
Net interest income	24,131	27,922	32,624	37,621
Provision for loan losses	649	105	1,193	1,993
Net interest income after provision for loan losses	23,482	27,817	31,431	35,628
Noninterest income	3,664	9,870	10,852	22,703
Noninterest expense	13,035	15,920	15,522	18,836
Income before income taxes	14,111	21,767	26,761	39,495
Income taxes	3,541	5,328	6,502	9,434
Net income	10,570	16,439	20,259	30,061
Less: preferred stock dividends	833	1,743	3,022	3,618
Net income allocated to common shareholders	$ 9,737	$ 14,696	$ 17,237	$ 26,443
Per common share data:				
Basic earnings per common share	$ 0.34	$ 0.51	$ 0.60	$ 0.92
Diluted earnings per common share	0.34	0.51	0.60	0.92

(Dollars in thousands, except per share data)	**2018 Quarter Ended**			
	March 31	**June 30**	**September 30**	**December 31**
Interest income	$ 29,038	$ 34,123	$ 37,577	$ 39,825
Interest expense	8,930	11,917	14,095	15,650
Net interest income	20,108	22,206	23,482	24,175
Provision for loan losses	1,406	998	617	1,608
Net interest income after provision for loan losses	18,702	21,208	22,865	22,567
Noninterest income	11,313	11,630	11,907	14,735
Noninterest expense	10,270	12,000	12,449	16,181
Income before income taxes	19,745	20,838	22,323	21,121
Income taxes	4,684	5,186	5,584	5,699
Net income	15,061	15,652	16,739	15,422
Less: preferred stock dividends	833	832	833	832
Net income allocated to common shareholders	$ 14,228	$ 14,820	$ 15,906	$ 14,590
Per common share data:				
Basic earnings per common share	$ 0.50	$ 0.52	$ 0.55	$ 0.51
Diluted earnings per common share	0.50	0.52	0.55	0.51

Note 28: Subsequent Events

No material events were noted.

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

None.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Our management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of December 31, 2019. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of December 31, 2019, our disclosure controls and procedures were effective.

Evaluation of Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining effective internal control over financial reporting. Internal control is designed to provide reasonable assurance to our management and board of directors regarding the preparation of reliable published financial statements. Internal control over financial reporting includes self-monitoring mechanisms, and actions are taken to correct deficiencies as they are identified.

Because of inherent limitations in any system of internal control, no matter how well designed, misstatements due to error or fraud may occur and not be detected, including the possibility of the circumvention or overriding of controls. Accordingly, even effective internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, internal control effectiveness may vary over time.

Our management assessed our internal control over financial reporting as of December 31, 2019, based in part upon certain assumptions about the likelihood of future events. Based on this assessment, management asserts that we maintained effective internal control over financial reporting as of December 31, 2019 based on the specified criteria.

Changes in Internal Control

There have been no changes made in our internal control over financial reporting during the three months ended December 31, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The information required by Item 10 will be in the Proxy Statement (the “2020 Proxy Statement”) for the 2020 annual meeting of shareholders that will be filed within 120 days after December 31, 2019, which is incorporated by reference.

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

Item 11. Executive Compensation.

The information required by Item 11 will be in the 2020 Proxy Statement, which is incorporated by reference.

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

The information required by Item 12 will be in the 2020 Proxy Statement, which is incorporated by reference.

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

The information required by Item 13 will be in the 2020 Proxy Statement, which is incorporated by reference.

Item 14. Principal Accounting Fees and Services.

The information required by Item 14 will be in the 2020 Proxy Statement, which is incorporated by reference.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

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

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

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

Exhibit Number	Description
2.1†	Stock Purchase Agreement by and among Michael F. Petrie, Randall D. Rogers, and Merchants Bancorp dated as of May 8, 2017 (incorporated by reference to Exhibit 10.9 of the registration statement on Form S-1, filed on September 25, 2017).
2.2†	Agreement and Plan of Merger dated as of October 31, 2016 by and among Merchants Bancorp, MB Acquisition Corp., and Bluestem Development Corporation (incorporated by reference to Exhibit 2.2 of the amendment to the registration statement on Form S-1, filed on October 16, 2017).
	(a) First Amendment to Agreement and Plan of Merger dated as of December 22, 2016 by and among Merchants Bancorp, MB Acquisition Corp., Bluestem Development Corporation, Michael F. Petrie, and Randall D. Rogers (incorporated by reference to Exhibit 10.11 of the registration statement on Form S-1, filed on September 25, 2017).
3.1	First Amended and Restated Articles of Incorporation of Merchants Bancorp (incorporated by reference to Exhibit 3.1 of the registration statement on Form S-1, filed on September 25, 2017).

3.2	Articles of Amendment to the First Amended and Restated Articles of Incorporation dated March 27, 2019 designating the 7.00% Fixed-to-Floating Rate Series A Non-Cumulative Perpetual Preferred Stock (incorporated by reference to Exhibit 3.2 of the registration statement on Form 8-A filed on March 28, 2019).
3.3	Articles of Amendment to the First Amended and Restated Articles of Incorporation dated August 19, 2019 designating the 6.00% Fixed-to-Floating Rate Series B Non-Cumulative Perpetual Preferred Stock (incorporated by reference to Exhibit 3.3 of the registration statement on Form 8-A filed on August 19, 2019).
3.4	Second Amended and Restated By-laws of Merchants Bancorp (incorporated by reference to Exhibit 3.1 of the Current Report on Form 8-K, filed on November 20, 2017).
4.1	Description of Registered Securities of Merchants Bancorp.
10.1*	Description of Incentive Plans for Michael F. Petrie, Chairman and CEO of Merchants Bancorp, Michael Dury, CEO of Merchants Capital Corporation, and Michael J. Dunlap, Director, President and Chief Operating Officer of Merchants Bancorp and CEO of Merchants Bank of Indiana. (incorporated by reference to Exhibit 10.1 of Form 8-K, filed on January 23, 2020).
10.2*	Description of Incentive Plan for Scott A. Evans, Director of Merchants Bancorp, and President and Co-Chief Operating Officer of Merchants Bank.
10.3*	Employment Agreement by and between Merchants Capital Corp. and Michael R. Dury dated December 29, 2010 (previously filed as Exhibit 10.14) (incorporated by reference to Exhibit 3.1 of the registration statement on Form S-1, filed on September 25, 2017).
10.4*	Amendment to Employment Agreement by and between Merchants Capital Corp. and Michael R. Dury effective as of January 1, 2017 (previously filed as Exhibit 10.15) (incorporated by reference to Exhibit 3.1 of the registration statement on Form S-1, filed on September 25, 2017).
10.5*	Merchants Bancorp 2017 Equity Incentive Plan (incorporated by reference to Exhibit 10.16 of the registration statement on Form S-1, filed on September 25, 2017). (a) Form of Award Agreement for Non-Qualified Stock Options under the 2017 Equity Incentive Plan (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K, filed on February 22, 2018). (b) Form of Award Agreement for Incentive Stock Options under the 2017 Equity Incentive Plan (incorporated by reference to Exhibit 10.2 of the Current Report on Form 8-K, filed on February 22, 2018). (c) Form of Award Agreement for Restricted Stock Unit Awards under the 2017 Equity Incentive Plan (incorporated by reference to Exhibit 10.3 of the Current Report on Form 8-K, filed on February 22, 2018). (d) Form of Award Agreement for Restricted Stock Awards under the 2017 Equity Incentive Plan (incorporated by reference to Exhibit 10.4 of the Current Report on Form 8-K, filed on February 22, 2018).
10.6*	Form of Change of Control Agreement entered into by Merchants Bancorp and each of Michael J. Dunlap, Scott A. Evans, Michael R. Dury, and John F. Macke.
21.1	Subsidiaries of Merchants Bancorp.
23.1	Consent of BKD, LLP.
31.1	Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) Consolidated Balance Sheets as of December 31, 2018 and 2017; (ii) Consolidated Statements of Income for the Years Ended December 31, 2019, 2018 and 2017; (iii) Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2019, 2018 and 2017; (iv) Consolidated Statements of Changes in Shareholders' Equity for the Years Ended December 31 2019, 2018 and 2017; (v) Consolidated Statements of Cash Flows for the Years Ended December 31, 2019, 2018 and 2017; and (vi) Notes to Consolidated Financial Statements.

* Management contract or compensatory plan or arrangement.

† Schedules have been omitted pursuant to Item 601(a)(5) of Regulation S-K. The Company hereby undertakes to furnish supplemental copies of any of the omitted schedules upon request by the U.S. Securities and Exchange Commission; provided, however, that the Company may request confidential treatment pursuant to Rule 83 of the Securities Exchange Act of 1934, as amended, for any schedules so furnished.

Item 16. Form 10-K Summary

None.

SIGNATURES

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

MERCHANTS BANCORP

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

Date: March 16, 2020

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

Signature	Title	Date
/s/ Michael F. Petrie Michael F. Petrie	Director (Chairman); Chief Executive Officer (Principal Executive Officer)	March 16, 2020
/s/ John F. Macke John F. Macke	Chief Financial Officer (Principal Financial and Accounting Officer)	March 16, 2020
/s/ Randall D. Rogers Randall D. Rogers	Director	March 16, 2020
/s/ Michael J. Dunlap Michael J. Dunlap	Director	March 16, 2020
/s/ Scott A. Evans Scott A. Evans	Director	March 16, 2020
/s/ Sue Ann Gilroy Sue Ann Gilroy	Director	March 16, 2020
/s/ Andrew A. Juster Andrew A. Juster	Director	March 16, 2020
/s/ Patrick D. O’Brien Patrick D. O’Brien	Director	March 16, 2020
/s/ Anne E. Sellers Anne E. Sellers	Director	March 16, 2020
/s/ David N. Shane David N. Shane	Director	March 16, 2020

EXHIBIT 4.1

DESCRIPTION OF SECURITIES OF MERCHANTS BANCORP REGISTERED PURUSANT TO SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934

As of the filing date of the Annual Report on Form 10-K, we had the following outstanding securities registered pursuant to Section 12 of the Securities Exchange Act of 1934: (i) our common stock, (ii) our 7.00% Fixed-to-Floating Rate Series A Non-Cumulative Perpetual Preferred Stock ("Series A Preferred Stock"), and (iii) depositary shares each representing a 1/40th interest in a share of our 6.00% Fixed-to-Floating Rate Series B Non-Cumulative Perpetual Preferred Stock ("Series B Preferred Stock") (collectively, "Merchants' Registered Securities").

The following summary of Merchants' Registered Securities is not complete. Please refer to our First Amended and Restated Articles of Incorporation, as amended, and Second Amended and Restated By-Laws, both of which are included as exhibits to the Annual Report on Form 10-K to which this Exhibit is attached, and the Indiana Business Corporation Law, for more complete information on the terms and rights of Merchants' Registered Securities.

The transfer agent and registrar for all Merchants' Registered Securities, and the depository for the depositary shares representing the Series B Preferred Stock, is Computershare, Inc.

DESCRIPTION OF COMMON STOCK

Authorized Shares: We are authorized to issue up to 50,000,000 shares of common stock, without par value.

Ranking: Our common stock ranks junior with respect to dividend rights and rights upon liquidation, dissolution or winding up to all our other securities and indebtedness. Upon any voluntary or involuntary liquidation, dissolution or winding up, holders of our common stock are entitled to share equally, on a per share basis, in all of our assets available for distribution, after payment to creditors and subject to any prior distribution rights granted to holders of any then outstanding shares of preferred stock.

Dividends: Holders of our common stock are entitled to share equally in any dividends that our board of directors may declare from time to time out of funds legally available for dividends, subject to limitations under Indiana law and any preferential rights of holders of our then outstanding preferred stock.

Voting Rights: Holders of our common stock are entitled to one vote per share on any matter to be voted on by the shareholders. Holders of our common stock are not entitled to cumulative voting rights with respect to the election of directors. A plurality of the shares voted elects all of the directors then standing for election at a meeting of shareholders at which a quorum is present.

Conversion Rights: Our common stock is not convertible into any other shares of our capital stock.

Preemptive Rights: Holders of our common stock do not have any preemptive rights.

Redemption: We have no obligation or right to redeem our common stock.

Stock Exchange Listing: Our common stock is listed on the Nasdaq Capital Market under the trading symbol "MBIN."

DESCRIPTION OF PREFERRED STOCK

Authorized Shares: We are authorized to issue up to 5,000,000 shares of preferred stock, without par value, in one or more series, and to determine the voting powers and the designations, preferences and relative, participating, optional or other special rights, and qualifications, limitations or restrictions of each series, without further shareholder action.

As of the date of the Annual Report on Form 10-K we had three series of preferred stock outstanding: Series A Preferred Stock, Series B Preferred Stock, and 8% Non-Cumulative, Perpetual Preferred Stock. The 8 % Non-Cumulative, Perpetual Preferred Stock has not been registered pursuant to Section 12 of the Securities Exchange Act of 1934. Series A Preferred Stock and Series B Preferred Stock are collectively referred to as the "Registered Preferred Stock."

For the Series B Preferred Stock, the representative depositary shares are summarized under “Description of Depositary Shares.”

Ranking: The Registered Preferred Stock ranks, as to payment of dividends and distribution of assets upon our liquidation, dissolution or winding-up, on a parity with any series of preferred stock ranking on a parity with the Registered Preferred Stock and senior to our common stock and to any series of preferred stock ranking junior to the Registered Preferred Stock. The Registered Preferred Stock is subordinate to our existing and future indebtedness.

Dividends: Holders of the Registered Preferred Stock are entitled to receive, only when, as, and if declared by our board of directors, out of assets legally available under applicable law for payment, non-cumulative cash dividends based on the applicable Liquidation Preference (as defined in “Specific Terms of Registered Preferred Stock”), and no more, at a rate equal to the Dividend Rate (as defined in “Specific Terms of Registered Preferred Stock”).

When, as, and if declared by our board of directors, we will pay cash dividends on the Registered Preferred Stock quarterly, in arrears, on each Dividend Payment Date (as defined in “Specific Terms of Registered Preferred Stock”). We will pay cash dividends to holders of record of shares of the Registered Preferred Stock as they appear on our stock register on the applicable record date, which shall be the 15th calendar day before that Dividend Payment Date or such other record date fixed by our board of directors that is not more than 60 nor less than 10 days prior to such Dividend Payment Date.

If any Dividend Payment Date during the Fixed Rate Period (as defined in “Specific Terms of Registered Preferred Stock”) is a day that is not a business day then the dividend with respect to that Dividend Payment Date will instead be paid on the immediately succeeding business day, without interest or other payment in respect of such delayed payment. If any Dividend Payment Date during the Floating Rate Period (as defined in “Specific Terms of Registered Preferred Stock”) is a day that is not a business day, then the Dividend Payment Date will be the immediately succeeding business day unless such day falls in the next calendar month, in which case the Dividend Payment Date will instead be the immediately preceding day that is a business day, and dividends will accrue to the Dividend Payment Date as so adjusted.

We will calculate dividends on the Registered Preferred Stock for the Fixed Rate Period on the basis of a 360-day year of twelve 30-day months. We will calculate dividends on the Registered Preferred Stock for the Floating Rate Period on the basis of the actual number of days in a Dividend Period (as defined below) and a 360-day year. Dollar amounts resulting from that calculation will be rounded to the nearest cent, with one-half cent being rounded upward. Dividends on the Registered Preferred Stock will cease to accrue after the redemption date, unless we default in the payment of the redemption price. A “Dividend Period” means the period from, and including, each Dividend Payment Date to, but excluding, the next succeeding Dividend Payment Date, except for the initial Dividend Period, which will be the period from, and including, the issue date of the shares of Series A Preferred Stock to, but excluding, the next succeeding Dividend Payment Date.

Dividends on the Registered Preferred Stock are not cumulative or mandatory. If our board of directors does not declare a dividend on the Registered Preferred Stock for or our board of directors authorizes and we declare less than a full dividend in respect of any Dividend Period, holders have no right to receive any dividend or a full dividend, as the case may be, for the Dividend Period, and we have no obligation to pay a dividend or to pay full dividends for that Dividend Period at any time, whether or not dividends on the Registered Preferred Stock or any other class or series of our preferred stock or common stock are declared for any future Dividend Period.

If we issue additional shares of the Registered Preferred Stock, dividends on those additional shares will accrue from the original issue date of those additional shares at the then-applicable Dividend Rate for such series.

The dividend rate for each Dividend Period in the Floating Rate Period will be determined by the calculation agent using three-month LIBOR (as defined below) as in effect on the second London banking day (as defined below) prior to the beginning of the Dividend Period, which date is the “dividend determination date” for the relevant Dividend Period. The calculation agent then will add three-month LIBOR as determined on the dividend determination date and the applicable spread. Once the Dividend Rate for the Registered Preferred Stock is determined, the calculation agent will deliver that information to us and our transfer agent. Absent manifest error, the calculation agent's determination of the dividend rate for a Dividend Period for the Registered Preferred Stock will be final. A “London banking day” is any day on which commercial banks are open for dealings in deposits in U.S. dollars in the London interbank market.

The term “three-month LIBOR” means the London interbank offered rate for deposits in U.S. dollars for a three-month period, as that rate is displayed on Bloomberg on page BBAM1 (or any successor or replacement page) at approximately 11:00 a.m., London time, on the relevant dividend determination date. In the event that three-month LIBOR is less than zero, three-month LIBOR shall be deemed to be zero.

If no offered rate is displayed on Bloomberg on page BBAM1 (or any successor or replacement page) on the relevant dividend determination date at approximately 11:00 a.m., London time, then the calculation agent, in consultation with us, will select four major banks in the London interbank market and will request each of their principal London offices to provide a quotation of the rate at which three-month deposits in U.S. dollars in amounts of at least $1,000,000 are offered by it to prime banks in the London interbank market, on that date and at that time. If at least two quotations are provided, three-month LIBOR will be the arithmetic average (rounded upward if necessary to the nearest .00001 of 1%) of the quotations provided. Otherwise, the calculation agent in consultation with us will select three major banks in New York City and will request each of them to provide a quotation of the rate offered by it at approximately 11:00 a.m., New York City time, on the dividend determination date for loans in U.S. dollars to leading European banks for a three month period for the applicable Dividend Period in an amount of at least $1,000,000. If three quotations are provided, three-month LIBOR will be the arithmetic average (rounded upward if necessary to the nearest .00001 of 1%) of the quotations provided. Otherwise, three-month LIBOR for the next Dividend Period will be equal to three-month LIBOR in effect for the then-current Dividend Period or, in the case of the first Dividend Period in the Floating Rate Period, the most recent rate on which three-month LIBOR could have been determined in accordance with the first sentence of this paragraph had the dividend rate been a floating rate during the Fixed Rate Period.

If the calculation agent determines on the relevant dividend determination date that the LIBOR base rate has been discontinued, or is no longer viewed as an acceptable benchmark for securities like the Registered Preferred Stock (a “LIBOR event”) then the calculation agent will use a substitute or successor base rate (“alternative rate”) that it has determined in its sole discretion is the most comparable LIBOR base rate, provided that if the calculation agent determines there is an industry-accepted substitute or successor base rate, then the calculation agent shall use such substitute or successor base rate. If the calculation agent has determined a substitute or successor base rate in accordance with the foregoing, the calculation agent in its sole discretion may determine what business day convention to use, the definition of business day, the dividend determination date to be used and any other relevant methodology for calculating such substitute or successor base rate, including any adjustment factor needed to make such substitute or successor base rate comparable to the LIBOR base rate, or any adjustment to the applicable spread thereon, in a manner that is consistent with industry-accepted practices for such substitute or successor base rate.

If the calculation agent determines in its sole discretion that there is no alternative rate selected by the central bank, reserve bank, monetary authority or any similar institution (including any committee or working group thereof) that is consistent with market practice regarding a substitute for three-month LIBOR, the calculation agent may, in its sole discretion, appoint an independent financial advisor (“IFA”) to determine an appropriate alternative rate and any adjustments, and the decision of the IFA will be binding on Merchants, the calculation agent and holders of the Registered Preferred Stock. If a LIBOR event has occurred, but for any reason an alternative rate has not been determined or the calculation agent determines, in its sole discretion, that there is no such market practice for the use of such alternative rate (and, in each case, an IFA has not determined an appropriate alternative rate and adjustments or an IFA has not been appointed), three-month LIBOR for the next Dividend Period to which the determination date relates shall be three-month LIBOR as in effect for the then-current Dividend Period; provided, that if this sentence is applicable with respect to the first Dividend Period in the Floating Rate Period, the interest rate, business day convention and manner of calculating interest applicable during the Fixed Rate Period will remain in effect during the Floating Rate Period.

Calculation Agent: We will appoint a calculation agent for the Registered Preferred Stock prior to the commencement of the Floating Rate Period. We may appoint ourselves or an affiliate as the calculation agent.

Divided Priority: While any share of Registered Preferred Stock remains outstanding, unless the full dividends for the most recently completed Dividend Period on all outstanding shares of the Registered Preferred Stock have been declared and paid in full or declared and a sum sufficient for the payment of those dividends has been set aside:

(1) no dividend will be declared and paid or set aside for payment and no distribution will be declared and made or set aside for payment on any Junior Stock (as defined below) (other than a dividend payable solely in shares of Junior Stock or any dividend in connection with the implementation of

a shareholder rights plan or the redemption or repurchase of any rights under such a plan, including with respect to any successor shareholder rights plan);

(2) no shares of Junior Stock will be repurchased, redeemed, or otherwise acquired for consideration by us, directly or indirectly (other than as a result of a reclassification of Junior Stock for or into other Junior Stock, or the exchange for or conversion into Junior Stock, through the use of the proceeds of a substantially contemporaneous sale of other shares of Junior Stock or pursuant to a contractually binding requirement to buy Junior Stock pursuant to a binding stock repurchase plan existing prior to the most recently completed Dividend Period), nor will any monies be paid to or made available for a sinking fund for the redemption of any such securities by us; and

(3) no shares of Parity Stock (as defined below) will be repurchased, redeemed or otherwise acquired for consideration by us (other than pursuant to pro rata offers to purchase all, or a pro rata portion, of the Registered Preferred Stock and such Parity Stock, through the use of the proceeds of a substantially contemporaneous sale of other shares of Parity Stock or Junior Stock, as a result of a reclassification of Parity Stock for or into other Parity Stock, or by conversion into or exchange for other Parity Stock or Junior Stock), during a Dividend Period.

The foregoing limitations do not apply to purchases or acquisitions of our Junior Stock pursuant to any employee or director incentive or benefit plan or arrangement (including any of our employment, severance, or consulting agreements) of ours or of any of our subsidiaries adopted before or after the date of this prospectus supplement.

Except as provided below, while any share of Registered Preferred Stock remains outstanding, we will not declare, pay, or set aside for payment full dividends on any Parity Stock unless we have paid in full, or set aside payment in full, in respect of all declared and unpaid dividends for all Dividend Periods for outstanding shares of preferred stock. To the extent that we declare dividends on the Registered Preferred Stock and on any Parity Stock but cannot make full payment of such declared dividends, we will allocate the dividend payments on a pro rata basis among holders of the shares of applicable series of Registered Preferred Stock and holders of any Parity Stock then outstanding. For purposes of calculating the pro rata allocation of partial dividend payments, we will allocate dividend payments based on the ratio between the then current and unpaid dividend payments due on the shares of the applicable series of Registered Preferred Stock and (1) in the case of cumulative Parity Stock the aggregate of the accrued and unpaid dividends due on any such Parity Stock and (2) in the case of non-cumulative declared but unpaid dividends due on any such Parity Stock. No interest will be payable in respect of any dividend payment on Registered Preferred Stock that may be in arrears.

"Junior Stock" means our common stock and any other class or series of our capital stock over which the Registered Preferred Stock has preference or priority in the payment of dividends or in the distribution of assets on our liquidation, dissolution or winding up, and "Parity Stock" means any other class or series of our capital stock that ranks on a par with the Registered Preferred Stock in the payment of dividends and in the distribution of assets on our liquidation, dissolution or winding up.

Subject to the conditions described above, and not otherwise, dividends (payable in cash, stock, or otherwise), as may be determined by our board of directors, may be declared and paid on our common stock and any Junior Stock from time to time out of any funds legally available for such payment, and holders of the Series A preferred stock will not be entitled to participate in those dividends.

Liquidation Rights: Upon our voluntary or involuntary liquidation, dissolution, or winding up, holders of the outstanding shares of Registered Preferred Stock are entitled to be paid out of our assets legally available for distribution to our shareholders, before any distribution of assets is made to holders of common stock or any other Junior Stock, a liquidating distribution in the amount equal to the applicable series' Liquidation Preference, plus the sum of any declared and unpaid dividends for prior Dividend Periods prior to the Dividend Period in which the liquidation distribution is made and any declared and unpaid dividends for the then current Dividend Period in which the liquidation distribution is made to the date of such liquidation distribution. After payment of the full amount of the liquidating distributions to which they are entitled, holders of Registered Preferred Stock will have no right or claim to any of our remaining assets.

Distributions will be made only to the extent that our assets are available after satisfaction of all liabilities to depositors, and creditors and subject to the rights of holders of any securities ranking senior to the Registered Preferred Stock. If our remaining assets are not sufficient to pay the full liquidating distributions to holders of all

outstanding Registered Preferred Stock and all Parity Stock, then we will distribute our assets to those holders ratably in proportion to the full liquidating distributions to which they would otherwise have received.

Our merger or consolidation with or into any other entity or by another entity with or into us or the sale, lease, exchange or other transfer of all or substantially all of our assets (for cash, securities or other consideration) will not be deemed to be a liquidation, dissolution or winding up. If we enter into any merger or consolidation transaction with or into any other entity and we are not the surviving entity in such transaction, the Registered Preferred Stock may be converted into shares of the surviving or successor corporation or the direct or indirect parent of the surviving or successor corporation having terms identical to the terms of the Registered Preferred Stock.

Because we are a holding company, our rights and the rights of our creditors and our shareholders, including holders of the Registered Preferred Stock, to participate in the distribution of assets of any of our subsidiaries upon that subsidiary's voluntary or involuntary liquidation, dissolution or winding up will be subject to the prior claims of that subsidiary's creditors, except to the extent that we are a creditor with recognized claims against that subsidiary. In addition, holders of the Registered Preferred Stock may be effectively subordinated to the claims of the U.S. Government against our banking subsidiaries in the event we enter into a receivership, insolvency, liquidation or similar proceeding.

Conversion Rights: Our Registered Preferred Stock is not convertible into, or exchangeable for, shares of any other class or series of our capital stock or other securities and is not subject to any sinking fund or other obligation to redeem or repurchase the Registered Preferred Stock.

Preemptive Rights: Holders of our Registered Preferred Stock do not have any preemptive rights.

Redemption: Our Registered Preferred Stock is not subject to any mandatory redemption, sinking fund, or other similar provisions and neither holders of the Registered Preferred Stock nor holders of any related depositary shares (in the case of our Series B Preferred Stock) have the right to require the redemption or repurchase of any Registered Preferred Stock.

However, we may redeem the Registered Preferred Stock, in whole or in part, at our option, on any Dividend Payment Date on or after the Optional Redemption Date (as defined in "Specific Terms of Registered Preferred Stock"), subject to the approval of the appropriate federal banking agency, at the Liquidation Preference, plus any declared and unpaid dividends (without regard to any undeclared dividends) to, but excluding, the date of redemption.

Additionally, we may redeem the Registered Preferred Stock or a series of our Preferred Stock, in whole but not in part, at our option, for cash, at any time within 90 days following a Regulatory Capital Treatment Event (as defined below), subject to the approval of the appropriate federal banking agency, at the Liquidation Preference, plus any declared and unpaid dividends (without regard to any undeclared dividends) to, but excluding, the date of redemption. A "Regulatory Capital Treatment Event" means a good faith determination by us that, as a result of any:

(1) amendment to, clarification of, or change in, the laws or regulations of the United States (including, for the avoidance of doubt, any agency or instrumentality of the United States, including the Federal Reserve and other federal bank regulatory agencies) or any political subdivision of or in the United States that is enacted or becomes effective after the initial issuance of the relevant series of Registered Preferred Stock;
(2) proposed change in the above laws or regulations that is announced or becomes effective after the initial issuance of the relevant series of Registered Preferred Stock; or
(3) official administrative decision or judicial decision or administrative action or other official pronouncement interpreting or applying the above laws or regulations that is announced or becomes effective after the initial issuance of the relevant series of Registered Preferred Stock,

there is more than an insubstantial risk that we will not be entitled to treat the full liquidation value of the relevant series of Registered Preferred Stock then outstanding as "Tier 1 Capital" (or its equivalent) for purposes of the capital adequacy laws or regulations of the Federal Reserve (or, as and if applicable, the capital adequacy laws or regulations of any successor appropriate federal banking agency), as then in effect and applicable, for as long as any share of relevant series of Registered Preferred Stock is outstanding.

If we elect to redeem any shares of Registered Preferred Stock, we will provide notice to holders of record of the shares of Registered Preferred Stock to be redeemed, not less than 30 days and not more than 60 days before

the date fixed for redemption thereof (provided, however, that if the shares of Registered Preferred Stock (or the depositary shares representing the shares of Series B Preferred Stock) are held in book-entry form through The Depository Trust Company, we may give this notice in any manner permitted by thereby). Any such notice given will be conclusively presumed to have been duly given, whether or not the holder receives this notice, and any defect in this notice or in the provision of this notice, to any holder of shares of Registered Preferred Stock designated for redemption will not affect the redemption of any other shares of Registered Preferred Stock. Each notice of redemption shall state:

(1) the redemption date;
(2) the redemption price;
(3) if fewer than all shares of Registered Preferred Stock are to be redeemed, the number of shares of Registered Preferred Stock to be redeemed; and
(4) the manner in which holders of Registered Preferred Stock called for redemption may obtain payment of the redemption price in respect of those shares.

If notice of redemption of any shares of Registered Preferred Stock has been given and if the funds necessary for such redemption have been deposited by us in trust with a bank for the benefit of holders of any shares of Registered Preferred Stock so called for redemption, then from and after the redemption date such shares of Registered Preferred Stock will no longer be deemed outstanding for any purpose, all dividends with respect to such shares of Registered Preferred Stock shall cease to accrue after the redemption date and all rights of holders of such shares will terminate, except the right to receive the redemption price, without interest.

In the case of any redemption of only part of the Registered Preferred Stock (or part of a series of the Registered Preferred Stock) at the time outstanding, the shares of the Registered Preferred Stock to be redeemed will be selected either pro rata or by lot or in such other manner as our board of directors determines to be fair and equitable and permitted by the rules of any stock exchange on which the Registered Preferred Stock is listed..

Voting Rights: Holders of Registered Preferred Stock do not have any voting rights, except as set forth below or as otherwise required by applicable law. To the extent that holders of Registered Preferred Stock are entitled to vote, each holder has one vote per share.

Whenever dividends payable on the Registered Preferred Stock (or a series of Registered Preferred Stock) or any other Parity Stock, and upon which voting rights equivalent to those described in this paragraph have been designated and are exercisable, have not been declared and paid in an aggregate amount equal to, as to any class or series, the equivalent of at least six or more quarterly Dividend Periods, whether or not for consecutive Dividend Periods (a “Nonpayment”), holders of Registered Preferred Stock voting as a class with holders of shares of any Parity Stock, and upon which equivalent voting rights have been designated and are exercisable (“Voting Parity Stock”), are entitled to vote for the election of two (2) additional directors of our board of directors on the terms set forth below (and to fill any vacancies in the terms of such directorships) (the “Preferred Stock Directors”). Holders of all series of Voting Parity Stock vote as a single class. In the event that holders of Registered Preferred Stock are entitled to vote as described in this paragraph, the number of members of our board of directors at the time will be increased by two (2) directors, and holders of the Registered Preferred Stock will have the right, as members of that class, as outlined above, to elect two (2) directors at a special meeting called at the request of holders of record of at least 20% of the aggregate voting power of the Registered Preferred Stock or any other series of Voting Parity Stock (unless such request is received less than 90 days before the date fixed for our next annual or special meeting of the shareholders, in which event such election shall be held at such next annual or special meeting of the shareholders), provided that the election of any Preferred Stock Directors shall not cause us to violate the corporate governance requirements of the Nasdaq Capital Market (or any other exchange on which our securities may at such time be listed) that listed companies must have a majority of independent directors, and provided further that at no time shall our board of directors include more than two (2) Preferred Stock Directors.

When dividends on the Registered Preferred Stock have been declared and paid in full for the equivalent of at least four (4) Dividend Periods following a Nonpayment, the voting rights described above will terminate, except as expressly provided by law. The voting rights described above are subject to re-vesting upon each and every subsequent Nonpayment.

Upon termination of the right of holders of the Registered Preferred Stock and Voting Parity Stock to vote for Preferred Stock Directors as described above, the term of office of all Preferred Stock Directors then in office

elected by only those holders will terminate immediately. Whenever the term of office of the Preferred Stock Directors ends and the related voting rights have expired, the number of directors automatically will be decreased to the number of directors as otherwise would prevail. Any Preferred Stock Director may be removed at any time by holders of record of a majority of the outstanding shares of the Registered Preferred Stock (together with holders of any Voting Parity Stock) when they have the voting rights described in this prospectus supplement and the accompanying prospectus.

Under regulations adopted by the Federal Reserve, if holders of any series of preferred stock are or become entitled to vote for the election of directors, such series will be deemed a class of voting securities and a company holding 25% or more of the series, or 10% or more if it otherwise exercises a “controlling influence” over us, will be subject to regulation as a bank holding company under the Bank Holding Company Act of 1956 (the “BHC Act”). In addition, at the time the series is deemed a class of voting securities, any other bank holding company will be required to obtain the prior approval of the Federal Reserve under the BHC Act to acquire or retain more than 5% of that series. Any other person (other than a bank holding company) will be required to obtain the non-objection of the Federal Reserve under the Change in Bank Control Act of 1978, as amended, to acquire or retain 10% or more of that series.

While any shares of a series of Registered Preferred Stock remain outstanding, we will not, without the affirmative vote or consent of holders of at least $66^2/3\%$ in voting power of such series of Registered Preferred Stock and any Voting Parity Stock, voting together as a class, authorize, create or issue any capital stock ranking senior to that series of Registered Preferred Stock as to dividends or the distribution of assets upon liquidation, dissolution or winding up, or reclassify any authorized capital stock into any such shares of such capital stock or issue any obligation or security convertible into or evidencing the right to purchase any such shares of capital stock. While any shares of a series Registered Preferred Stock remain outstanding, we will not, without the affirmative vote of holders of at least $66^2/3\%$ in voting power of that series Registered Preferred Stock, amend, alter or repeal any provision of the designation for such series or our Articles, including by merger, consolidation or otherwise, so as to adversely affect the powers, preferences or special rights of such series of Registered Preferred Stock.

Notwithstanding the foregoing, none of the following will be deemed to affect the powers, preferences or special rights of the Registered Preferred Stock:

(1) any increase in the amount of authorized common stock or authorized preferred stock, or any increase or decrease in the number of shares of any series of preferred stock, or the authorization, creation and issuance of other classes or series of capital stock, in each case ranking on parity with or junior to the Registered Preferred Stock as to dividends or distribution of assets upon our liquidation, dissolution or winding up;
(2) a merger or consolidation of us with or into another entity in which the shares of the Registered Preferred Stock remain outstanding; and
(3) a merger or consolidation of us with or into another entity in which the shares of the Registered Preferred Stock are converted into or exchanged for preference securities of the surviving entity or any entity, directly or indirectly, controlling such surviving entity and such new preference securities have terms identical to the terms of the Registered Preferred Stock.

The foregoing voting rights of holders of Registered Preferred Stock shall not apply if, at or prior to the time when the act with respect to which the vote would otherwise be required shall be effected, all outstanding shares of Registered Preferred Stock shall have been redeemed or called for redemption upon proper notice and we shall have set aside sufficient funds for the benefit of holders of Registered Preferred Stock to effect the redemption.

DESCRIPTION OF DEPOSITARY SHARES

The following summary of the terms and provisions of the depositary shares representing our Series B Preferred Stock does not purport to be complete and is qualified in its entirety by reference to the relevant sections of the deposit agreement and form of depositary receipt.

General: Each depositary share represents a 1/40th interest in a share of the Series B Preferred Stock and is evidenced by a depositary receipt. We have deposited the underlying shares of Series B Preferred Stock pursuant to a deposit agreement among us, Computershare, Inc. and Computershare Trust Company, N.A., acting together as depository, and holders from time to time of the depositary receipts. Subject to the terms of the deposit agreement, the depositary shares are entitled to all the powers, preferences and special rights of the Series B Preferred Stock, as

applicable, in proportion to the applicable fraction of a share of Series B Preferred Stock those depositary shares represent.

Dividends and Other Distributions: Each dividend payable on a depositary share will be in an amount equal to 1/40th of the dividend declared and payable on each share of Series B Preferred Stock.

The depository will distribute all dividends and other cash distributions received on the Series B Preferred Stock to holders of record of the depositary receipts in proportion to the number of depositary shares held by each holder. In the event of a distribution other than in cash, the depository will distribute property received by it to holders of record of the depositary receipts in proportion to the number of depositary shares held by each holder, unless the depositary determines that this distribution is not feasible, in which case the depository may, with our approval, adopt a method of distribution that it deems practicable, including the sale of the property and distribution of the net proceeds of that sale to holders of the depositary receipts.

If the calculation of a dividend or other cash distribution results in an amount that is a fraction of a cent and that fraction is equal to or greater than $0.005, the depository will round that amount up to the next highest whole cent and will request that we pay the resulting additional amount to the depository for the relevant dividend or other cash distribution. If the fractional amount is less than $0.005, the depository will disregard that fractional amount.

Record dates for the payment of dividends and other matters relating to the depositary shares will be the same as the corresponding record dates for the Series B Preferred Stock.

The amount paid as dividends or otherwise distributable by the depository with respect to the depositary shares or the underlying Series B Preferred Stock will be reduced by any amounts required to be withheld by us or the depository on account of taxes or other governmental charges. The depository may refuse to make any payment or distribution, or any transfer, exchange, or withdrawal of any depositary shares or the shares of the Series B Preferred Stock until such taxes or other governmental charges are paid.

Liquidation Preference: In the event of our liquidation, dissolution or winding up, a holder of depositary shares will receive the fraction of the liquidation preference accorded each share of underlying Series B Preferred Stock represented by the depositary shares.

Our merger or consolidation into any other entity or by any other entity with or into us or the sale, lease, exchange or other transfer of all or substantially all of our assets (for cash, securities or other consideration) will not be deemed to be a liquidation, dissolution or winding up.

Redemption of Depositary Shares: If we redeem the Series B Preferred Stock, in whole or in part, the depositary shares also will be redeemed with the proceeds received by the depository from the redemption of the Series B Preferred Stock held by the depository. The redemption price per depositary share will be 1/40th of the redemption price per share payable with respect to the Series B Preferred Stock, plus, as applicable, any declared and unpaid dividends on the shares of the Series B Preferred Stock called for redemption for the then-current Dividend Period to, but excluding, the redemption date, without regard to any undeclared dividends.

If we redeem shares of the Series B Preferred Stock held by the depository, the depository will redeem, as of the same redemption date, the number of depositary shares representing those shares of the Series B Preferred Stock so redeemed. If we redeem less than all of the outstanding depositary shares, the depositary shares to be redeemed will be selected either pro rata or by lot. In any case, the depositary will redeem depositary shares only in increments of 40 depositary shares and multiples thereof. The depository will provide notice of redemption to record holders of the depositary receipts not less than 30 and not more than 60 days prior to the date fixed for redemption of the Series B Preferred Stock and the related depositary shares.

Voting: Because each depositary share represents a 1/40th ownership interest in a share of Series B Preferred Stock, holders of depositary receipts are entitled to vote 1/40th of a vote per depositary under those limited circumstances in which holders of Series B Preferred Stock are entitled to vote.

When the depository receives notice of any meeting at which holders of the Series B Preferred Stock are entitled to vote, the depository will provide the information contained in the notice to the record holders of the depositary shares relating to the Series B Preferred Stock. Each record holder of the depositary shares on the record date, which will be the same date as the record date for the Series B Preferred Stock, may instruct the depository to vote the amount of the Series B Preferred Stock represented by the holder's depositary shares. To the extent possible, the depository will vote the maximum number of whole shares of the Series B Preferred Stock represented by

depositary shares in accordance with the instructions it receives. We will agree to take all reasonable actions that the depository determines are necessary to enable the depository to vote as instructed. If the depository does not receive specific instructions from holders of any depositary shares representing the Series B Preferred Stock, it will abstain from voting with respect to such shares (but shall appear at the meeting with respect to such shares unless directed to the contrary).

Withdrawal of Series B Preferred Stock: Upon surrender of depositary shares at the principal office of the depository, upon payment of any unpaid amount due the depository, and subject to the terms of the deposit agreement, the owner of the depositary shares evidenced thereby is entitled to delivery of the number of shares of Series B Preferred Stock and all money and other property, if any, represented by such depositary shares. Only whole shares of Series B Preferred Stock may be withdrawn. If the depositary shares surrendered by the holder in connection with withdrawal exceed the number of depositary shares that represent the number of whole shares of Series B Preferred Stock to be withdrawn, the depository will deliver to that holder at the same time a new depositary receipt evidencing the excess number of depositary shares. Holders of Series B Preferred Stock thus withdrawn will not thereafter be entitled to deposit such shares under the deposit agreement or to receive depositary shares therefor.

Amendment and Termination of the Deposit Agreement: The form of depositary receipt evidencing the depositary shares and any provision of the deposit agreement may at any time be amended by agreement between us and the depository. However, any amendment that materially and adversely alters any existing right of the holders of depositary receipts will not be effective unless the amendment has been approved by the holders of depositary receipts representing at least a majority of the depositary shares then outstanding. Additionally, in the case of amendments relating to or affecting rights to receive dividends or distributions or voting or redemption rights, approval is also required by the holders of depositary receipts representing not less than a specified percentage or all of the depositary shares of such series or class then outstanding. Every holder of an outstanding depositary receipt at the time any such amendment becomes effective will be deemed, by continuing to hold the depositary receipt, to consent and agree to the amendment and to be bound by the deposit agreement, as amended.

We may direct the depository to terminate the deposit agreement at any time by mailing notice of termination to the record holders of the depositary receipts then outstanding at least thirty (30) days prior to the date fixed for termination. Upon termination, the depository will deliver to each holder of depositary receipts, upon surrender of those receipts, such number of whole shares of the series of preferred stock represented by the depositary shares together with cash in lieu of any fractional shares, to the extent we have deposited cash for payment in lieu of fractional shares with the depository. In addition, the deposit agreement will automatically terminate if:

(1) all of the outstanding shares of the Series B Preferred Stock have been withdrawn, redeemed, converted or exchanged; or
(2) there has been a final distribution in respect of the Series B Preferred Stock in connection with our liquidation, dissolution or winding up and the distribution has been made to holders of Series B Preferred Stock.

Charges of Preferred Stock Depositary; Taxes and Other Governmental Charges: We will pay all transfer and other taxes and governmental charges arising solely from the existence of the depositary arrangements. We also will pay charges of the preferred stock depositary in connection with the initial deposit of preferred stock and any redemption of preferred stock. Holders of depositary receipts will pay other transfer and other taxes and governmental charges and such other charges, including a fee for the withdrawal of shares of preferred stock upon surrender of depositary receipts, as are expressly provided in the deposit agreement to be for their accounts.

Resignation and Removal of the Depository: The depository may resign at any time by delivering to us notice of its election to resign. We may also remove or replace a depository at any time. Any resignation or removal will take effect upon the earlier of the appointment of a successor depository and thirty (30) days following such notice. We will appoint a successor depository within 30 days after delivery of the notice of resignation or removal. The successor must be a bank or trust company with its principal office in the United States and have a combined capital and surplus of at least $50 million.

Miscellaneous: The depository will forward to holders of depositary shares any reports and communications from us with respect to the underlying Series B Preferred Stock. Neither we nor the depository will be liable if any law or any circumstances beyond their control prevent or delay them from performing their obligations under the deposit agreement. The obligations of ours and a depository under the deposit agreement will be limited to performing their duties without bad faith, gross negligence or willful misconduct. Neither we nor a depository must prosecute or defend any legal proceeding with respect to any depositary shares or the underlying Series B Preferred Stock unless they are furnished with satisfactory indemnity. Both we and the depository may rely on the written advice of counsel or accountants, or information provided by holders of depositary shares or other persons they believe in good faith to be competent, and on documents they believe in good faith to be genuine and signed by a proper party. In the event a depository receives conflicting claims, requests or instructions from us and any holders of depositary shares, the depositary will be entitled to act on the claims, requests or instructions received from us.

SPECIFIC TERMS OF REGISTERED PREFERRED STOCK

Series A Preferred Stock

Liquidation Preference: $25 per share.

Dividend Rate: 7.00% per annum for each quarterly Dividend Period occurring from, and including, the original issue date of Series A Preferred Stock to, but excluding, April 1, 2024 (the “Fixed Rate Period”), and thereafter, three-month LIBOR plus a spread of 460.5 basis points per annum, for each quarterly Dividend Period beginning April 1, 2024 (the “Floating Rate Period”).

Dividend Payment Dates: January 1, April 1, July 1, and October 1 of each year.

Optional Redemption Date: April 1, 2024 or any Dividend Payment Date thereafter.

Stock Exchange Listing: Our Series A Preferred Stock is listed on the Nasdaq Capital Market under the trading symbol “MBINP.”

Series B Preferred Stock

Liquidation Preference: $1,000 per share (equivalent to $25 per depositary share).

Dividend Rate: 6.00% per annum for each quarterly Dividend Period occurring from, and including, the original issue date of Series A Preferred Stock to, but excluding, October 1, 2024 (the “Fixed Rate Period”), and thereafter, three-month LIBOR plus a spread of 456.9 basis points per annum, for each quarterly Dividend Period beginning October 1, 2024 (the “Floating Rate Period”).

Dividend Payment Dates: January 1, April 1, July 1, and October 1 of each year

Optional Redemption Date: October 1, 2024 or any Dividend Payment Date thereafter.

Stock Exchange Listing: Our Series B Preferred Stock is listed on the Nasdaq Capital Market under the trading symbol “MBINO.”

EXHBIT 10.2

Description of Bonus Plan for Scott A. Evans
Director of Merchants Bancorp, President of Lynn/Richmond Market and Chief Operating Officer of Merchants Bank of Indiana, and Chairman of Farmers-Merchants Bank of Illinois

Scott A. Evans is President of Lynn/Richmond Market and Chief Operating Officer of Merchants Bank of Indiana and is compensated for such employment. Mr. Evans also serves as a Director of Merchants Bancorp and as Chairman of Farmers-Merchants Bank of Illinois, however, Mr. Evans does not receive any additional compensation for those positions.

In addition to his base salary, Mr. Evans is eligible to receive a cash bonus award and an award of restricted stock units under Merchants Bancorp's 2017 Equity Incentive Plan (the "Plan"). Each award is based on Merchants Bancorp's achievement certain performance measures established by the Compensation Committee of Merchants Bancorp's Board of Directors; provided, however, the performance measures established must be permissible under the Plan (the "Performance Measures").

Mr. Evan's target cash bonus award is equal to 50% of base salary and target restricted stock units award is equal to 50% of base salary.

For each fiscal year, the Compensation Committee will establish the weighting and payout ranges of each Performance Measure. Thus, the exact payout of Mr. Evan awards will vary depending on Merchants Bancorp's actual results with respect to the Performance Measures, as determined by the Compensation Committee following the close of Merchants Bancorp's fiscal year. However, if Merchants Bancorp fails to meet the threshold for all Performance Measures Mr. Evans will not receive a payout. In 2020, the Compensation Committee established equal weighting and payout ranges (75% (threshold) to 125% (maximum)) for each Performance Measure.

EXHIBIT 10.6

CHANGE IN CONTROL AGREEMENT

This Change in Control Agreement ("Agreement") is effective as of [MONTH DAY], 2020 (the "Effective Date") between Merchants Bancorp, an Indiana corporation with its principal office located at 410 Monon Boulevard, Carmel, Indiana 46032 ("Merchants") and [NAME] ("Executive").

Recitals

A. Executive is currently employed by Merchants or one if its subsidiaries and is an executive officer of Merchants.

B. Merchants recognizes it is possible that from time to time transactions that may result in a Change in Control (as defined below) may be considered by Merchants and that such considerations may cause distractions, loss of Executive's services, and/or otherwise affect Merchants' ability to engage in or consummate such transactions.

C. The Board of Directors of Merchants (the "Board") believes it is in the best interest of Merchants and its shareholders for Merchants to take steps, including enter into this Agreement, to help ensure that it will be able to call upon Executive's candid assessment and advice concerning whether any particular transaction is in the best interests of Merchants and its shareholders, free of the influences caused by the uncertainties and risks of Executive's own personal employment situation, provide Executive with an incentive to continue Executive's employment with Merchants, and motivate Executive to maximize the value of Merchants for the benefit of its shareholders, notwithstanding the possibility of a Change in Control.

Agreement

In consideration of the foregoing and the promises set forth in this Agreement, Merchants and Executive agree as follows:

1. Termination of this Agreement. This Agreement may be terminated by Executive or Merchants at any time upon 120 days' prior notice; provided, however, if any Change in Control Announcement occurs during such 120-day period, such notice of termination will be deemed ineffective and this Agreement will remain in effect.
2. Termination of Employment during Change of Control Window. Notwithstanding anything in this Agreement, Executive's employment remains "at will," and Merchants (or the relevant subsidiary employing Executive, as applicable) may terminate Executive's employment at any time for any or no reason, subject to applicable law. However, if Termination occurs, other than for Cause, during the period between the 120 days prior to a Change in Control Announcement and 18 months after a Change in Control becomes effective (the "Change in Control Window"), subject to the terms of this Agreement, Executive is entitled to a cash payment equal to the sum of the following (collectively, the "Severance Payment"):
   (a) 2 times Executive's base pay in effect immediately prior to Termination; and
   (b) 2 times Executive's target-short term cash incentive most recently approved by the Board.

   The Severance Payment is in addition to and not in lieu of payment for all pay and benefits to which Executive has become vested or entitled prior to Termination (e.g., earned but unpaid salary, commissions, incentives, owed reimbursement for expenses, and accrued but unused paid time off). Additionally, any award under Merchants' 2017 Equity Incentive Plan, or any similar or replacement plan providing equity compensation (including stock units, stock options, and/or stock appreciation rights), shall be governed thereby, including any vesting in connection with a change in control event (as such term may be defined in such plan), and not affected by this Agreement
3. Release. Merchants' obligation to make the Severance Payment is conditioned upon and Merchants is not required to make the Severance Payment unless within 60 days of Termination (a) Executive signs a written release of Merchants and all of its then-current and former directors, trustees, officers, employees, agents, members, and subsidiaries from any and all claims, in such form as is determined by Merchants, and (b) all periods for revocation of such release required by law or otherwise provided therein (if any) have expired.
4. Payment Timing. Subject to Section 6(b) below, the Severance Payment shall be made in a lump sum cash payment 60 days after the later of (a) Termination or (b) if Termination occurred prior to the Change in Control becoming effective, the date of the Change in Control. If Merchants concludes that some or all of a Severance Payment must be delayed pursuant to Section 6(b), Merchants shall nonetheless certify to Executive in writing, within the 60 day period for payment described in the first sentence of this Section 4, the amount (and calculations in support) of the Severance Payment due and the date it will be paid.

5. Reduction of Amounts Payable.

(a) If the Severance Payment, either alone or together with any other payments or benefits received or to be received by Executive in connection with a Change in Control (collectively, the "Aggregate Payments"), would cause Merchants to forfeit, pursuant to Section 280G(a) of the Code (as amended, or any successor thereto, "280G"), its deduction for any or all of the amounts payable hereunder and subject Executive to the excise tax imposed by Section 4999 of the Code (as amended, or any successor thereto), the following provisions apply:

(i) If the net amount that would be retained by Executive after all taxes on the Aggregate Payments are paid would be greater than the net amount that would be retained by Executive after all taxes are paid if the Aggregate Payments were limited to the largest amount that would result in no portion of the Aggregate Payments being subject to such excise tax, Executive shall be entitled to receive the Aggregate Payments.

(ii) If, however, the net amount that would be retained by Executive after all taxes were paid would be greater if the Aggregate Payments were limited to the largest amount that would result in no portion of the Aggregate Payments being subject to such excise tax (generally, pursuant to 280G, 2.99 times Executive's "base amount" as defined in that Code section and regulations thereunder), the Aggregate Payments to which Executive is entitled shall be reduced to such largest amount.

(b) Merchants shall engage the accounting firm used by Merchants for general audit purposes as of the day prior to the effective date of the Change in Control to perform any determinations and calculations necessary in connection with this Section 5. However, if such accounting firm is serving as accountant or auditor for the Person(s) effecting the Change in Control, Merchants shall engage a different Public Company Accounting Oversight Board registered accounting firm to make such determinations and calculations. Merchants will bear all expenses with respect to any determinations and calculations under this Section 5.

(c) In its engagement with such accounting firm, Merchants shall require that the accounting firm provide its determinations and calculations, together with detailed supporting documentation, to Executive and Merchants within 15 days. Additionally, in its engagement with such accounting firm, Merchants shall require that if the accounting firm determines that no excise tax is payable, the accounting firm will furnish Executive and Merchants with an opinion reasonably acceptable to Executive that no excise tax will be imposed. Any good faith determinations of the accounting firm made hereunder shall be final, binding, and conclusive upon Executive and Merchants, except as set forth below.

(d) If, notwithstanding any reduction described in this Section 5, the U.S. Internal Revenue Service (the "IRS") determines that Executive is liable for excise tax as a result of the receipt of Aggregate Payments, then Executive shall be obligated to pay back to Merchants, within 30 days after a final IRS determination, or, in the event Executive challenges the final IRS determination, within 30 days after a final judicial determination, a portion of the Aggregate Payments equal to the Repayment Amount. The "Repayment Amount" is the smallest amount, if any, required to be paid to Merchants so that Executive's net after-tax proceeds with respect to any payment of benefits (after taking into account the payment of the excise tax and all other applicable taxes imposed on such payment) are maximized. The Repayment Amount with respect to the payment of benefits shall be zero dollars ($0) if a Repayment Amount of more than zero dollars ($0) would not result in Executive's net after-tax proceeds with respect to the payment of such benefits being maximized. If the excise tax is not eliminated pursuant to this Section 5, Executive shall pay the excise tax.

(e) Notwithstanding any other provision of this Section 5, if (i) there is a reduction in the payment of benefits as described in this Section 5, (ii) the IRS later determines that Executive is liable for the excise tax, the payment of which would result in the maximization of Executive's net after-tax proceeds (calculated as if Executive's Aggregate Payments had not previously been reduced), and (iii) Executive pays the excise tax, then Merchants shall pay to Executive the Aggregate Payments that were reduced pursuant to Section 5 contemporaneously or as soon as administratively possible after Executive pays the excise tax so that Executive's net after-tax proceeds with respect to the Aggregate Payments is maximized.

(f) Tax Withholding. Notwithstanding any other provision of this Agreement that may be read to the contrary, Merchants shall have the right (without notice to Executive) to withhold from the Aggregate Payments, a sum which Merchants determines is sufficient to satisfy all federal, state, and local withholding tax requirements that may apply.

6. Section 409A of the Code.

(a) This Agreement is intended to comply with Section 409A of the Code (as amended, "409A") or an exemption thereunder and shall be construed and administered in accordance with 409A. Notwithstanding any other provision of this Agreement, payments provided under this Agreement may be made only upon an event and in a manner that complies with 409A or an applicable exemption therefrom. Any payments under this Agreement that may be excluded from 409A either as separation pay due to involuntary separation from service or as a short-term deferral shall be excluded from 409A to the maximum extent possible. For purposes of 409A, each payment provided under this Agreement shall be treated as a separate payment. Any payments made under this Agreement upon Termination shall only be made upon a "separation from service" in accordance with 409A. Notwithstanding the foregoing, Merchants makes no representation that payments and benefits provided under this Agreement comply with 409A and in no event shall Merchants be liable for all or any portion of any taxes, penalties, interest, or other expenses that may be incurred by Executive on account of non-compliance with 409A.

(b) Notwithstanding any other provision of this Agreement, if any payment or benefit provided to Executive in connection with Termination is determined to constitute "nonqualified deferred compensation" within the meaning of 409A, and Executive is determined to be a "specified employee" as defined in Section 409A(a)(2)(b)(i) of the Code, then such payment or benefit shall not be paid until the first payroll date to occur following the six-month anniversary of Termination or, if earlier, Executive's death (the "Specified Employee Payment Date"). The aggregate of any payments that would otherwise have been paid before the Specified Employee Payment Date shall be paid to Executive in a lump sum on the Specified Employee Payment Date and thereafter, any remaining payments shall be paid without delay in accordance with their original schedule. Notwithstanding any other provision of this Agreement, if any payment or benefit is conditioned on Executive's execution of a release, the first payment shall include all amounts that would otherwise have been paid to Executive during the period beginning on the date of Termination and ending on the date of payment if no delay had been imposed.

(c) To the extent required by 409A, each reimbursement or in-kind benefit provided under this Agreement shall be provided in accordance with the following: (i) the amount of the expenses eligible for reimbursement, or in-kind benefits provided, during each calendar year cannot affect the expenses eligible for reimbursement, or in-kind benefits to be provided, in any other calendar year; and (ii) any right to reimbursements or in-kind benefits under this Agreement shall not be subject to liquidation or exchange for another benefit.

7. Health Plan Access. To the extent permitted by law and Merchants' then in effect medical plans, Executive is entitled to continue participating in Merchants' medical plans for active employees with the cost for such access and coverage paid by Executive on an after-tax basis at the rate payable by any former employee under the Consolidated Omnibus Budget Reconciliation Act of 1985 ("COBRA," as amended) for the lesser of (a) 18 months following Termination for which the Severance Payment is due, (b) the date Executive becomes eligible to receive substantially similar coverage from another employer, or (c) the date Executive is no longer eligible to receive COBRA coverage

8. Compliance with Applicable Law. The benefits paid and provided under this Agreement (including the Severance Payment) are subject to and conditioned upon compliance with applicable requirements of laws and regulations, whether currently in effect or subsequently enacted, including without limitation, 12 U.S.C. Section 1828(k) and the regulations promulgated thereunder by the Federal Deposit Insurance Corporation (e.g., 12 C.F.R. Part 359). Consistent with the foregoing, Merchants may defer, cancel, or recoup any payment or refuse to provide any benefit under this Agreement (including not making any Severance Payment) in the event Merchants determines in good faith, acting in its sole discretion, that making such payment or providing such benefit violates any applicable law or regulation. Further, benefits paid and provided under this Agreement may be subject to any clawback policy generally applicable to the executives of Merchants as may be required by applicable law or as may be established by Merchants prior to Termination in its sole discretion. To the extent Merchants determines it is necessary to comply with applicable law or any guidance, rules, or regulations of the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Company, or any other governmental regulatory authority (including for the purposes of this Section 8, any government-sponsored agency) having jurisdiction over Merchants or any of its subsidiaries, Executive and Merchants each agree to amend the provisions of this Agreement and to cooperate in good faith with respect thereto.

9. Costs of Dispute. Merchants agrees to pay or reimburse all reasonable legal fees, costs, and expenses arising out of or in any way related to or incurred by Executive in connection with enforcing any right or benefit provided in this Agreement, or in interpreting this Agreement or calculating the amounts required to be paid to Executive under this Agreement. Additionally, if Executive contests or disputes any Termination purportedly for Cause

and the arbiter(s) of such contest or dispute determines such purported Cause did not exist, Merchants agrees to reimburse all reasonable legal fees, costs, and expenses incurred in such contest or dispute.

10. Mitigation. Executive is not required to mitigate the amount of any payment provided for in this Agreement, whether by seeking other employment or otherwise, nor shall the amount of any payment provided for by this Agreement be reduced by any compensation earned or received by Executive as a result of employment by another employer following Termination.
11. Covenants. Notwithstanding the terms of any other agreement by and between Merchants or any of its subsidiaries and Executive, even if it provides for negation of covenants from Executive to Merchants in the event of a Change in Control, in exchange for this Agreement, Executive agrees to adhere to the following covenants:
    (a) Non-Compete. For a period of 12 months following receipt of the Severance Payment, Executive will not directly or indirectly, whether individually or as a shareholder or other owner, partner, member, director, officer, employee, independent contractor, creditor, or agent of any Person (other than Merchants or its subsidiaries), enter into, engage in, or promote or assist (financially or otherwise), directly or indirectly, any business which provides any commercial banking, mortgage lending, or any similar lending or banking services provided by Merchants or any of its subsidiaries on the date of Termination anywhere in, or for any Person whose principal office is located in, any county in which Merchants or any of its subsidiaries maintains an office on the date of Termination. Notwithstanding the foregoing, ownership, for personal investment purposes only, of 1% or less of the outstanding capital stock (or similar form of equity for any non-corporation) of a company shall not constitute a breach of this Section 11(a).

    (b) Non-Solicitation of Customers or Employees. For a period of 12 months following termination of Executive's employment with Merchants (or the relevant subsidiary of Merchants, as applicable), including Termination or any voluntary termination, Executive will not, directly or indirectly, either for Executive or for any other Person, (i) solicit, induce, or attempt to induce any client, customer, or other business relation (whether (A) current, (B) former, within the 6 months after such relationship has been terminated, or (C) prospective, provided that there are demonstrable efforts or plans to establish such relationship known to Executive) of Merchants or any of its subsidiaries to cease doing business or to reduce the amount of business they have customarily done or contemplate doing with Merchants or its subsidiaries, whether or not the relationship therewith was originally established, in whole or in part, through Executive's efforts, or in any way interfere with such relationship (provided, however, the restrictions of this Section 11(b)(i) only apply to commercial banking, mortgage lending, or any similar lending or banking services provided by Merchants or any of its subsidiaries on the date of Termination or voluntary termination, as applicable); or (ii) approach or solicit any person who was employed at Merchants or any of its subsidiaries as of the date of Termination and with whom Executive had material contact during Executive's employment with Merchants or its subsidiary, with a view to hiring such employee or persuading such employee to leave the employment of Merchants.

    (c) Cooperation with Litigation. After Termination Executive will cooperate with Merchants, by being reasonably available to testify on behalf of Merchants or any subsidiary in any action, suit, or proceeding, whether civil, criminal, administrative, or investigative, and to assist Merchants in any such action, suit, or proceeding by providing information to and meeting and consulting with Merchants or any of their counsel or representatives upon reasonable request, provided that such cooperation and assistance does not materially interfere with Executive's then current professional activities and Merchants agrees to reimburse Executive for all reasonable out-of-pocket expenses incurred by Executive in connection with providing such cooperation and assistance.

    (d) Confidential Information. After Termination Executive will not, directly or indirectly, without the express written consent of Merchants, disclose, divulge, discuss, copy, or otherwise use or suffer to be used in any manner, in competition with or contrary to the interests of Merchants, customer lists, proprietary organizational methods, products, business plans or strategies, or other trade secrets of Merchants, it being acknowledged by Executive that all such information regarding the business of Merchants compiled or obtained by, or furnished to, Executive while Executive was employed by Merchants is confidential information and Merchants' exclusive property. Confidential information shall not include any information which (i) becomes publicly known through no fault or act of Executive; (ii) is lawfully received by Executive from a third party after Termination without a similar restriction regarding confidentiality and use and without a breach of this Agreement; or (iii) is independently developed by Executive other than in connection with Executive's employment by Merchants or any of its subsidiaries.

Under the Defend Trade Secrets Act of 2016, Executive shall not be held criminally or civilly liable under any Federal or State trade secret law for the disclosure of a trade secret that is made in confidence to a Federal, State, or local government official, either directly or indirectly, or to an attorney, and solely for the purpose of reporting or investigating a suspected violation of law, or made in a complaint or other document filed in a lawsuit or other proceedings, if such filing is made under seal. Further, if Executive files a lawsuit for retaliation by Merchants or the subsidiary employing Executive for reporting a suspected violation of law, Executive may disclose trade secrets to the attorney and use the trade secret information in the court proceeding if Executive (A) files any document containing the trade secret under seal; and (B) does not disclose the trade secret, except pursuant to court order. Notwithstanding anything herein to the contrary and for the avoidance of doubt, nothing herein shall prevent Merchants from disclosing the existence and/or terms and conditions of this Agreement, including without limitation, to the extent required by applicable law (including, without limitation, under applicable securities laws) or by judicial or administrative process.

(e) Removal and Resignation as Officer and Director. Unless otherwise agreed in writing by Merchants, upon Termination Executive will be deemed to have resigned and been removed from any position (i) as a member of the Board, (ii) as a member of the board of directors (or similar governing body) of any subsidiary, (iii) as an officer of Merchants or any subsidiary, (d) as a fiduciary of any employee benefit plan of Merchants or any subsidiary, and (iv) at any third party for which Executive serves at the request or on behalf of Merchants or any subsidiary (whether as a director, officer, or otherwise), including at any non-profit organization and industry or trade association, and shall submit and/or execute any documentation Merchants deems necessary to effectuate such resignation and removal.

12. Remedies. In the event of a breach or a threatened breach by Executive of any provision of Section 11, Merchants is entitled to an injunction restraining Executive from the commission of such breach, and to recover its attorneys' fees, costs and expenses related to the breach or threatened breach. Nothing herein contained shall be construed as prohibiting Merchants from pursuing any other remedies available to it for such breach or threatened breach, including the recovery of money damages. These covenants are each to be construed as independent of any other provisions in this Agreement, and the existence of any claim or cause of action by Executive against Merchants, whether predicated on this Agreement or otherwise, does not constitute a defense to the enforcement by Merchants of such covenants.
13. Reasonableness of Restrictions. Executive has carefully considered the nature and extent of the restrictions of Section 11 and the rights and remedies conferred upon Merchants under this Agreement, and agrees that the same are reasonable in time and territory, are designed to prevent disruption of relationships which are valuable to Merchants and its subsidiaries, do not stifle the inherent skill and experience of Executive, would not operate as a bar to Executive's sole means of support, are fully required to protect the legitimate interests of Merchants and its subsidiaries, and do not confer a benefit upon Merchants disproportionate to the detriment to Executive.
14. Headings; Severable Provisions. All captions and section headings used in this Agreement are for convenient reference only and do not form a part of this Agreement. The provisions of this Agreement are severable, and, if any one or more provisions are determined to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions of this Agreement and any partially unenforceable provision of this Agreement, to the extent enforceable in any jurisdiction, remain binding and enforceable. If any provision of this Agreement, including any provision of Section 11, is invalid in part or in whole, it will be deemed to have been amended, whether as to time, area covered or otherwise, as and to the extent required for its validity under applicable law and, as so amended, will be enforceable.
15. Notices. Any notices, requests, demands, and other communications provided for by this Agreement must be in writing and sent by registered or certified mail or overnight carrier (a) in the case of Executive, to Executive's last address on file with Merchants' human resources department and (b) in the case of Merchants, to the Chairman of the Board at its principal office.
16. Governing Law. This Agreement is governed by and the terms are to be construed in accordance with the laws of the State of Indiana, without reference to the choice of law principles or rules thereof.
17. Arbitration. Any dispute or controversy arising out of, under, in connection with, or relating to this Agreement or any amendment hereof shall be submitted to binding arbitration before 1 arbitrator in Carmel, Indiana, in accordance with the Commercial Arbitration Rules of the American Arbitration Association for expedited arbitration, and any judgment upon the award rendered by the arbitrator may be entered in any court having jurisdiction thereof.
18. Amendment. This Agreement may be amended only by mutual written agreement of Executive and Merchants.

19. Successors and Assigns. This Agreement is binding upon and inures to the benefit of Merchants and its successors and assigns, including any successor to Merchants, direct or indirect, resulting from purchase, merger, consolidation, or otherwise. This Agreement is also binding upon and inures to the benefit of Executive and Executive's personal or legal representatives, successors, heirs, and assigns. No interest of Executive, or any right to receive any payment or benefit hereunder, will be subject in any manner to sale, transfer, assignment, pledge, attachment, garnishment, or other alienation or encumbrance of any kind, nor may such interest or right to receive a payment, be taken, voluntarily or involuntarily, for the satisfaction of the obligation or debts of, or other claims against, Executive, including claims for alimony, support, separate maintenance, and claims in bankruptcy proceedings, without the express written consent of Merchants. All rights under this Agreement of Executive will always be entirely unfunded, and no provision will at any time be made with respect to segregating any assets of Merchants or any of its subsidiaries for payment of any amounts due hereunder. Executive will have only the rights of general unsecured creditor of Merchants.
20. Survival. Notwithstanding termination of this Agreement under Section 1, (a) if a Change in Control Announcement occurred prior to the notice of termination of this Agreement, Merchants will remain obligated to make a Severance Payment in accordance with this Agreement, including Sections 3, 4, 5, and 6, if Termination, other than for Cause, occurs within the Change in Control Window; (b) Executive's obligations under Section 11, if Executive receives a Severance Payment, will survive; and (c) Sections 9, 10, 12, 13, 17, and 19 will survive.
21. Definitions. For the purposes of this Agreement, the following terms have the meanings specified below:
    (a) A "Change in Control" shall be deemed to have occurred if:
        (i) any Person (as defined below) is or becomes the Beneficial Owner (as defined below) of securities of Merchants representing 25% or more of the combined voting power of Merchants' then outstanding securities (unless (A) such Person is Michael F. Petrie or Randall D. Rogers, individually or collectively with their respective spouse and children, (B) such Person is an employee benefit plan (or related trust) sponsored or maintained by Merchants or any subsidiary, or (C) the event causing the 25% threshold to be crossed is an acquisition of securities directly from Merchants);
        (ii) during any period of 12 consecutive months, individuals who at the beginning of such period constitute the Board and any new director whose election by the Board or nomination for election by Merchants' shareholders was approved by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority thereof;
        (iii) the shareholders of Merchants approve a merger or consolidation with any other entity (other than a merger or consolidation which would result in the voting securities of Merchants outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the entity surviving such merger or consolidation), in combination with voting securities of Merchants or such surviving entity held by a trustee or other fiduciary pursuant to any employee benefit plan of Merchants or such surviving entity or of any subsidiary of Merchants or such surviving entity, at least 75% of the combined voting power of the securities of Merchants or such surviving entity outstanding immediately after such merger or consolidation);
        (iv) the shareholders of Merchants approve a plan of complete liquidation or dissolution of Merchants or an agreement for the sale or disposition by Merchants of all or substantially all of Merchants' assets; or
        (v) any event that would be described in Sections 20(a)(i), (ii), (iii), or (iv) if "Merchants Bank of Indiana (and any successor thereto)" or any event that would be described in Sections 20(a)(i), (iii), or (iv) if "Merchants Capital Corp. (and any successor thereto)" were substituted for "Merchants" therein.

    For purposes of the definition of Change in Control, "Person" means the same as provided for such term in Section 3(a)(9) of the Securities Exchange Act of 1934 (as amended), as supplemented by Section 13(d)(3) of such Act; provided, however, that Person shall not include (i) Merchants, any subsidiary or any other Person controlled by Merchants, (ii) any trustee or other fiduciary holding securities under any employee benefit plan of Merchants or of any subsidiary, or (iii) a corporation owned, directly or indirectly, by the shareholders of Merchants in substantially the same proportions as their ownership of securities of Merchants.

For purposes of the definition of Change in Control, a Person shall be deemed the "Beneficial Owner" of any securities which such Person, directly or indirectly, has the right to vote or dispose of or has "beneficial ownership" (within the meaning of Rule 13d-3 under the Securities Exchange Act of 1934, as amended) of, including pursuant to any agreement, arrangement or understanding (whether or not in writing); provided, however, that: (i) a Person shall not be deemed the Beneficial Owner of any security as a result of an agreement, arrangement, or understanding to vote such security (x) arising solely from a revocable proxy or consent given in response to a public proxy or consent solicitation made pursuant to, and in accordance with the Securities Exchange Act of 1934, as amended, and the applicable rules and regulations thereunder or (y) made in connection with, or to otherwise participate in, a proxy or consent solicitation made, or to be made, pursuant to, and in accordance with, the applicable provisions of the Securities Exchange Act of 1934, as amended, and the applicable rules and regulations thereunder; in either case described in clause (x) or clause (y) above, whether or not such agreement, arrangement or understanding is also then reportable by such Person on Schedule 13D under the Securities Exchange Act of 1934, as amended (or any comparable or successor report); and (ii) a Person engaged in business as an underwriter of securities shall not be deemed to be the Beneficial Owner of any securities acquired through such Person's participation in good faith in a firm commitment underwriting until the expiration of forty days after the date of such acquisition.

(b) "Change in Control Announcement" shall be deemed to have occurred if (i) Merchants enters into an agreement, the consummation of which would (or, if simultaneously closed, does) result in the occurrence of a Change in Control, (ii) any Person (including Merchants) publicly announces an intention to take or to consider taking actions which upon consummation would constitute a Change in Control, including in any press release or filing with the Securities and Exchange Commission, the Federal Deposit Insurance Corporation, or the Board of Governors of the Federal Reserve System, or (iii) the Board adopts a resolution to the effect that a potential Change in Control for purposes of this Agreement has occurred.

(c) "Cause" for Termination exists if:

(i) Executive willfully and materially fails to perform the duties of Executive's employment (except in the case of Termination for Good Reason or on account of Executive's physical or mental inability to perform such duties) and such failure is not corrected within 5 days after receiving notice from Merchants specifying such failure in detail;

(ii) Executive willfully and materially violates Merchants' Code of Conduct or written harassment policies;

(iii) a federal or state regulatory agency having jurisdiction over Merchants, Merchants Bank of Indiana, or Merchants Capital Corp. requires or directs that Executive's employment be terminated;

(iv) Executive is arrested or indicted for a felony or a lesser criminal offense involving dishonesty, breach of trust, or moral turpitude; or

(v) in the good faith determination of the Board, Executive engaged in gross misconduct constituting a violation of law or breach of fiduciary duty which misconduct is materially and demonstrably injurious to Merchants.

For purposes of the definition of Cause, no act or failure to act shall be considered "willful," if Executive acted or failed to act either in good faith or with a reasonable belief that Executive's act or failure to act was not opposed to Merchants best interests.

(d) "Code" means Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder.

(e) "Good Reason" means a resignation at Executive's initiative (but not for Cause, or due to death or disability) and after the occurrence of any of the following triggering events, provided (x) such triggering event(s) occurred during the Change in Control Window, (y) Executive first notified Merchants in writing that Executive considered Good Reason to have occurred, including reasonable details of the triggering event(s), and gave Merchants at least 30 days to reverse or rectify the triggering event(s), and (z) such resignation occurred within 90 days after the triggering event(s) (if more than one triggering event occurred, the latest triggering event):

(i) without Executive's written consent, Executive's responsibilities or authority are materially diminished from those in effect immediately prior to the Change in Control Window, including a requirement that Executive report to a lower level officer than previously required (or, if not previously reporting to any officer, to an officer or to a non-public company board, rather than directly to the board of a publicly-traded company) (e.g., Executive no longer serves as president, chief financial officer, general counsel, chief operating officer, etc., as applicable);

(ii) without Executive's written consent, Executive is removed or not reelected to any office or board position at either Merchants or any subsidiary which Executive held immediately prior to the Change in Control Window, without simultaneous election to a board position at a similar level in a post-Change in Control affiliated group;

(iii) a reduction by Merchants in Executive's base salary as in effect immediately prior to the Change in Control Window, other than via a base salary reduction for Merchants' personnel generally of not more than 10%;

(iv) Executive is requested to work from an office anywhere other than within 50 miles of Merchants' office from which Executive works as of the beginning of a Change in Control Window, except for required travel on Merchants' business to an extent substantially consistent with prior business travel obligations or such obligations as are incident to a promotion.

(f) "Termination" means (i) Merchants (or any subsidiary of Merchants employing Executive) notified Executive, other than upon Executive's implicit or explicit request, that Executive's employment has been terminated and/or that Executive effectively will not perform any further services for Merchants or any of its subsidiaries, or (ii) Executive resigned for Good Reason. For the purposes of determining the date of Termination, for subsection (i) the date of Termination will be the date Merchants provided notice and for subsection (ii) the date of Termination will be the date of the triggering event (and if more than one triggering event has occurred, the date of the latest triggering event).

[Remainder of Page Left Blank Intentionally. Signatures on Following Page.]

IN WITNESS WHEREOF, Merchants and Executive have entered into this Agreement to become effective as of the Effective Date.

MERCHANTS BANCORP

By:

Name:

Title:

EXECUTIVE

[Name]

[Signature Page to Change in Control Agreement]

List of Subsidiaries of Merchants Bancorp

Subsidiary	Organized Under the Laws of:
Merchants Bank of Indiana (also d/b/a Merchants Mortgage)	Indiana
Merchants Capital Corp.	Indiana
Natty Mac Funding, Inc.	Indiana
RMF Holdings, LLC	Indiana
Merchants Capital Servicing, LLC	Delaware
Farmers-Merchants Bank of Illinois	Illinois
OneTrust Funding, Inc.	Indiana
Ash Realty Holdings, LLC	Indiana
MBI Midtown West, LLC	Indiana
PR Mortgage Investment, LP	Delaware
PRMIGP, LLC	Delaware
PR Mortgage Investment Management, LLC	Delaware

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statements on Form S-8 (File No. 333-222191) and Form S-3 (File No. 333-235744) of Merchants Bancorp (the "Company") of our report dated March 16, 2020 on our audits of the consolidated financial statements of the Company as of December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019, which report is included in this Annual Report on Form 10-K.

/s/ BKD, LLP

BKD, LLP

Indianapolis, Indiana
March 16, 2020

EXHIBIT 31.1

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

I, Michael F. Petrie, certify that:

1. I have reviewed this annual report on Form 10-K of Merchants Bancorp;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth 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 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):

EXHIBIT 31.1

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

(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: March 16, 2020

/s/ Michael F. Petrie
Michael F. Petrie
Chief Executive Officer
(principal executive officer)

EXHIBIT 31.2

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

I, John F. Macke, certify that:

1. I have reviewed this annual report on Form 10-K of Merchants Bancorp;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth 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

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EXHIBIT 31.2

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

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: March 16, 2020

/s/ John F. Macke
John F. Macke
Chief Financial Officer
(principal financial officer)

EXHIBIT 32

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the annual report on Form 10-K of Merchants Bancorp (the “Registrant”) for the year ending December 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), Michael F. Petrie, as Chief Executive Officer of the Registrant, and John F. Macke, as Chief Financial Officer of the Registrant, each herby certifies, pursuant to 18 U.S.C. 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 Sections 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

March 16, 2020	/s/Michael F. Petrie
Date	Michael F. Petrie Chief Executive Officer
March 16, 2020	/s/John F. Macke
Date	John F. Macke Chief Financial Officer

This certification accompanies the Report and shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that Section.

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