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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2021

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 001-38258

MERCHANTS BANCORP

(Exact name of registrant as specified in its charter)

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

(317) 569-7420

(Registrant's telephone number, including area code)

N/A

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes  No

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

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

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

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

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

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

As of May 3, 2021, the latest practicable date, 28,782,139 shares of the registrant's common stock, without par value, were issued and outstanding.

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**Merchants Bancorp**

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**Part I – Financial Information**

**Item 1. Financial Statements**

**Merchants Bancorp**  
**Condensed Consolidated Balance Sheets**  
**March 31, 2021 (Unaudited) and December 31, 2020**  
(In thousands, except share data)

	March 31, 2021	December 31, 2020
<b>Assets</b>		
Cash and due from banks	\$ 12,003	\$ 10,063
Interest-earning demand accounts	257,436	169,665
Cash and cash equivalents	269,439	179,728
Securities purchased under agreements to resell	6,544	6,580
Mortgage loans in process of securitization	432,063	338,733
Available for sale securities	241,691	269,802
Federal Home Loan Bank (FHLB) stock	70,656	70,656
Loans held for sale (includes \$57,998 and \$40,044, respectively at fair value)	2,749,662	3,070,154
Loans receivable, net of allowance for loan losses of \$29,091 and \$27,500, respectively	5,710,291	5,507,926
Premises and equipment, net	31,261	29,761
Mortgage servicing rights	96,215	82,604
Interest receivable	22,111	21,770
Goodwill	15,845	15,845
Intangible assets, net	2,136	2,283
Other assets and receivables	57,346	49,533
Total assets	<u>\$ 9,705,260</u>	<u>\$ 9,645,375</u>
<b>Liabilities and Shareholders' Equity</b>		
<b>Liabilities</b>		
Deposits		
Noninterest-bearing	\$ 818,621	\$ 853,648
Interest-bearing	7,244,560	6,554,418
Total deposits	8,063,181	7,408,066
Borrowings	545,160	1,348,256
Deferred and current tax liabilities, net	41,610	20,405
Other liabilities	44,054	58,027
Total liabilities	<u>8,694,005</u>	<u>8,834,754</u>
<b>Commitments and Contingencies</b>		
<b>Shareholders' Equity</b>		
Common stock, without par value		
Authorized - 50,000,000 shares		
Issued and outstanding - 28,782,139 shares at March 31, 2021 and 28,747,083 shares at December 31, 2020		
	136,474	135,857
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	50,221
6% Series B Preferred stock - \$1,000 per share liquidation preference		
Authorized - 125,000 shares		
Issued and outstanding - 125,000 shares (equivalent to 5,000,000 depository shares)		
	120,844	120,844
6% Series C Preferred stock - \$1,000 per share liquidation preference		
Authorized - 200,000 shares		
Issued and outstanding - 150,000 shares at March 31, 2021 (equivalent to 6,000,000 depository shares)		
	144,925	—
Retained earnings	516,961	461,744
Accumulated other comprehensive income	249	374
Total shareholders' equity	<u>1,011,255</u>	<u>810,621</u>
Total liabilities and shareholders' equity	<u>\$ 9,705,260</u>	<u>\$ 9,645,375</u>

See notes to condensed consolidated financial statements.

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**Merchants Bancorp**  
**Condensed Consolidated Statements of Income (Unaudited)**  
**For the Three Months Ended March 31, 2021 and 2020**  
(In thousands, except share data)

	Three Months Ended March 31,	
	2021	2020
<b>Interest Income</b>		
Loans	\$ 75,517	\$ 53,564
Mortgage loans in process of securitization	3,136	2,796
Investment securities:		
Available for sale - taxable	354	1,322
Available for sale - tax exempt	11	37
Federal Home Loan Bank stock	384	239
Other	147	2,459
Total interest income	<u>79,549</u>	<u>60,417</u>
<b>Interest Expense</b>		
Deposits	6,100	20,630
Borrowed funds	1,486	1,434
Total interest expense	<u>7,586</u>	<u>22,064</u>
<b>Net Interest Income</b>	<u>71,963</u>	<u>38,353</u>
Provision for loan losses	1,663	2,998
<b>Net Interest Income After Provision for Loan Losses</b>	<u>70,300</u>	<u>35,355</u>
<b>Noninterest Income</b>		
Gain on sale of loans	28,620	21,166
Loan servicing fees, net	7,951	(5,824)
Mortgage warehouse fees	4,116	2,746
Other income	3,249	1,814
Total noninterest income	<u>43,936</u>	<u>19,902</u>
<b>Noninterest Expense</b>		
Salaries and employee benefits	21,274	14,240
Loan expenses	2,523	1,164
Occupancy and equipment	1,627	1,492
Professional fees	422	569
Deposit insurance expense	671	1,786
Technology expense	937	610
Other expense	2,630	2,432
Total noninterest expense	<u>30,084</u>	<u>22,293</u>
<b>Income Before Income Taxes</b>	<u>84,152</u>	<u>32,964</u>
Provision for income taxes	22,169	8,381
<b>Net Income</b>	<u>\$ 61,983</u>	<u>\$ 24,583</u>
Dividends on preferred stock	(3,757)	(3,618)
<b>Net Income Allocated to Common Shareholders</b>	<u>58,226</u>	<u>20,965</u>
<b>Basic Earnings Per Share</b>	<u>\$ 2.02</u>	<u>\$ 0.73</u>
<b>Diluted Earnings Per Share</b>	<u>\$ 2.02</u>	<u>\$ 0.73</u>
<b>Weighted-Average Shares Outstanding</b>		
Basic	<u>28,772,092</u>	<u>28,734,632</u>
Diluted	<u>28,850,414</u>	<u>28,759,412</u>

*See notes to condensed consolidated financial statements.*

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**Merchants Bancorp**  
**Condensed Consolidated Statements of Comprehensive Income (Unaudited)**  
**For the Three Months Ended March 31, 2021 and 2020**  
(In thousands)

	Three Months Ended	
	March 31,	
	2021	2020
<b>Net Income</b>	\$ 61,983	\$ 24,583
<b>Other Comprehensive Income (Loss):</b>		
Net change in unrealized gains/(losses) on investment securities available for sale, net of tax (expense)/benefits of \$43 and \$(152), respectively	(125)	468
Other comprehensive income (loss) for the period	(125)	468
<b>Comprehensive Income</b>	<u>\$ 61,858</u>	<u>\$ 25,051</u>

*See notes to condensed consolidated financial statements.*

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**Merchants Bancorp**  
**Condensed Consolidated Statement of Shareholders' Equity (Unaudited)**  
**For the Three Months Ended March 31, 2021 and 2020**  
(In thousands, except share data)

	Three Months Ended March 31,			
	2021		2020	
	Shares	Amount	Shares	Amount
<b>Common Stock</b>				
Balance beginning of period	28,747,083	\$ 135,857	28,706,438	\$ 135,640
Distribution to employee stock ownership plan	19,433	537	-	-
Shares issued for stock compensation plans, net of taxes withheld to satisfy employee tax obligations	15,623	80	36,046	106
Balance end of period	<u>28,782,139</u>	<u>136,474</u>	<u>28,742,484</u>	<u>135,746</u>
<b>8% Preferred Stock</b>				
Balance at beginning and end of period	<u>41,625</u>	<u>41,581</u>	<u>41,625</u>	<u>41,581</u>
<b>7% Series A Preferred Stock</b>				
Balance at beginning and end of period	<u>2,081,800</u>	<u>50,221</u>	<u>2,081,800</u>	<u>50,221</u>
<b>6% Series B Preferred Stock</b>				
Balance at beginning and end of period	<u>125,000</u>	<u>120,844</u>	<u>125,000</u>	<u>120,844</u>
<b>6% Series C Preferred Stock</b>				
Balance beginning of period	-	-	-	-
Issuance of 6% Series C preferred stock, net of \$5.1 million in offering expenses	150,000	144,925	-	-
Balance end of period	<u>150,000</u>	<u>144,925</u>	<u>-</u>	<u>-</u>
<b>Retained Earnings</b>				
Balance beginning of period		461,744		304,984
Net income		61,983		24,583
Dividends on 8% preferred stock, \$80.00 per share, annually		(833)		(833)
Final dividend for redemption of 8% preferred stock, \$3.33 per share		(139)		-
Dividends on 7% Series A preferred stock, \$1.75 per share, annually		(910)		(910)
Dividends on 6% Series B preferred stock, \$60.00 per share, annually		(1,875)		(1,875)
Dividends on common stock, \$0.36 per share, annually		(2,590)		(2,298)
Deconsolidation of entities		(419)		-
Balance end of period		<u>516,961</u>		<u>323,651</u>
<b>Accumulated Other Comprehensive Income</b>				
Balance beginning of period		374		458
Other comprehensive income (loss)		(125)		468
Balance end of period		<u>249</u>		<u>926</u>
<b>Total shareholders' equity</b>		<u>\$ 1,011,255</u>		<u>\$ 672,969</u>

See notes to condensed consolidated financial statements.

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**Merchants Bancorp**  
**Condensed Consolidated Statements of Cash Flows (Unaudited)**  
**Three Months Ended March 31, 2021 and 2020**  
(In thousands)

	Three Months Ended	
	March 31,	
	2021	2020
<b>Operating activities:</b>		
Net income	\$ 61,983	\$ 24,583
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	504	453
Provision for loan losses	1,663	2,998
Gain on sale of loans	(28,620)	(21,166)
Proceeds from sales of loans	16,974,055	10,866,020
Loans and participations originated and purchased for sale	(16,636,332)	(11,551,090)
Change in mortgage servicing rights for paydowns and fair value adjustments	(3,430)	8,338
Net change in:		
Mortgage loans in process of securitization	(93,330)	(195,266)
Other assets and receivables	4,065	(17,686)
Other liabilities	15,644	9,822
Other	(409)	1,379
Net cash provided by (used in) operating activities	<u>295,793</u>	<u>(871,615)</u>
<b>Investing activities:</b>		
Net change in securities purchased under agreements to resell	36	38
Purchases of available for sale securities	(3)	(156,666)
Proceeds from calls, maturities and paydowns of available for sale securities	27,917	107,995
Purchases of loans	(137,548)	(32,631)
Net change in loans receivable	(79,162)	(459,617)
Purchase of FHLB stock	—	(25,787)
Purchases of premises and equipment	(2,004)	(594)
Purchase of limited partnership interests and other tax credits	(3,486)	(1,090)
Other investing activities	(464)	—
Net cash (used in) investing activities	<u>(194,714)</u>	<u>(568,352)</u>
<b>Financing activities:</b>		
Net change in deposits	653,011	1,244,630
Proceeds from borrowings	17,754,346	5,597,675
Repayment of borrowings	(18,557,442)	(5,334,998)
Proceeds from notes payable	—	450
Proceeds from issuance of preferred stock	144,925	—
Payments of contingent consideration	—	(501)
Dividends	(6,208)	(5,916)
Net cash (used in) provided by financing activities	<u>(11,368)</u>	<u>1,501,340</u>
<b>Net Change in Cash and Cash Equivalents</b>	89,711	61,373
<b>Cash and Cash Equivalents, Beginning of Period</b>	179,728	506,709
<b>Cash and Cash Equivalents, End of Period</b>	<u>\$ 269,439</u>	<u>\$ 568,082</u>
<b>Additional Cash Flows Information:</b>		
Interest paid	\$ 6,972	\$ 23,782
Income taxes paid	563	46
Dividends payable	139	—
Deconsolidation of debt fund entities	See Note 1	—

See notes to condensed consolidated financial statements.

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**Merchants Bancorp**  
**Notes to Condensed Consolidated Financial Statements**  
**(Unaudited)**

**Note 1: Basis of Presentation**

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

The accompanying unaudited condensed consolidated balance sheet of the Company as of December 31, 2020, which has been derived from audited financial statements, and unaudited condensed consolidated financial statements of the Company as of March 31, 2021 and for the three months ended March 31, 2021 and 2020, were prepared in accordance with the instructions for Form 10-Q and Article 10 of Regulation S-X and, therefore, do not include information or footnotes necessary for a complete presentation of financial position, results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America. Accordingly, these condensed financial statements should be read in conjunction with the audited financial statements and notes thereto of the Company as of and for the year ended December 31, 2020 in its Annual Report on Form 10-K. Reference is made to the accounting policies of the Company described in the Notes to the Financial Statements contained in the Annual Report on Form 10-K.

In the opinion of management, all adjustments (consisting only of normal recurring adjustments) which are necessary for a fair presentation of the unaudited financial statements have been included to present fairly the financial position as of March 31, 2021 and the results of operations for the three months ended March 31, 2021 and 2020, and cash flows for the three months ended March 31, 2021 and 2020. All interim amounts have not been audited and the results of operations for the three months ended March 31, 2021, herein are not necessarily indicative of the results of operations to be expected for the entire year.

***Principles of Consolidation***

The unaudited condensed consolidated financial statements as of and for the period ended March 31, 2021 and 2020 include results from the Company, and its wholly owned subsidiaries, Merchants Bank, and FMBI. Also included are Merchants Bank’s primary operating subsidiaries, MCC and MCS, as well as all direct and indirectly owned subsidiaries owned by Merchants Bancorp.

Additionally, the unaudited condensed consolidated financial statements include consolidated results from certain entities primarily involved in single-family debt financing until January 30, 2021, while the Company was deemed to be a primary beneficiary. A primary beneficiary is defined as, the party that has both the power to direct the activities that most significantly impact the entity, and an interest that could be significant to the entity. To determine if an interest could be significant to the entity, both qualitative and quantitative factors regarding the nature, size and form of our involvement with the entity are evaluated. All significant intercompany accounts and transactions have been eliminated in consolidation.

On February 1, 2021, the Company’s debt fund entities were restructured in such a way that its ownership and participation was significantly reduced with the inclusion of additional, unrelated investors and the Company was no longer classified as a primary beneficiary. Accordingly, results from these entities were no longer consolidated after this date, in accordance with the consolidation guidelines of the Accounting Standards Update of Topic 810. Following the deconsolidation, the carrying value of assets and liabilities of these entities were removed from the consolidated balance sheet, and the continuing investments were recorded at fair value at the date of deconsolidation. The total amount deconsolidated from the balance sheet included net assets of approximately \$10 million, consisting primarily of \$66.6 million in loans receivable, and \$52.7 million in borrowings with Merchants Bank that was previously eliminated in consolidation. The fair value of its continuing investments was approximately \$10 million and has been reported in Other Assets after deconsolidation. The estimated fair value was determined based on third-party evaluations of similar assets in the underlying business. The difference between the fair value of these deconsolidated entities and their

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**Merchants Bancorp**  
**Notes to Condensed Consolidated Financial Statements**  
**(Unaudited)**

carrying value was deemed to be immaterial, resulting in no gain or loss on deconsolidation. The maximum loss exposure that would be absorbed by the Company in the event that these unconsolidated investments were deemed worthless is approximately \$10.0 million at March 31, 2021. These continuing investments after deconsolidation are expected to be classified as variable interest entities, will not be consolidated, and will be accounted for under the equity method of accounting. The Company will analyze whether its entities are the primary beneficiary on an ongoing basis. Changes in facts and circumstances occurring since the previous primary beneficiary determination will be considered as part of this ongoing assessment.

***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. The uncertainties related to the COVID-19 pandemic could cause significant changes to these estimates compared to what was known at the time these financial statements were prepared.

***Reclassifications***

Certain reclassifications may have been made to the 2020 financial statements to conform to the financial statement presentation as of and for the three months ended March 31, 2021. These reclassifications had no effect on net income.

**Note 2: Securities Available For Sale**

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

	March 31, 2021			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
(In thousands)				
<b>Available for sale securities:</b>				
Treasury notes	\$ 4,025	\$ 17	\$ —	\$ 4,042
Federal agencies	209,958	29	102	209,885
Municipals	5,933	101	—	6,034
Mortgage-backed - Government-sponsored entity (GSE) - residential	21,464	266	—	21,730
Total available for sale securities	<u>\$ 241,380</u>	<u>\$ 413</u>	<u>\$ 102</u>	<u>\$ 241,691</u>

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**Merchants Bancorp**  
**Notes to Condensed Consolidated Financial Statements**  
**(Unaudited)**

	December 31, 2020			
	Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses	
(In thousands)				
<b>Available for sale securities:</b>				
Treasury notes	\$ 6,535	\$ 24	\$ —	\$ 6,559
Federal agencies	234,954	103	17	235,040
Municipals	5,935	90	—	6,025
Mortgage-backed - Government-sponsored entity (GSE) - residential	21,899	279	—	22,178
Total available for sale securities	<u>\$ 269,323</u>	<u>\$ 496</u>	<u>\$ 17</u>	<u>\$ 269,802</u>

The amortized cost and fair value of available for sale securities at March 31, 2021 and December 31, 2020, 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.

Contractual Maturity	March 31, 2021		December 31, 2020	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			
Within one year	\$ 8,077	\$ 8,086	\$ 6,288	\$ 6,302
After one through five years	210,979	210,952	239,770	239,877
After five through ten years	514	549	515	549
After ten years	346	374	851	896
	219,916	219,961	247,424	247,624
Mortgage-backed - Government-sponsored entity (GSE) - residential	21,464	21,730	21,899	22,178
	<u>\$ 241,380</u>	<u>\$ 241,691</u>	<u>\$ 269,323</u>	<u>\$ 269,802</u>

During the three months ended March 31, 2021 and 2020, no securities available for sale were sold.

The following tables show the Company's investments' 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 March 31, 2021 and December 31, 2020:

	March 31, 2021					
	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)						
<b>Available for sale securities:</b>						
Federal agencies	<u>\$ 139,857</u>	<u>\$ 102</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 139,857</u>	<u>\$ 102</u>

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**Merchants Bancorp**  
**Notes to Condensed Consolidated Financial Statements**  
**(Unaudited)**

	December 31, 2020					
	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)					
<b>Available for sale securities:</b>						
Federal agencies	\$ 69,939	\$ 17	\$ —	\$ —	\$ 69,939	\$ 17

***Other-than-temporary Impairment***

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 securities approach the maturity date.

**Note 3: Mortgage Loans in Process of Securitization**

Mortgage loans in process of securitization are recorded at fair value with changes in fair value recorded in earnings. These include multi-family rental real estate loan originations to be sold as Government National Mortgage Association (“Ginnie Mae”) mortgage backed securities and Federal National Mortgage Association (“Fannie Mae”) and Federal Home Loan Mortgage Corporation (“Freddie Mac”) participation certificates, all of which are pending settlements with firm investor commitments to purchase the securities, typically occurring within 30 days. The fair value increases recorded in earnings for mortgage loans in process of securitization totaled \$1.0 million and \$2.2 million at March 31, 2021 and 2020, respectively.

**Note 4: Loans and Allowance for Loan Losses**

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 at amortized 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.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest collected on these loans is applied to the principal balance until the loan can be returned to an accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

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

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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 offers 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 typically holds the collateral until it is sent under a bailee arrangement instructing the investor to send proceeds to the Company. Typical investors are large financial institutions or government agencies. Interest earned from the time of funding to the time of sale is recognized as interest income as accrued. Fees earned agreements are recognized when collected as noninterest income.

Loans receivable at March 31, 2021 and December 31, 2020 include:

	<u>March 31,</u> <u>2021</u>	<u>December 31,</u> <u>2020</u>
	(In thousands)	
Mortgage warehouse lines of credit	\$ 1,334,548	\$ 1,605,745
Residential real estate	731,334	678,848
Multi-family and healthcare financing	3,206,633	2,749,020
Commercial and commercial real estate	357,682	387,294
Agricultural production and real estate	96,108	101,268
Consumer and margin loans	13,077	13,251
	<u>5,739,382</u>	<u>5,535,426</u>
<b>Less</b>		
Allowance for loan losses	<u>29,091</u>	<u>27,500</u>
<b>Loans Receivable</b>	<u>\$ 5,710,291</u>	<u>\$ 5,507,926</u>

In response to the COVID-19 global pandemic, the Coronavirus Aid, Relief and Economic Security Act (“CARES Act”) established the Paycheck Protection Program (“PPP”) to provide loans for eligible business/not-for-profits. These loans qualify for forgiveness when used for qualifying expenses during the appropriate period. Loans funded through the PPP are fully guaranteed by the U.S. government. Commercial and commercial real estate loans at March 31, 2021 and December 31, 2020 include PPP loans with principal balances of \$65.9 million and \$60.2 million, respectively, that had not yet been forgiven.

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

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

As a secured repurchase agreement, collateral pledged to the Company secures each individual mortgage until the lender sells the loan in the secondary market. A traditional secured warehouse line of credit typically carries a base interest rate of 30-day LIBOR, or mortgage note rate plus or minus a margin.

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

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

**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 and loan sale proceeds 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. PPP loans and Small Business Administration ("SBA") loans are included in this category.

**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.

**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.

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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 from 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 the 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 a provision for loan loss.

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.

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 loan portfolio segment within troubled debt restructurings is the same as detailed previously above.

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The following tables present, by loan portfolio segment, the activity in the allowance for loan losses for the three months ended March 31, 2021 and 2020 and the recorded investment in loans and impairment method as of March 31, 2021:

	At or For the Three Months Ended March 31, 2021						
	MTG WHLOC	RES RE	MF RE	CML & CRE	AG & AGRE	CON & MAR	TOTAL
	(In thousands)						
<b>Allowance for loan losses</b>							
Balance, beginning of period	\$ 4,018	\$ 3,334	\$ 14,731	\$ 4,641	\$ 636	\$ 140	\$ 27,500
Provision (credit) for loan losses	(697)	266	2,405	(309)	(4)	2	1,663
Loans charged to the allowance	—	—	—	(68)	—	(6)	(74)
Recoveries of loans previously charged off	—	—	—	—	—	2	2
Balance, end of period	<u>\$ 3,321</u>	<u>\$ 3,600</u>	<u>\$ 17,136</u>	<u>\$ 4,264</u>	<u>\$ 632</u>	<u>\$ 138</u>	<u>\$ 29,091</u>
Ending balance: individually evaluated for impairment	<u>\$ —</u>	<u>\$ 3</u>	<u>\$ —</u>	<u>\$ 1,518</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,521</u>
Ending balance: collectively evaluated for impairment	<u>\$ 3,321</u>	<u>\$ 3,597</u>	<u>\$ 17,136</u>	<u>\$ 2,746</u>	<u>\$ 632</u>	<u>\$ 138</u>	<u>\$ 27,570</u>
<b>Loans</b>							
Ending balance	<u>\$ 1,334,548</u>	<u>\$ 731,334</u>	<u>\$ 3,206,633</u>	<u>\$ 357,682</u>	<u>\$ 96,108</u>	<u>\$ 13,077</u>	<u>\$ 5,739,382</u>
Ending balance individually evaluated for impairment	<u>\$ —</u>	<u>\$ 2,757</u>	<u>\$ —</u>	<u>\$ 6,042</u>	<u>\$ 180</u>	<u>\$ 6</u>	<u>\$ 8,985</u>
Ending balance collectively evaluated for impairment	<u>\$ 1,334,548</u>	<u>\$ 728,577</u>	<u>\$ 3,206,633</u>	<u>\$ 351,640</u>	<u>\$ 95,928</u>	<u>\$ 13,071</u>	<u>\$ 5,730,397</u>

	For the Three Months Ended March 31, 2020						
	MTG WHLOC	RES RE	MF RE	CML & CRE	AG & AGRE	CON & MAR	TOTAL
	(In thousands)						
<b>Allowance for loan losses</b>							
Balance, beginning of period	\$ 1,913	\$ 2,042	\$ 7,018	\$ 4,173	\$ 523	\$ 173	\$ 15,842
Provision (credit) for loan losses	796	20	676	1,445	38	23	2,998
Loans charged to the allowance	—	—	—	—	—	(1)	(1)
Recoveries of loans previously charged off	—	—	—	44	—	—	44
Balance, end of period	<u>\$ 2,709</u>	<u>\$ 2,062</u>	<u>\$ 7,694</u>	<u>\$ 5,662</u>	<u>\$ 561</u>	<u>\$ 195</u>	<u>\$ 18,883</u>

The following table presents the allowance for loan losses and the recorded investment in loans and impairment method as of December 31, 2020:

	December 31, 2020						
	MTG WHLOC	RES RE	MF RE	CML & CRE	AG & AGRE	CON & MAR	TOTAL
	(In thousands)						
<b>Allowance for loan losses</b>							
Balance, December 31, 2020	\$ 4,018	\$ 3,334	\$ 14,731	\$ 4,641	\$ 636	\$ 140	\$ 27,500
Ending balance: individually evaluated for impairment	<u>\$ —</u>	<u>\$ 7</u>	<u>\$ —</u>	<u>\$ 1,606</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,613</u>
Ending balance: collectively evaluated for impairment	<u>\$ 4,018</u>	<u>\$ 3,327</u>	<u>\$ 14,731</u>	<u>\$ 3,035</u>	<u>\$ 636</u>	<u>\$ 140</u>	<u>\$ 25,887</u>
<b>Loans</b>							
Balance, December 31, 2020	\$ 1,605,745	\$ 678,848	\$ 2,749,020	\$ 387,294	\$ 101,268	\$ 13,251	\$ 5,535,426
Ending balance individually evaluated for impairment	<u>\$ —</u>	<u>\$ 2,761</u>	<u>\$ —</u>	<u>\$ 9,591</u>	<u>\$ 2,100</u>	<u>\$ 12</u>	<u>\$ 14,464</u>
Ending balance collectively evaluated for impairment	<u>\$ 1,605,745</u>	<u>\$ 676,087</u>	<u>\$ 2,749,020</u>	<u>\$ 377,703</u>	<u>\$ 99,168</u>	<u>\$ 13,239</u>	<u>\$ 5,520,962</u>

**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

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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 potential risk. Loans classified as special mention have a potential weakness that deserves management’s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution’s credit position at some future date.

**Special Mention (Watch) – COVID-19 Deferrals** – This is a loan that is sound and collectable but contains potential risk because the borrower has requested to defer payments, typically for 90 days, in response to COVID-related hardships. Interest is still accruing on these loans and they were not more than 30 days late at the time the deferral was granted. 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. This category includes only those loans that were not already in the Traditional Special Mention (Watch) or Substandard categories.

**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 March 31, 2021 and December 31, 2020:

	<u>March 31, 2021</u>						
	<u>MTG WHLOC</u>	<u>RES RE</u>	<u>MF RE</u>	<u>CML &amp; CRE</u>	<u>AG &amp; AGRE</u>	<u>CON &amp; MAR</u>	<u>TOTAL</u>
	<u>(In thousands)</u>						
Special Mention (Watch)	\$ —	\$ 833	\$ 128,037	\$ 2,403	\$ 3,923	\$ 32	\$ 135,228
Special Mention (Watch) - COVID-19 Deferrals	—	121	186	83	—	—	390
Substandard	—	2,757	—	6,042	180	6	8,985
Acceptable and Above	1,334,548	727,623	3,078,410	349,154	92,005	13,039	5,594,779
Total	<u>\$ 1,334,548</u>	<u>\$ 731,334</u>	<u>\$ 3,206,633</u>	<u>\$ 357,682</u>	<u>\$ 96,108</u>	<u>\$ 13,077</u>	<u>\$ 5,739,382</u>

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	December 31, 2020						
	MTG WHLOC	RES RE	MF RE	CML & CRE (In thousands)	AG & AGRE	CON & MAR	TOTAL
Special Mention (Watch)	\$ 222	\$ 853	\$ 145,050	\$ 2,620	\$ 4,160	\$ 34	\$ 152,939
Special Mention (Watch) - COVID-19 Deferrals	—	383	185	110	—	—	678
Substandard	—	2,761	—	9,591	2,100	12	14,464
Acceptable and Above	1,605,523	674,851	2,603,785	374,973	95,008	13,205	5,367,345
<b>Total</b>	<b>\$ 1,605,745</b>	<b>\$ 678,848</b>	<b>\$ 2,749,020</b>	<b>\$ 387,294</b>	<b>\$ 101,268</b>	<b>\$ 13,251</b>	<b>\$ 5,535,426</b>

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 March 31, 2021 and December 31, 2020. There were 9 loans totaling \$37.2 million at March 31, 2021 that have been modified in accordance with the CARES Act and therefore not classified as delinquent. These loans have been granted extended dates to make payments and no payments were due as of March 31, 2021.

	March 31, 2021					
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans
	(In thousands)					
MTG WHLOC	\$ —	\$ —	\$ —	\$ —	\$ 1,334,548	\$ 1,334,548
RES RE	316	76	656	1,048	730,286	731,334
MF RE	—	—	—	—	3,206,633	3,206,633
CML & CRE	1,004	182	1,935	3,121	354,561	357,682
AG & AGRE	415	—	1,955	2,370	93,738	96,108
CON & MAR	35	—	14	49	13,028	13,077
	<b>\$ 1,770</b>	<b>\$ 258</b>	<b>\$ 4,560</b>	<b>\$ 6,588</b>	<b>\$ 5,732,794</b>	<b>\$ 5,739,382</b>

	December 31, 2020					
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans
	(In thousands)					
MTG WHLOC	\$ —	\$ —	\$ —	\$ —	\$ 1,605,745	\$ 1,605,745
RES RE	364	80	630	1,074	677,774	678,848
MF RE	—	36,760	—	36,760	2,712,260	2,749,020
CML & CRE	608	76	3,582	4,266	383,028	387,294
AG & AGRE	3,769	—	1,934	5,703	95,565	101,268
CON & MAR	7	—	19	26	13,225	13,251
	<b>\$ 4,748</b>	<b>\$ 36,916</b>	<b>\$ 6,165</b>	<b>\$ 47,829</b>	<b>\$ 5,487,597</b>	<b>\$ 5,535,426</b>

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 TDRs.

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The following tables present impaired loans and specific valuation allowance information based on class level as of March 31, 2021 and December 31, 2020:

	<b>March 31, 2021</b>							
	<u>MTG WHLOC</u>	<u>RES RE</u>	<u>MF RE</u>	<u>CML &amp; CRE</u>	<u>AG &amp; AGRE</u>	<u>CON &amp; MAR</u>	<u>TOTAL</u>	
	(In thousands)							
<b>Impaired loans without a specific allowance:</b>								
Recorded investment	\$	—	\$ 2,703	\$ —	\$ 436	\$ 180	\$ 6	\$ 3,325
Unpaid principal balance		—	2,703	—	436	180	6	3,325
<b>Impaired loans with a specific allowance:</b>								
Recorded investment		—	54	—	5,606	—	—	5,660
Unpaid principal balance		—	54	—	5,606	—	—	5,660
Specific allowance		—	3	—	1,518	—	—	1,521
<b>Total impaired loans:</b>								
Recorded investment		—	2,757	—	6,042	180	6	8,985
Unpaid principal balance		—	2,757	—	6,042	180	6	8,985
Specific allowance		—	3	—	1,518	—	—	1,521

	<b>December 31, 2020</b>							
	<u>MTG WHLOC</u>	<u>RES RE</u>	<u>MF RE</u>	<u>CML &amp; CRE</u>	<u>AG &amp; AGRE</u>	<u>CON &amp; MAR</u>	<u>TOTAL</u>	
	(In thousands)							
<b>Impaired loans without a specific allowance:</b>								
Recorded investment	\$	—	\$ 2,704	\$ —	\$ 3,319	\$ 2,100	\$ 7	\$ 8,130
Unpaid principal balance		—	2,704	—	3,319	2,100	7	8,130
<b>Impaired loans with a specific allowance:</b>								
Recorded investment		—	57	—	6,272	—	5	6,334
Unpaid principal balance		—	57	—	6,272	—	5	6,334
Specific allowance		—	7	—	1,606	—	—	1,613
<b>Total impaired loans:</b>								
Recorded investment		—	2,761	—	9,591	2,100	12	14,464
Unpaid principal balance		—	2,761	—	9,591	2,100	12	14,464
Specific allowance		—	7	—	1,606	—	—	1,613

The following tables present by portfolio class, information related to the average recorded investment and interest income recognized on impaired loans for the three months ended March 31, 2021 and 2020:

	<u>MTG WHLOC</u>	<u>RES RE</u>	<u>MF RE</u>	<u>CML &amp; CRE</u>	<u>AG &amp; AGRE</u>	<u>CON &amp; MAR</u>	<u>TOTAL</u>	
	(In thousands)							
<b>Three Months Ended March 31, 2021</b>								
Average recorded investment in impaired loans	\$	—	\$ 2,761	\$ —	\$ 8,018	\$ 1,620	\$ 8	\$ 12,407
Interest income recognized		—	10	—	205	—	—	215
<b>Three Months Ended March 31, 2020</b>								
Average recorded investment in impaired loans	\$	231	\$ 3,088	\$ —	\$ 9,502	\$ 2,043	\$ 20	\$ 14,884
Interest income recognized		—	16	—	131	—	—	147

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The following table presents the Company's nonaccrual loans and loans past due 90 days or more and still accruing at March 31, 2021 and December 31, 2020.

	March 31, 2021		December 31, 2020	
	Nonaccrual	Total Loans > 90 Days & Accruing (In thousands)	Nonaccrual	Total Loans > 90 Days & Accruing
RES RE	\$ 583	\$ 40	\$ 578	\$ 69
CML & CRE	1,636	25	2,052	1,240
AG & AGRE	180	2,197	181	2,181
CON & MAR	6	7	12	8
	<u>\$ 2,405</u>	<u>\$ 2,269</u>	<u>\$ 2,823</u>	<u>\$ 3,498</u>

No troubled loans were restructured during the three months ended March 31, 2021 or 2020. No restructured loans defaulted during the three months ended March 31, 2021 or 2020. Loan modifications or forbearances related to the COVID-19 pandemic will generally not be considered TDRs.

The CARES Act included several provisions designed to help financial institutions like the Company in working with their customers. Section 4013 of the CARES Act, as extended, allows a financial institution to elect to suspend generally accepted accounting principles and regulatory determinations with respect to qualifying loan modifications related to COVID-19 that would otherwise be categorized as a TDR until January 1, 2022. The Company has taken advantage of this provision to extend certain payment modifications to loan customers in need. As of March 31, 2021, the Company has \$37.2 million of outstanding loans that were modified during 2020 and 2021 under the CARES Act guidance, that remain on modified terms. The Company modified other loans under the guidance that have since returned to normal repayment status as of March 31, 2021.

There were two customers with a combined residential loan balance of \$692,000 in the process of foreclosure as of March 31, 2021, and there were no residential loans in process of foreclosure as of March 31, 2020.

**Note 5: Borrowings**

The Company joined the American Financial Exchange ("AFX") in January of 2021. During the three months ended March 31, 2021, the Company utilized unsecured overnight lending arrangements to borrow from other AFX members through extensions of credit. At March 31, 2021, members of the AFX offered a combined borrowing limit of \$275.0 million, but availability fluctuates daily. As of March 31, 2021, the outstanding balance was \$25.0 million with a rate of 0.06%. Rates are set daily by participating members and may vary by lending member.

**Note 6: Regulatory Matters**

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

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On November 13, 2019, the federal regulators finalized and adopted a regulatory capital rule establishing a new community bank leverage ratio (“CBLR”), which became effective on January 1, 2020. 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 a 9% threshold, subject to a limited two quarter grace period, during which the leverage ratio cannot go 100 basis points below the then applicable threshold, and will not be required to calculate and report risk-based capital ratios. Eligibility criteria to utilize CBLR includes the following:

- Total assets of less than \$10 billion,
- Total trading assets plus liabilities of 5% or less of consolidated assets,
- Total off-balance sheet exposures of 25% or less of consolidated assets,
- Cannot be an advanced approaches banking organization, and
- Leverage ratio greater than 9%, or temporarily reduced threshold established in response to COVID-19.

In April 2020, under the CARES Act, the 9% leverage ratio threshold was temporarily reduced to 8% in response to the COVID-19 pandemic. The threshold increased to 8.5% in 2021 and will return to 9% in 2022. The Company, Merchants Bank, and FMBI elected to begin using CBLR in the first quarter of 2020 and all intend to utilize this measure for the foreseeable future and thus will not calculate or report risk-based capital ratios.

On December 2, 2020 the Federal Deposit Insurance Corporation (“FDIC”) issued an interim final rule related to COVID-19 as it pertains to eligibility to utilize CBLR. The rule allows organizations with less than \$10 billion in total assets as of December 31, 2019, to use the assets on that date to determine the applicability of various regulatory asset thresholds during 2020 and 2021.

Management believes, as of March 31, 2021 and December 31, 2020, that the Company, Merchants Bank, and FMBI met all the regulatory capital adequacy requirements with CBLR to be classified as well-capitalized, and management is not aware of any conditions or events since the most recent regulatory notification that would change the Company’s, Merchants Bank’s, or FMBI’s category.

As of March 31, 2021 and December 31, 2020, the most recent notifications from the Board of Governors of the Federal Reserve System (“Federal Reserve”) categorized the Company as well capitalized and most recent notifications from the FDIC categorized Merchants Bank and FMBI as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Company’s, Merchants Bank’s, or FMBI’s category.

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

	Actual		Minimum Amount To Be Well Capitalized <sup>(1)</sup>	
	Amount	Ratio	Amount	Ratio
(Dollars in thousands)				
<b>March 31, 2021</b>				
CBLR (Tier 1) capital <sup>(1)</sup> (to average assets) (i.e., CBLR - leverage ratio)				
Company	\$ 993,392	10.1 %	\$ 839,158	> 8.5 %
Merchants Bank	913,718	9.5 %	816,735	> 8.5 %
FMBI	25,492	9.6 %	22,537	> 8.5 %

(1) As defined by regulatory agencies.

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	<u>Actual</u>		<u>Minimum Amount To Be Well Capitalized<sup>(1)</sup></u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
(Dollars in thousands)				
<b>December 31, 2020</b>				
CBLR (Tier 1) capital <sup>(1)</sup> (to average assets)				
(i.e., CBLR - leverage ratio)				
Company	\$ 792,456	8.6 %	\$ 738,019	> 8 %
Merchants Bank	781,221	8.7 %	718,120	> 8 %
FMBI	24,456	9.8 %	19,979	> 8 %

(1) As defined by regulatory agencies.

Failure to exceed the leverage ratio thresholds required under CBLR in the future, subject to any applicable grace period, would require the Company, Merchants Bank, and/or FMBI to return to the risk-based capital ratio thresholds previously utilized under the fully phased-in Basel III Capital Rules to determine capital adequacy.

**Note 7: Derivative Financial Instruments**

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

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

The following table presents the notional amount and fair value of interest rate locks and forward contracts utilized by the Company at March 31, 2021 and December 31, 2020.

	<u>Notional Amount</u>	<u>Balance Sheet Location</u>	<u>Fair Value</u>	
	(In thousands)		<u>Asset</u>	<u>Liability</u>
(In thousands)				
<b>March 31, 2021</b>				
Interest rate lock commitments	\$ 201,344	Other assets/liabilities	\$ 467	\$ 1,080
Forward contracts	\$ 212,608	Other assets/liabilities	1,616	21
			<u>\$ 2,083</u>	<u>\$ 1,101</u>

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	Notional Amount (In thousands)	Balance Sheet Location	Fair Value	
			Asset	Liability
<b>December 31, 2020</b>			(In thousands)	
Interest rate lock commitments	\$ 412,043	Other assets/liabilities	\$ 6,131	\$ —
Forward contracts	\$ 304,024	Other assets/liabilities	—	2,682
			<u>\$ 6,131</u>	<u>\$ 2,682</u>

Fair values of these derivative financial instruments were estimated using changes in mortgage interest rates from the date the Company entered into the interest rate lock commitment and the balance sheet date. The following table summarizes the periodic changes in the fair value of the derivative financial instruments on the condensed consolidated statements of income for the three months ended March 31, 2021 and 2020.

	Three Months Ended March 31,	
	2021	2020
	(In thousands)	
Interest rate lock commitments	\$ (6,744)	\$ 1,813
Forward contracts (includes pair-off settlements)	8,396	(1,844)
Net derivative gains (loss)	<u>\$ 1,652</u>	<u>\$ (31)</u>

***Derivatives on Behalf of Customers***

The Company offers derivative contracts to some customers in connection with their risk management needs. 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 (In thousands)	Balance Sheet Location	Fair Value	
			Asset	Liability
March 31, 2021	\$ 88,384	Other assets/liabilities	\$ 2,284	\$ 2,284
December 31, 2020	\$ 82,726	Other assets/liabilities	\$ 3,170	\$ 3,170

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

	Three Months Ended March 31,	
	2021	2020
	(In thousands)	
Gross swap gains	\$ 886	\$ 2,703
Gross swap losses	(886)	(2,703)
Net swap gains (losses)	<u>\$ —</u>	<u>\$ —</u>

The Company pledged \$3.9 million in collateral to secure its obligations under swap contracts at March 31, 2021 and December 31, 2020.

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**Note 8: Disclosures about Fair Value of Assets and Liabilities**

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

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

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**Recurring Measurements**

The following tables present the fair value measurements of assets and liabilities recognized in the accompanying balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at March 31, 2021 and December 31, 2020:

Assets	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)				
<b>March 31, 2021</b>				
Mortgage loans in process of securitization	\$ 432,063	\$ —	\$ 432,063	\$ —
Available for sale securities:				
Treasury notes	4,042	4,042	—	—
Federal agencies	209,885	—	209,885	—
Municipals	6,034	—	6,034	—
Mortgage-backed - Government-sponsored entity (GSE) - residential	21,730	—	21,730	—
Loans held for sale	57,998	—	57,998	—
Mortgage servicing rights	96,215	—	—	96,215
Derivative assets - interest rate lock commitments	467	—	—	467
Derivative assets - forward contracts	1,616	—	1,616	—
Derivative assets - interest rate swaps	2,284	—	2,284	—
Derivative liabilities - interest rate lock commitments	1,080	—	—	1,080
Derivative liabilities - forward contracts	21	—	21	—
Derivative liabilities - interest rate swaps	2,284	—	2,284	—
<b>December 31, 2020</b>				
Mortgage loans in process of securitization	\$ 338,733	\$ —	\$ 338,733	\$ —
Available for sale securities:				
Treasury notes	6,559	6,559	—	—
Federal agencies	235,040	—	235,040	—
Municipals	6,025	—	6,025	—
Mortgage-backed - Government-sponsored entity (GSE) - residential	22,178	—	22,178	—
Loans held for sale	40,044	—	40,044	—
Mortgage servicing rights	82,604	—	—	82,604
Derivative assets - interest rate lock commitments	6,131	—	—	6,131
Derivative asset - interest rate swap	3,170	—	3,170	—
Derivative liabilities - forward contracts	2,682	—	2,682	—
Derivative liabilities - interest rate swap	3,170	—	3,170	—

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 three months ended March 31, 2021 and the year ended December 31, 2020. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

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***Mortgage Loans in Process of Securitization and 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, municipal securities and Federal Housing Administration participation certificates. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

***Loans Held for Sale***

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

***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 expenses on its condensed consolidated statement of income.

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**Level 3 Reconciliation**

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

	<b>Three Months Ended March 31,</b>	
	<b>2021</b>	<b>2020</b>
(In thousands)		
<b>Mortgage servicing rights</b>		
Balance, beginning of period	\$ 82,604	\$ 74,387
Additions		
Originated and purchased servicing	10,181	3,929
Subtractions		
Paydowns	(3,448)	(1,858)
Changes in fair value due to changes in valuation inputs or assumptions used in the valuation model	6,878	(6,480)
Balance, end of period	<u>\$ 96,215</u>	<u>\$ 69,978</u>
<b>Derivative Assets - interest rate lock commitments</b>		
Balance, beginning of period	\$ 6,131	\$ 186
Changes in fair value	(5,664)	1,893
Balance, end of period	<u>\$ 467</u>	<u>\$ 2,079</u>
<b>Derivative Liabilities - interest rate lock commitments</b>		
Balance, beginning of period	\$ —	\$ —
Changes in fair value	1,080	80
Balance, end of period	<u>\$ 1,080</u>	<u>\$ 80</u>

**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 March 31, 2021 and December 31, 2020.

Assets	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)				
<b>March 31, 2021</b>				
Impaired loans (collateral-dependent)	\$ —	\$ —	\$ —	\$ —
<b>December 31, 2020</b>				
Impaired loans (collateral-dependent)	\$ 4,059	\$ —	\$ —	\$ 4,059

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

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**Collateral-Dependent 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 Company's Chief Credit Officer's ("CCO") office. Appraisals 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.

	<u>Fair Value</u> <u>(In thousands)</u>	<u>Valuation</u> <u>Technique</u>	<u>Unobservable Inputs</u>	<u>Range</u>	<u>Weighted</u> <u>Average</u>
<b>At March 31, 2021:</b>					
Collateral-dependent impaired loans	\$ —	Market comparable properties	Marketability discount	-	-
Mortgage servicing rights - Multi-family	\$ 78,895	Discounted cash flow	Discount rate	8% - 13%	8%
			Constant prepayment rate	1% - 41%	3%
Mortgage servicing rights - Single-family	\$ 17,320	Discounted cash flow	Mortgage yield	10%	10%
			Constant prepayment rate	10% - 11%	10%
Derivative assets - interest rate lock commitments	\$ 467	Discounted cash flow	Loan closing rates	60%-99%	78%
Derivative liabilities - interest rate lock commitments	\$ 1,080	Discounted cash flow	Loan closing rates	60%-99%	78%
<b>At December 31, 2020:</b>					
Collateral-dependent impaired loans	\$ 4,059	Market comparable properties	Marketability discount	43%	43%
Mortgage servicing rights - Multi-family	\$ 73,569	Discounted cash flow	Discount rate	8% - 13%	9%
			Constant prepayment rate	2% - 43%	4%
Mortgage servicing rights - Single-family	\$ 9,035	Discounted cash flow	Discount rate	11%	11%
			Constant prepayment rate	8% - 35%	16%
Derivative assets - interest rate lock commitments	\$ 6,131	Discounted cash flow	Loan closing rates	55% - 99%	75%

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

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***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 March 31, 2021 and December 31, 2020.

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)
<b>March 31, 2021</b>					
Financial assets:					
Cash and cash equivalents	\$ 269,439	\$ 269,439	\$ 269,439	\$ —	\$ —
Securities purchased under agreements to resell	6,544	6,544	—	6,544	—
FHLB stock	70,656	70,656	—	70,656	—
Loans held for sale	2,691,664	2,691,664	—	2,691,664	—
Loans, net	5,710,291	5,663,060	—	—	5,663,060
Interest receivable	22,111	22,111	—	22,111	—
Financial liabilities:					
Deposits	8,063,181	8,065,318	7,570,841	494,477	—
Short-term subordinated debt	14,960	14,960	—	14,960	—
FHLB advances	406,027	406,163	—	406,163	—
Other borrowing	124,173	124,173	—	124,173	—
Interest payable	2,090	2,090	—	2,090	—
<b>December 31, 2020</b>					
Financial assets:					
Cash and cash equivalents	\$ 179,728	\$ 179,728	\$ 179,728	\$ —	\$ —
Securities purchased under agreements to resell	6,580	6,580	—	6,580	—
FHLB stock	70,656	70,656	—	70,656	—
Loans held for sale	3,030,110	3,030,110	—	3,030,110	—
Loans, net	5,507,926	5,484,824	—	—	5,484,824
Interest receivable	21,770	21,770	—	21,770	—
Financial liabilities:					
Deposits	7,408,066	7,410,759	7,051,413	359,346	—
Short-term subordinated debt	14,960	14,960	—	14,960	—
FHLB advances	1,221,071	1,221,870	—	1,221,870	—
Federal Reserve discount window/PPPLF advances	112,225	112,225	—	112,225	—
Interest payable	1,476	1,476	—	1,476	—

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**Note 9: Earnings Per Share**

Earnings per share were computed as follows:

	Three Month Periods Ended March 31,					
	2021			2020		
	Net Income	Weighted- Average Shares	Per Share Amount	Net Income	Weighted- Average Shares	Per Share Amount
	(In thousands)			(In thousands)		
Net income	\$ 61,983			\$ 24,583		
Dividends on preferred stock	(3,757)			(3,618)		
Net income allocated to common shareholders	<u>\$ 58,226</u>			<u>\$ 20,965</u>		
Basic earnings per share		28,772,092	\$ 2.02		28,734,632	\$ 0.73
Effect of dilutive securities-restricted stock awards		78,322			24,780	
Diluted earnings per share		<u>28,850,414</u>	<u>\$ 2.02</u>		<u>28,759,412</u>	<u>\$ 0.73</u>

**Note 10: Share-Based Payment Plans**

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 plan until the time it is no longer outstanding. During the three months ended March 31, 2021 and March 31, 2020, the Company issued 35,056 and 36,046 shares, respectively, pursuant to these plans.

During 2018, the Compensation Committee of the Board of Directors approved a plan for non-executive directors to receive a portion of their annual retainer fees in the form of shares of common stock equal to \$10,000, rounded up to the nearest whole share. There were no shares issued to non-executive directors during the three months ended March 31, 2021 or March 31, 2020. In January 2021, the Board of Directors amended the plan for nonexecutive directors to receive a portion of their annual fees, issued quarterly, in the form of restricted common stock equal to \$50,000 per member, rounded up to the nearest whole share, to be effective after the Company’s next annual meeting of shareholders.

**Note 11: 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.

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The tables below present selected business segment financial information for the three months ended March 31, 2021 and 2020.

	<b>Multi-family Mortgage Banking</b>	<b>Mortgage Warehousing</b>	<b>Banking</b>	<b>Other</b>	<b>Total</b>
	(In thousands)				
<b>Three Months Ended March 31, 2021</b>					
Interest income	\$ 207	\$ 38,587	\$ 39,540	\$ 1,215	\$ 79,549
Interest expense	—	1,724	6,439	(577)	7,586
<b>Net interest income</b>	<b>207</b>	<b>36,863</b>	<b>33,101</b>	<b>1,792</b>	<b>71,963</b>
Provision for loan losses	—	(1,084)	2,747	—	1,663
<b>Net interest income after provision for loan losses</b>	<b>207</b>	<b>37,947</b>	<b>30,354</b>	<b>1,792</b>	<b>70,300</b>
Noninterest income	33,234	4,117	7,678	(1,093)	43,936
Noninterest expense	16,444	2,896	7,125	3,619	30,084
<b>Income before income taxes</b>	<b>16,997</b>	<b>39,168</b>	<b>30,907</b>	<b>(2,920)</b>	<b>84,152</b>
Income taxes	5,036	9,985	7,882	(734)	22,169
<b>Net income (loss)</b>	<b>\$ 11,961</b>	<b>\$ 29,183</b>	<b>\$ 23,025</b>	<b>\$ (2,186)</b>	<b>\$ 61,983</b>
<b>Total assets</b>	<b>\$ 219,954</b>	<b>\$ 4,383,759</b>	<b>\$ 5,010,799</b>	<b>\$ 90,748</b>	<b>\$ 9,705,260</b>

	<b>Multi-family Mortgage Banking</b>	<b>Mortgage Warehousing</b>	<b>Banking</b>	<b>Other</b>	<b>Total</b>
	(In thousands)				
<b>Three Months Ended March 31, 2020</b>					
Interest income	\$ 420	\$ 30,099	\$ 29,230	\$ 668	\$ 60,417
Interest expense	—	12,085	11,807	(1,828)	22,064
<b>Net interest income</b>	<b>420</b>	<b>18,014</b>	<b>17,423</b>	<b>2,496</b>	<b>38,353</b>
Provision for loan losses	—	1,180	1,818	—	2,998
<b>Net interest income after provision for loan losses</b>	<b>420</b>	<b>16,834</b>	<b>15,605</b>	<b>2,496</b>	<b>35,355</b>
Noninterest income	17,364	2,776	683	(921)	19,902
Noninterest expense	10,348	3,019	5,688	3,238	22,293
<b>Income before income taxes</b>	<b>7,436</b>	<b>16,591</b>	<b>10,600</b>	<b>(1,663)</b>	<b>32,964</b>
Income taxes	2,037	4,154	2,650	(460)	8,381
<b>Net income (loss)</b>	<b>\$ 5,399</b>	<b>\$ 12,437</b>	<b>\$ 7,950</b>	<b>\$ (1,203)</b>	<b>\$ 24,583</b>
<b>Total assets</b>	<b>\$ 180,772</b>	<b>\$ 4,362,423</b>	<b>\$ 3,323,750</b>	<b>\$ 41,453</b>	<b>\$ 7,908,398</b>

**Note 12: Preferred Stock Offerings**

*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 in underwriting discounts. The Series A Preferred Stock have no voting rights with respect to matters that generally require the approval of our common shareholders. Dividends on the Series A Preferred

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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 depository shares, each representing a 1/40<sup>th</sup> 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 depository share). The aggregate gross offering proceeds for the shares issued by the Company was \$125.0 million, and after deducting underwriting discounts and commissions and offering expenses of approximately \$4.2 million paid to third parties, the Company received total net proceeds of \$120.8 million. The Series B Preferred Stock have no voting rights with respect to matters that generally require the approval of our common shareholders. Dividends on the Series B Preferred Stock, to the extent declared by the Company's board, are payable quarterly. The Company may redeem the Series B Preferred Stock, in whole or in part, at 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.

On March 23, 2021, the Company issued 6,000,000 depository shares, each representing a 1/40<sup>th</sup> interest in a share of its 6.00% Fixed-to-Floating Rate Series C Non-Cumulative Perpetual Preferred Stock, without par value (the "Series C Preferred Stock"), and with a liquidation preference of \$1,000.00 per share (equivalent to \$25.00 per depository share). The aggregate gross offering proceeds for the shares issued by the Company was \$150.0 million, and after deducting underwriting discounts and commissions and offering expenses of approximately \$5.1 million paid to third parties, the Company received total net proceeds of \$144.9 million. The Series C Preferred Stock have no voting rights with respect to matters that generally require the approval of our common shareholders. Dividends on the Series C Preferred Stock, to the extent declared by the Company's board, are payable quarterly. The Company may redeem the Series C Preferred Stock, in whole or in part, at our option, on any dividend payment date on or after April 1, 2026, subject to the approval of the appropriate federal banking agency, at the liquidation preference, plus any declared and unpaid dividends (without regard to any undeclared dividends) to, but excluding, the date of redemption.

*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 was able to 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.

On April 15, 2021, all 41,625 shares of the Company's 8% preferred stock were redeemed for \$41.6 million, plus unpaid dividends of \$139,000. On May 6, 2021 these 8% preferred shareholders participated in a private offering to replace their redeemed shares with the Company's 6% Series C preferred stock. Accordingly, 46,181 shares (1,847,233 depository shares) of the Company's 6% Series C preferred stock were issued at a price of \$25 per depository share. The total capital raised from the private offering was \$46.1 million, net of \$50,000 in expenses.

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*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 13: Recent Accounting Pronouncements**

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

***FASB ASU 2016-02, Leases***

In February 2016, the Financial Accounting Standards Board (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, 2021, and for interim periods for years beginning after January 1, 2022. 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

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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 with 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 2019-12 - Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes***

In December 2019, the FASB issued ASU No. 2019-12. This ASU removes specific exceptions to the general principles in Topic 740 in GAAP. It eliminates the need for an organization to analyze whether the following apply in a given period: (1) exception to the incremental approach for intraperiod tax allocation; (2) exceptions to accounting for basis differences when there are ownership changes in foreign investments; and (3) exception in interim period income tax accounting for year-to-date losses that exceed anticipated losses. The ASU also improves financial statement preparers' application of income tax-related guidance and simplifies GAAP for: (1) franchise taxes that are partially based on income; (2) transactions with a government that result in a step up in the tax basis of goodwill; (3) separate financial statements of legal entities that are not subject to tax; and (4) enacted changes in tax laws in interim periods.

As an emerging growth company, the amendments in this update become effective for fiscal years beginning after December 15, 2021, and interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the impact of adopting the new guidance but does not expect it to have a material impact on the consolidated financial statements.

***FASB ASU 2020-04 - Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting***

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, which provides temporary, optional guidance to ease the potential burden in accounting for, or recognizing the effects of, the transition away from the LIBOR or other interbank offered rate on financial reporting. To help with the transition to new reference rates, the ASU provides optional expedients and exceptions for applying GAAP to affected contract modifications and hedge accounting relationships. The main provisions include:

- A change in a contract's reference interest rate would be accounted for as a continuation of that contract rather than as the creation of a new one for contracts, including loans, debt, leases, and other arrangements, that meet specific criteria.
- When updating its hedging strategies in response to reference rate reform, an entity would be allowed to preserve its hedge accounting.

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Entities may apply this ASU as of the beginning of an interim period that includes the March 12, 2020 issuance date of the ASU, through December 31, 2022. The Company is in the process of implementing a transition plan to identify and modify its loans and other financial instruments with attributes that are either directly or indirectly influenced by LIBOR. The Company believes the adoption of this guidance on activities subsequent to December 31, 2020 through December 31, 2022 would not have a material impact on the consolidated financial statements.

**Note 14: Subsequent Events**

On April 15, 2021, all 41,625 shares of the Company's 8% preferred stock were redeemed for \$41.6 million, plus unpaid dividends of \$139,000. On May 6, 2021 these 8% preferred shareholders participated in a private offering to replace their redeemed shares with the Company's 6% Series C preferred stock. Accordingly, 46,181 shares (1,847,233 depository shares) of the Company's 6% Series C preferred stock were issued at a price of \$25 per depository share. The total capital raised from the private offering was \$46.1 million, net of \$50,000 in expenses.

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**Forward-Looking Statements**

Certain statements in this Form 10-Q, including, but not limited to, statements within Management’s Discussion and Analysis of Financial Condition and Results of Operations, are “forward-looking statements” within the meaning of the rules and regulations of the Securities and Exchange Commission (“SEC”). These forward-looking statements reflect our current views with respect to, among other things, future events and our financial performance. These statements are often, but not always, made through the use of words or phrases such as “may,” “might,” “should,” “could,” “predict,” “potential,” “believe,” “expect,” “continue,” “will,” “anticipate,” “seek,” “estimate,” “intend,” “plan,” “projection,” “goal,” “target,” “outlook,” “aim,” “would,” “annualized,” and “outlook,” or the negative version of those words or other comparable words or phrases of a future or forward-looking nature. These forward-looking statements are not historical facts, and are based on current expectations, estimates and projections about our industry, management’s beliefs and certain assumptions made by management, many of which, by their nature, are inherently uncertain and beyond our control, such as the potential impacts of the COVID-19 pandemic. Accordingly, we caution that any such forward-looking statements are not guarantees of future performance and are subject to risks, assumptions, estimates and uncertainties that are difficult to predict. Although we believe that the expectations reflected in these forward-looking statements are reasonable as of the date made, actual results may prove to be materially different from the results expressed or implied by the forward-looking statements.

A number of important factors could cause our actual results to differ materially from those indicated in these forward-looking statements, including those factors identified in the “Risk Factors” section of our Annual Report on Form 10-K for the year ended December 31, 2020 or “Item 2 - Management’s Discussion and Analysis of Financial Condition and Results of Operations” of this Form 10-Q or the following:

- impacts of the COVID-19 pandemic, such as the severity, magnitude, duration, and businesses’ and governments’ responses thereto, on the Company’s operations and personnel, and on activity and demand across its businesses;
- 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;

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- 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 Form 10-Q. Any forward-looking statement speaks only as of the date on which it is made, and we do not undertake any obligation to update or review any forward-looking statement, whether as a result of new information, future developments, or otherwise.

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

Management's discussion and analysis of the financial condition at March 31, 2021 and results of operations for the three months ended March 31, 2021 and 2020, is intended to assist in understanding the financial condition and results of operations of the Company. The information contained in this section should be read in conjunction with the unaudited condensed consolidated financial statements and the notes thereto, appearing in Part I, Item 1 of this Form 10-Q.

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

#### Financial Highlights for the Three Months Ended March 31, 2021

- Net income of \$62.0 million increased 152% compared to the three months ended March 31, 2020.
- Diluted earnings per share of \$2.02 increased 177% compared to the three months ended March 31, 2020.
- The \$37.4 million, or 152%, increase in net income compared to the three months ended March 31, 2020 was primarily driven by a \$33.6 million, or 88%, increase in net interest income that reflected significant growth in multi-family and mortgage warehouse loans, and a \$13.8 million increase in loan servicing fees associated with a positive fair market value adjustment to mortgage servicing rights.
- Results reflected a \$6.9 million positive fair market value adjustment to mortgage servicing rights compared to a \$6.5 million negative adjustment in the three months ended March 31, 2020.
- Partially offsetting the increases in net income was a \$7.8 million, or 35%, increase in noninterest expenses, primarily due to an increase in salaries and employee benefits to support higher loan production volumes. However, the efficiency ratio was 26.0% compared to 38.3% for the three months ended March 31, 2020.
- The interest rate spread of 2.93% increased 74 basis points compared to 2.19% for the three months ended March 31, 2020. The net interest margin of 2.99% increased 59 basis points compared to 2.40% for the three months ended March 31, 2020. The increase reflected higher loan volume and lower funding costs that outpaced the lower interest rates on loans.
- Total assets of \$9.7 billion increased \$1.8 billion, or 23%, compared to March 31, 2020, driven primarily by growth in loans receivable due to higher loan volume generated in multi-family business.
- Return on average assets was 2.49% compared to 1.49% for the three months ended March 31, 2020.
- Credit quality remained strong, as nonperforming loans (nonaccrual and accruing loans greater or equal to 90 days past due) decreased to 0.08% of loans receivable at March 31, 2021, compared to 0.11% at December 31, 2020 and 0.19% at March 31, 2020.
- There was a 26% increase in warehouse loan volume compared to the three months ended March 31, 2020, which was lower than the industry volume increase of 94%, according to the Mortgage Bankers Association. This volume growth reflected the strength of our lending platform, which was partially offset by our efforts to actively manage asset levels, while remaining well capitalized.
- The volume of loans originated and acquired for sale in the secondary market through our multi-family business decreased by \$91.2 million, to \$719.4 million, compared to \$810.6 million for the three months ended March 31, 2020, primarily driven by one unusually large loan in the amount of \$337.5 million reported for the three months ended March 31, 2020.

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- The Company completed a successful offering of its 6% Series C preferred stock on March 23, 2021, raising \$144.9 million, net of \$5.1 million in offering costs.
- On April 15, 2021, all 41,625 shares of the Company's 8% preferred stock were redeemed for \$41.6 million, plus unpaid dividends of \$139,000. On May 6, 2021 these 8% preferred shareholders participated in a private offering to replace their redeemed shares with the Company's 6% Series C preferred stock. Accordingly, 46,181 shares (1,847,233 depository shares) of the Company's 6% Series C preferred stock were issued at a price of \$25 per depository share. The total capital raised from the private offering was \$46.1 million, net of \$50,000 in expenses.

### **Business Overview**

We are a diversified bank holding company headquartered in Carmel, Indiana and registered under the Bank Holding Company Act of 1956, as amended. We currently operate in 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.

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 serving to maximize net income and shareholder return.

### **Critical Accounting Policies and Estimates**

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

The Jumpstart Our Business Startups Act of 2012 ("JOBS Act") contains provisions that, among other things, reduce certain reporting requirements for qualifying public companies. 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 until December 31, 2022, at the latest. Accordingly, our financial statements may not be comparable to companies that comply with such new or revised accounting standards.

The estimates and judgments that management believes have the most effect on its reported financial position and results of operations are set forth within "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2020. There have been no significant changes in critical accounting policies or the assumptions and judgments utilized in applying these policies since those reported for the year ended December 31, 2020.

### **Financial Condition**

As of March 31, 2021, we had approximately \$9.7 billion in total assets, \$8.1 billion in deposits, and \$1.0 billion in total shareholders' equity. Total assets as of March 31, 2021 included approximately \$269.4 million of cash and cash equivalents, \$2.7 billion of loans held for sale and \$5.7 billion of loans held for investment. It also includes \$432.1 million of mortgage loans in the process of securitization that represent pre-sold multi-family rental real estate loan

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originations in primarily Government National Mortgage Association (“GNMA”) mortgage backed securities pending settlements that typically occur within 30 days. There are \$241.7 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 were \$96.2 million at March 31, 2021 based on the fair value of the loan servicing, which are primarily GNMA servicing rights with 10-year call protection.

### Comparison of Financial Condition at March 31, 2021 and December 31, 2020

**Total Assets.** Total assets increased \$59.9 million, to \$9.7 billion at March 31, 2021 from \$9.6 billion at December 31, 2020. The increase was due primarily to increases in net loans receivable of \$202.4, mortgage loans in process of securitization of \$93.3 million, cash and cash equivalents of \$89.7 million, mortgage servicing rights of \$13.6 million and was partially offset by a decrease in loans held for sale of \$320.5.

While we do not expect to continue the same asset growth rate we experienced in 2020 and do expect to continue to meet the eligibility of and utilize community bank leverage ratio (“CBLR”), including any applicable grace period (as discussed under the caption *Liquidity and Capital Resources* below), we may take advantage of market conditions that could present opportunities for continued growth, even if such opportunities result in us exceeding \$10 billion in assets.

**Cash and Cash Equivalents.** Cash and cash equivalents increased \$89.7 million, or 50%, to \$269.4 million at March 31, 2021 from \$179.7 million at December 31, 2020. The 50% increase reflected cash levels consistent with strategies to manage cash and borrowings most cost-effectively for our increased funding activities.

**Mortgage Loans in Process of Securitization.** Mortgage loans in process of securitization increased \$93.4 million, or 28%, to \$432.1 million at March 31, 2021, from \$338.7 million at December 31, 2020. These represent loans that our banking subsidiary, Merchants Bank, has funded and are held pending settlement, primarily as GNMA mortgage-backed securities with a firm investor commitment to purchase the securities. The 28% increase was primarily due to an increase in the volume of loans that had not yet settled with government agencies.

**Securities Available for Sale.** Securities available for sale decreased \$28.1 million, or 10%, to \$241.7 million at March 31, 2021 from \$269.8 million at December 31, 2020. The decrease in securities available for sale was primarily due to maturities, sales, and repayments of securities totaling \$27.9 million during the period. We invest in available for sale securities primarily using funds from escrow deposits held at Merchants Bank, received in connection with our multi-family mortgage servicing activities. The available for sale securities are funded by, and paired with as to interest rates, escrow custodial deposits held at the Company on loans serviced by us. This portfolio of securities is structured to achieve a favorable interest rate spread.

**Loans Held for Sale.** Loans held for sale, comprised primarily of single-family residential real estate loan participations that meet Federal National Mortgage Association (“Fannie Mae”), Federal Home Loan Mortgage Corporation (“Freddie Mac”), or GNMA eligibility, decreased \$320.5 million, or 10%, to \$2.7 billion at March 31, 2021 from \$3.1 billion at December 31, 2020. The decrease in loans held for sale was due primarily to a decrease in warehouse and warehouse participations, as we actively managed asset levels, while remaining well capitalized.

**Loans Receivable, Net.** Loans receivable, net, which are comprised of loans held for investment, increased \$202.4 million, or 4%, to \$5.7 billion at March 31, 2021 compared to December 31, 2020. The increase in net loans was comprised primarily of:

- an increase of \$457.6 million, or 17%, in multi-family and healthcare financing loans, to \$3.2 billion at March 31, 2021, partially offset by

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- a decrease of \$271.2 million, or 17%, in mortgage warehouse lines of credit, to \$1.3 billion at March 31, 2021.

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 decrease in mortgage warehouse lines of credit was primarily due to a decrease in volume, consistent with industry trends. There was a 30% decrease in warehouse loan volume compared to the three months ended December 31, 2020, which compared to the industry volume decrease of 13%, according to the Mortgage Bankers Association. This decline in volume reflected our efforts to actively manage asset levels, while remaining well capitalized.

As of March 31, 2021, approximately 94% of the total net loans at Merchants Bank repriced within three months.

**Allowance for Loan Losses.** The allowance for loan losses of \$29.1 million at March 31, 2021 increased \$1.6 million compared to December 31, 2020, and increased \$10.2 million compared to March 31, 2020, primarily reflecting increases associated with loan growth and uncertainties surrounding the COVID-19 pandemic. Approximately 91% of the \$10.2 million compared to March 31, 2020, was related to loan growth and portfolio mix, while an additional provision associated with the COVID-19 pandemic represented approximately \$0.6 million, or 6%, of the increase.

We have minimal direct exposure to consumer, commercial, and other small businesses that may be negatively impacted by COVID-19, but continues to assist customers facing financial setbacks. As of March 31, 2021, the Company had only 9 loans remaining in payment deferral arrangements, with unpaid balances of \$37.2 million compared to \$0.9 million at December 31, 2020, with the increase reflecting one multi-family loan for which full repayment is expected and is fully collateralized.

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

**Goodwill.** Goodwill of \$15.8 million at March 31, 2021 remained unchanged compared to December 31, 2020. At this time, we do not believe there exists any impairment to goodwill or intangible assets.

**Mortgage Servicing Rights.** Mortgage servicing rights increased \$13.6 million, or 16%, to \$96.2 million at March 31, 2021 compared to December 31, 2020. During the three months ended March 31, 2021, originated and purchased servicing of \$10.2 million was offset by paydowns of \$3.4 million and a fair value increase of \$6.9 million. This positive fair market value adjustment reflected \$4.7 million for single-family mortgages and \$2.1 million for multi-family mortgages during the three months ended March 31, 2021. Mortgage servicing rights are recognized in connection with sales of loans when we retain servicing of the sold loans, as well as upon purchases of loan servicing portfolios. The mortgage servicing rights are recorded and carried at fair value. The fair value increase recorded during the three months ended March 31, 2021 was driven by higher loan balances of mortgages serviced and higher interest rates that impacted fair market value adjustments. The value of mortgage servicing rights generally increases in rising interest rate environments and declines in falling interest rate environments.

**Deposits.** Deposits increased \$655.1 million, or 9%, to \$8.1 billion at March 31, 2021 from \$7.4 billion at December 31, 2020. The increase was primarily due to growth in savings and traditional demand accounts. Savings deposits increased \$314.5 million, or 16%, to \$2.3 billion at March 31, 2021, while demand deposits increased \$204.9 million, or 4%, to \$5.3 billion at March 31, 2021.

We have decreased our use of brokered deposits by \$315.6 million, or 27%, to \$858.2 million at March 31, 2021 from \$1.2 billion at December 31, 2020. Brokered deposits represented 11% of total deposits at March 31, 2021, compared to 16% of total deposits at December 31, 2020.

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- Brokered demand deposit accounts decreased by \$295.0 million, or 36%, to \$525.1 million at March 31, 2021 compared to December 31, 2020.
- Brokered certificates of deposit accounts decreased \$16.1 million, or 55%, to \$13.0 million at March 31, 2021 compared to December 31, 2020.
- Brokered savings deposits decreased \$4.4 million, or 1%, to \$320.0 million at March 31, 2021 compared to December 31, 2020.

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

Compared to December 31, 2020, interest-bearing deposits increased \$690.1 million, or 11%, to \$7.2 billion at March 31, 2021, and noninterest-bearing deposits decreased \$35.0 million, to \$818.6 million at March 31, 2021.

**Borrowings.** Borrowings totaled \$545.2 million at March 31, 2021, a decrease of \$803.1 million, or 60%, from December 31, 2020. Depending on rates and timing, borrowing can be a more effective liquidity management alternative than utilizing brokered certificates of deposits. The Company utilizes FHLB, the Federal Reserve’s discount window, the Paycheck Protection Program Liquidity Facility (“PPPLF”) and the American Financial Exchange (“AFX”), which is contributing to lower interest expense.

We also increased our unused and available borrowing capacity based on available collateral. As of March 31, 2021, we had \$3.7 billion in unused lines of credit, compared to \$2.6 billion at December 31, 2020. While the amounts available fluctuate daily, we also had an additional \$250.0 million of borrowing capacity through our membership in the AFX as of March 31, 2021.

**Total Shareholders’ Equity.** Total shareholders’ equity increased \$200.6 million, or 25%, to \$1.0 billion at March 31, 2021 compared to December 31, 2020. The increase resulted primarily from a Series C 6% preferred stock offering on March 23, 2021, raising \$144.9 million in new capital, net of \$5.1 million in offering costs.

### Asset Quality

The Company believes it has minimal direct exposure on loans to consumer, commercial and other small businesses that may be negatively impacted by COVID-19. As of March 31, 2021, we had only 9 loans remaining in payment deferral arrangements, with unpaid balances of \$37.2 million. This increased compared to \$0.9 million at December 31, 2020 was due to one multi-family loan for which full repayment is expected and is fully collateralized. Management has also assisted small businesses that could benefit from the Coronavirus Aid, Relief and Economic Security (“CARES”) Act, particularly in the SBA’s Paycheck Protection Program (“PPP”). As of March 31, 2021, we had principal balances of \$65.9 million in loans to small businesses under this program, compared to \$60.2 million at December 31, 2020.

Total nonperforming loans (nonaccrual and greater than 90 days late but still accruing) were \$4.7 million, or 0.08%, of loans receivable at March 31, 2021, compared to \$6.3 million, or 0.11%, of total loans at December 31, 2020 and \$6.6 million, or 0.19%, at March 31, 2020.

As a percentage of nonperforming loans, the allowance for loan losses was 622.4% at March 31, 2021 compared to 435.1% at December 31, 2020 and 288.0% at March 31, 2020. The changes compared to both periods were primarily due to the changes in the nonperforming loans.

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Total loans greater than 30 days past due were \$6.6 million at March 31, 2021, \$47.8 million at December 31, 2020, and \$9.5 million at March 31, 2020.

Traditional Special Mention (Watch) loans were \$135.2 million at March 31, 2021, compared to \$152.9 million at December 31, 2020 and \$48.3 million at March 31, 2020. The increase compared to March 31, 2020 reflected certain multi-family projects that have experienced cost over-runs funded by the borrower and lower than projected rent collections and occupancy levels, all of which have contributed to lower than projected cash flow of the projects. An additional category of Special Mention (Watch) loans was added as of June 30, 2020, and as of March 31, 2021 included \$390,000 in arrangements related to COVID-19 deferral plans that were not already included in the traditional Special Mention or Substandard categories. Classified (substandard, doubtful and loss) loans were \$9.0 million at March 31, 2021, \$14.5 million at December 31, 2020 and \$14.1 million at March 31, 2020.

During the three months ended March 31, 2021 there were \$74,000 of charge-offs and \$2,000 of recoveries, compared to \$1,000 of charge-offs and \$44,000 of recoveries for the three months ended March 31, 2020.

#### Comparison of Operating Results for the Three Months Ended March 31, 2021 and 2020

**General.** Net income for the three months ended March 31, 2021 was \$62.0 million, an increase of \$37.4 million, or 152%, from net income of \$24.6 million for the three months ended March 31, 2020. The increase was due to a \$33.6 million, or 88%, increase in net interest income that reflected significant growth in multi-family and mortgage warehouse loans, a \$13.8 million increase in loan servicing fees that were primarily associated with a positive fair market value adjustment to mortgage servicing rights, and a \$7.5 million, or 35%, increase in gain on sale of loans.

Partially offsetting the increases to net income was a \$13.8 million increase in the provision for income taxes due to a 155% increase in pre-tax income, as well as a \$7.0 million, or 49%, increase in salaries and employee benefits to support higher loan production volumes.

**Net Interest Income.** Net interest income increased \$33.6 million, or 88%, to \$72.0 million for the three months ended March 31, 2021, compared with the three months ended March 31, 2020. The increase was due to significantly higher loan growth and higher net interest margin. The interest rate spread of 2.93% for the three months ended March 31, 2021 increased 74 basis points compared to 2.19% for the three months ended March 31, 2020.

Our net interest margin increased 59 basis points, to 2.99%, for the three months ended March 31, 2021 from 2.40% for the three months ended March 31, 2020. The increase in net interest margin reflected higher loan volume and lower funding costs that outpaced the lower interest rates on loans.

**Interest Income.** Interest income increased \$19.1 million, or 32%, to \$79.5 million for the three months ended March 31, 2021, compared with the three months ended March 31, 2020. This increase was primarily attributable to significant loan growth that was partially offset by lower rates.

The average balance of loans, including loans held for sale, during the three months ended March 31, 2021 increased \$3.4 billion, or 67%, to \$8.4 billion compared to the three months ended March 31, 2020, while the average yield on loans decreased 64 basis points, to 3.66%, for the three months ended March 31, 2021, compared to 4.30% for the three months ended March 31, 2020. The increase in average balances of loans and loans held for sale was primarily due to significant increases in multi-family volume. The decrease in the average yield on loans reflected higher loan volume and lower overall interest rates in the economy period to period.

The average balance of mortgage loans in process of securitization increased \$150.5 million, or 43%, to \$500.2 million for the three months ended March 31, 2021, compared to \$349.7 million for the three months ended March 31, 2020, while the average yield decreased 68 basis points to 2.54% for the three months ended March 31, 2021.

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The average balance of interest-earning deposits and other decreased \$166.9 million, or 21%, to \$610.9 million for the three months ended March 31, 2021 from \$777.8 million for the three months ended March 31, 2020, while the average yield decreased 105 basis points, to 0.35%, for the three months ended March 31, 2021.

**Interest Expense.** Total interest expense decreased \$14.5 million, or 66%, to \$7.6 million for the three months ended March 31, 2021, compared with the three months ended March 31, 2020.

Interest expense on deposits decreased \$14.5 million, or 70%, to \$6.1 million for the three months ended March 31, 2021 from the three months ended March 31, 2020. The decrease was primarily due to significant decreases in balances and rates of brokered certificates of deposits, as well as higher balances of custodial interest-bearing checking accounts with warehouse customers that are tied to short-term LIBOR rates, which declined significantly. The average balance of certificates of deposits of \$416.4 million for the three months ended March 31, 2021 decreased \$1.5 billion, or 79%, compared to the three months ended March 31, 2020. The average yield of certificates of deposits was 1.09% for the three months ended March 31, 2021, which was a 77 basis point decrease compared to 1.86% for the three months ended March 31, 2020. The average balance of interest-bearing deposits of \$4.8 billion for the three months ended March 31, 2021 increased \$2.7 billion, or 133%, compared to the three months ended March 31, 2020. The average yield of interest-bearing deposits was 0.10% for the three months ended March 31, 2021, which was a 124 basis point decrease compared to 1.34% for the three months ended March 31, 2020.

Interest expense on borrowings increased 4%, to \$1.5 million for the three months ended March 31, 2021, compared to the three months ended March 31, 2020. The increase was due primarily to a \$521.6 million, or 180%, increase in the average balance of borrowings outstanding for the three months ended March 31, 2021 that was partially offset by a 125 basis point decrease in the average cost of borrowings to 0.74%, compared to 1.99% for the three months ended March 31, 2020. The higher average balances for the three months ended March 31, 2021 reflected an increase in borrowing from the FHLB, the Federal Reserve discount window, PPPLF, and the AFX at lower rates. Also included in borrowings, our warehouse structured financing agreements provide for an additional interest payment for a portion of the earnings generated. As a result, the cost of borrowings increased from a base rate of 0.37% and 0.96%, to an effective rate of 0.74% and 1.99% for the three months ended March 31, 2021 and 2020, respectively.

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

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**Merchants Bancorp**

	Three Months Ended March 31,					
	2021			2020		
	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yield/ Rate
	(Dollars in thousands)					
<b>Assets:</b>						
Interest-bearing deposits, and other	\$ 610,884	\$ 531	0.35 %	\$ 777,820	\$ 2,698	1.40 %
Securities available for sale - taxable	267,428	354	0.54 %	293,964	1,322	1.81 %
Securities available for sale - tax exempt	1,366	11	3.27 %	5,305	37	2.81 %
Mortgage loans in process of securitization	500,234	3,136	2.54 %	349,746	2,796	3.22 %
Loans and loans held for sale	8,379,227	75,517	3.66 %	5,012,324	53,564	4.30 %
Total interest-earning assets	9,759,139	79,549	3.31 %	6,439,159	60,417	3.77 %
Allowance for loan losses	(28,308)			(15,841)		
Noninterest-earning assets	222,080			181,076		
Total assets	<u>\$ 9,952,911</u>			<u>\$ 6,604,394</u>		
<b>Liabilities/Equity:</b>						
Interest-bearing checking	\$ 4,806,665	\$ 1,210	0.10 %	\$ 2,064,967	\$ 6,891	1.34 %
Savings deposits	192,196	37	0.08 %	163,154	58	0.14 %
Money market	2,065,218	3,738	0.73 %	1,143,249	4,575	1.61 %
Certificates of deposit	416,426	1,115	1.09 %	1,964,622	9,106	1.86 %
Total interest-bearing deposits	7,480,505	6,100	0.33 %	5,335,992	20,630	1.55 %
Borrowings	810,856	1,486	0.74 %	289,263	1,434	1.99 %
Total interest-bearing liabilities	8,291,361	7,586	0.37 %	5,625,255	22,064	1.58 %
Noninterest-bearing deposits	740,807			235,020		
Noninterest-bearing liabilities	67,843			74,950		
Total liabilities	9,100,011			5,935,225		
Equity	852,900			669,169		
Total liabilities and equity	<u>\$ 9,952,911</u>			<u>\$ 6,604,394</u>		
Net interest income		<u>\$ 71,963</u>			<u>\$ 38,353</u>	
Interest rate spread			<u>2.93 %</u>			<u>2.19 %</u>
Net interest-earning assets	<u>\$ 1,467,778</u>			<u>\$ 813,904</u>		
Net interest margin			<u>2.99 %</u>			<u>2.40 %</u>
Average interest-earning assets to average interest-bearing liabilities			<u>117.70 %</u>			<u>114.47 %</u>

**Provision for Loan Losses.** We recorded a provision for loan losses of \$1.7 million for the three months ended March 31, 2021, a decrease of \$1.3 million, over the three months ended March 31, 2020. The allowance for loan losses was \$29.1 million, or 0.51% of total loans, at March 31, 2021, compared to \$27.5 million, or 0.50% of total loans, at December 31, 2020, and \$18.9 million, or 0.54%, at March 31, 2020. The increases in the allowance for loan losses compared to both prior periods reflected increases associated with loan growth and uncertainties surrounding COVID-19. Additional details are provided in the Allowance for Loan Losses portion of the Comparison of Financial Condition at March 31, 2021 and December 31, 2020. While it is too early to know the full extent of potential future losses associated with the impact of COVID-19, the Company continues to monitor the situation and may need to adjust future expectations as developments occur.

**Noninterest Income.** Noninterest income increased \$24.0 million, or 121%, to \$43.9 million for the three months ended March 31, 2021, compared to the three months ended March 31, 2020. The increase was primarily due to a \$13.8 million, or 237%, increase in loan servicing fees that included a \$6.9 million positive fair market value adjustment to mortgage servicing rights for the three months ended March 31, 2021, compared to a \$6.5 million negative adjustment to fair value of mortgage servicing rights for the three months ended March 31, 2020.

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Also contributing to the increase in noninterest income was a \$7.5 million, or 35%, increase in gain on sale of loans, to \$28.6 million, for the three months ended March 31, 2021 compared to the three months ended March 31, 2020, primarily from an increase in volume from multi-family mortgage loans.

A summary of the gain on sale of loans for the three months ended March 31, 2021 and 2020 is below:

	<b>Gain on Sale of Loans Three Months Ended</b>	
	<b>March 31, 2021</b>	<b>March 31, 2020</b>
	<b>(in thousands)</b>	
<b>Loan Type</b>		
Multi-family	\$ 22,836	\$ 18,852
Single-family	4,213	2,074
Small Business Association (SBA)	1,571	240
<b>Total</b>	<b>\$ 28,620</b>	<b>\$ 21,166</b>

**Noninterest Expense.** Noninterest expense increased \$7.8 million, or 35%, to \$30.1 million for the three months ended March 31, 2021, compared to the three months ended March 31, 2020. The increase was due primarily to a \$7.0 million, or 49% increase in salaries and employee benefits to support higher loan production volumes. Also contributing to the increase was a \$1.4 million, or 117%, increase in loan expenses. The efficiency ratio was at 26.0% in the three months ended March 31, 2021, compared with 38.3% in the three months ended March 31, 2020.

**Income Taxes.** Income tax expense increased \$13.8 million, or 165%, to \$22.2 million for the three months ended March 31, 2021 from the three months ended March 31, 2020. The increase was due primarily to a 155% increase in pretax income period to period. The effective tax rate was 26.3% for the three months ended March 31, 2021 and 25.4% for the three months ended March 31, 2020.

**Our Segments**

We operate in three primary segments: Multi-family Mortgage Banking, Mortgage Warehousing, and Banking. We believe that Merchants Bank's subsidiary, Merchants Capital Corp. ("MCC"), which operates in our Multi-Family Mortgage Banking segment, is one of the largest FHA lenders and GNMA servicers in the country based on aggregate loan principal value. As of March 31, 2021, MCC also had a \$17.9 billion servicing portfolio for banks and investors, including \$3.9 billion serviced for Merchants Bank. The servicing portfolio is primarily GNMA loans and is a significant source of our noninterest income and deposits.

Our Mortgage Warehousing segment funds agency eligible loans for non-depository financial institutions from the date of origination or purchase until the date of sale to an investor, which typically takes less than 30 days and is a significant source of our net interest income, loans, and deposits. Mortgage Warehousing has grown to fund over \$20 billion of loan principal annually since 2015 and exceeded \$111 billion in 2020. Mortgage Warehousing also provides commercial loans and collects deposits related to the mortgage escrow accounts of its customers.

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

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## Merchants Bancorp

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

For the three months ended March 31, 2021 and 2020, we had total net income of \$62.0 million and \$24.6 million, respectively. Net income for our three segments for the respective periods was as follows:

	For the Three Months Ended	
	March 31,	
	2021	2020
	(In thousands)	
Multi-family Mortgage Banking	\$ 11,961	\$ 5,399
Mortgage Warehousing	29,183	12,437
Banking	23,025	7,950
Other	(2,186)	(1,203)
Total	\$ 61,983	\$ 24,583

**Multi-family Mortgage Banking.** The Multi-family Mortgage Banking segment reported net income of \$12.0 million for the three months ended March 31, 2021, an increase of \$6.6 million, or 122%, from net income of \$5.4 million reported for the three months ended March 31, 2020. The growth was primarily due to higher noninterest income from a \$6.8 million increase in gain on sale of loans and a \$9.3 million increase in loan servicing fees that reflected a positive fair market value adjustment of \$2.1 million on multi-family mortgage servicing rights for the three months ended March 31, 2021, compared to a negative fair market value adjustment of \$6.5 million for the three months ended March 31, 2020.

Partially offsetting the increase in gain on sale of loans and loan servicing fees was a \$6.1 million increase in noninterest expenses, primarily due to an increase in salaries and employee benefits to support higher loan production volumes, in addition to a \$3.0 million increase in the provision for income taxes associated with a 129% higher pre-tax income compared to the three months ended March 31, 2020.

**Mortgage Warehousing.** The Mortgage Warehousing segment reported net income for the three months ended March 31, 2021 of \$29.2 million, an increase of \$16.7 million, or 135%, over the three months ended March 31, 2020. The higher net income was primarily due to a \$21.1 million, or 125%, increase in net interest income after provision for loan losses, associated with higher loan volume. There was a 26% increase in warehouse loan volume of \$21.1 billion compared to \$16.8 billion for the three months ended March 31, 2020, which was lower than the industry volume increase of 94%, according to the Mortgage Bankers Association. This volume growth reflected the strength of our lending platform, which was partially offset by our efforts to actively manage asset levels, while remaining well capitalized. Also contributing to the increase in net income for the three months ended March 2021 compared to the prior year period was a \$1.3 million, or 48%, increase in noninterest income that was offset by a \$5.8 million increase in the provision for income taxes associated with a 136% higher pre-tax income.

**Banking.** The Banking segment reported net income of \$23.0 million for the three months ended March 31, 2021, an increase of \$15.1 million, or 190%, over the three months ended March 31, 2020. The increase in net income was primarily due to \$15.7 million higher net interest income and \$4.9 million higher loan servicing fees that reflected a positive fair market value adjustment of \$4.7 million on single-family mortgage servicing rights for the three months ended March 31, 2021 compared to an immaterial fair market value adjustment for the three months ended March 31, 2020.

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Partially offsetting the increase in net interest income and loan servicing fees was a \$5.2 million increase in the provision for income taxes associated with a 192% higher pre-tax income compared to the three months ended March 31, 2020.

### Liquidity and Capital Resources

#### *Liquidity.*

Our primary sources of funds are business and consumer deposits, escrow and custodial deposits, brokered deposits, borrowings, principal and interest payments on loans, and proceeds from sale of loans. While maturities and scheduled amortization of loans are predictable sources of funds, deposit flows and mortgage prepayments are greatly influenced by market interest rates, economic conditions, and competition. Our most liquid assets are cash, short-term investments, including interest-bearing demand deposits, mortgage loans in process of securitization, and loans held for sale. 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 \$295.8 million and \$(871.6) million for the three months ended March 31, 2021 and 2020, 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 \$(194.7) million and \$(568.4) million for the three months ended March 31, 2021 and 2020, respectively. Net cash (used in) provided by financing activities, which is comprised primarily of net change in deposits, borrowings and preferred stock offerings was \$(11.4) million and \$1.5 billion for the three months ended March 31, 2021 and 2020, respectively.

At March 31, 2021, we had \$1.6 billion in outstanding commitments to extend credit that are subject to credit risk and \$3.1 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.

Within our role as a multi-family mortgage servicer for other banks and investors, we may be obligated to remit principal and interest payments to investors on certain loans regardless of the borrower's ability to make payments, which could become more likely as a result of the COVID-19 pandemic. If there are situations where a borrower is granted a forbearance, the Company believes it has sufficient liquidity to cover these required advances. We have not received any requests for forbearance in our multi-family portfolio that is serviced for others as of March 31, 2021 but remain confident in our ability to fund potential advances we may be required to make as a result of the COVID-19 pandemic.

Certificates of deposit that are scheduled to mature in less than one year from March 31, 2021 totaled \$349.7 million. Management expects that a substantial portion of the maturing certificates of deposit will be renewed. However, if a substantial portion of these deposits is not retained, we may decide to utilize FHLB advances, the Federal Reserve discount window, brokered deposits, or raise interest rates on deposits to attract new accounts, which may result in higher levels of interest expense.

At March 31, 2021, based on available collateral, we had \$3.7 billion in unused lines of credit with the FHLB, the Federal Reserve discount window. While the amounts available fluctuate daily, we also had an additional \$250.0 million of borrowing capacity through our membership in the AFX as of March 31, 2021. This liquidity enhances the ability to effectively manage interest expense and asset levels in the future. The Company began utilizing the PPPLF and the Federal Reserve discount window during 2020, and AFX during the three months ended March 31, 2021.

## Merchants Bancorp

### *Capital Resources.*

The access to and cost of funding for new business initiatives, the ability to engage in expanded business activities, the ability to pay dividends, the level of deposit insurance costs and the level and nature of regulatory oversight depend, in part, on our capital position. The Company filed a shelf registration statement on Form S-3 with the SEC on December 30, 2019, which was declared effective on January 9, 2020, under which we can issue up to \$300 million aggregate offering amount of 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 \$1.0 billion as of March 31, 2021, compared to \$810.6 million as of December 31, 2020. The \$200.6 million increase resulted primarily from a 6% Series C preferred stock offering on March 23, 2021, raising \$144.9 million in new capital, net of \$5.1 million in offering costs.

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

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

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

Dividends on the Series A Preferred Stock, to the extent declared by the Company's board, are payable quarterly at an annual rate of \$1.75 per share through March 31, 2024. After such date, quarterly dividends 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% Series B Preferred Stock.* In August 2019 the Company issued 5,000,000 depositary shares, each representing a 1/40<sup>th</sup> 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 September 30, 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.

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**Merchants Bancorp**

*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. As of December 31, 2020, the 8% Preferred Stock became redeemable by the Company at any time, subject to regulatory approval and upon at least 30 days’ prior notice to the holders thereof.

On April 15, 2021, all 41,625 shares of the Company’s 8% preferred stock were redeemed for \$41.6 million, plus unpaid dividends of \$139,000.

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

On May 6, 2021, our 8% preferred shareholders participated in a private offering to replace their redeemed 8% preferred shares with the Company’s 6% Series C preferred stock. Accordingly, 46,181 shares (1,847,233 depositary shares) of the Company’s 6% Series C preferred stock were issued at a price of \$25 per depositary share. The total capital raised from the private offering was \$46.1 million, net of \$50,000 in expenses.

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

*Common Shares/Dividends.* As of March 31, 2021, the Company had 28,782,139 common shares issued and outstanding. In February 2021, the Board declared quarterly dividends at an annual rate of \$0.36 per share.

*Capital Adequacy.*

The following tables present the Company’s capital ratios at March 31, 2021 and December 31, 2020:

	Actual		Minimum Amount To Be Well Capitalized <sup>(1)</sup>	
	Amount	Ratio	Amount	Ratio
<b>March 31, 2021</b>				
CBLR (Tier 1) capital <sup>(1)</sup> (to average assets)				
(i.e., CBLR - leverage ratio)				
Company	\$ 993,392	10.1 %	\$ 839,158	> 8.5 %
Merchants Bank	913,718	9.5 %	816,735	> 8.5 %
FMBI	25,492	9.6 %	22,537	> 8.5 %

(1) As defined by regulatory agencies.

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**Merchants Bancorp**

	Actual		Minimum Amount To Be Well Capitalized <sup>(1)</sup>	
	Amount	Ratio	Amount	Ratio
<b>December 31, 2020</b>				
CBLR (Tier 1) capital <sup>(1)</sup> (to average assets) (i.e., CBLR - leverage ratio)				
Company	\$ 792,456	8.6 %	\$ 738,019	> 8 %
Merchants Bank	781,221	8.7 %	718,120	> 8 %
FMBI	24,456	9.8 %	19,979	> 8 %

(1) As defined by regulatory agencies.

On November 13, 2019, the federal regulators finalized and adopted a regulatory capital rule establishing a new CBLR, which became effective on January 1, 2020. 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 a 9% threshold, subject to a limited two quarter grace period, during which the leverage ratio cannot go 100 basis points below the then applicable threshold, and will not be required to calculate and report risk-based capital ratios. Eligibility criteria to utilize CBLR includes the following:

- Total assets of less than \$10 billion,
- Total trading assets plus liabilities of 5% or less of consolidated assets,
- Total off-balance sheet exposures of 25% or less of consolidated assets,
- Cannot be an advanced approaches banking organization, and
- Leverage ratio greater than 9%, or temporarily reduced threshold established in response to COVID-19.

In April 2020, under the CARES Act, the 9% leverage ratio threshold was temporarily reduced to 8% in response to the COVID-19 pandemic. The threshold increased to 8.5% in 2021 and will return to 9% in 2022. The Company, Merchants Bank, and FMBI elected to begin using CBLR in the first quarter of 2020 and all intend to utilize this measure for the foreseeable future and thus will not calculate or report risk-based capital ratios.

On December 2, 2020 the FDIC issued an interim final rule related to COVID-19 as it pertains to eligibility to utilize CBLR. The rule allows organizations with less than \$10 billion in total assets as of December 31, 2019, to use the assets on that date to determine the applicability of various regulatory asset thresholds during 2020 and 2021.

Management believes, as of March 31, 2021 and December 31, 2020, that the Company, Merchants Bank, and FMBI met all the regulatory capital adequacy requirements with CBLR to be classified as well-capitalized, and management is not aware of any conditions or events since the most recent regulatory notification that would change the Company's, Merchants Bank's, or FMBI's category.

Failure to exceed the leverage ratio thresholds required under CBLR in the future, subject to any applicable grace period, would require the Company, Merchants Bank, and/or FMBI to return to the risk-based capital ratio thresholds previously utilized under the fully phased-in Basel III Capital Rules to determine capital adequacy.

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**Merchants Bancorp**

**Quantitative and Qualitative Disclosures About Market Risk**

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

**Interest Rate Risk**

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.

*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 March 31, 2021 and December 31, 2020.

	Net Interest Income Sensitivity Twelve Months Forward			
	- 200	- 100	+ 100	+ 200
	(Dollars in thousands)			
March 31, 2021:				
Dollar change	\$ 9,596	\$ 5,922	\$ 23,659	\$ 59,848
Percent change	3.7 %	2.3 %	9.1 %	23.1 %
December 31, 2020:				
Dollar change	\$ (11,899)	\$ (10,651)	\$ 21,027	\$ 50,305
Percent change	(4.5)%	(4.0)%	8.0 %	19.1 %

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 March 31, 2021 we estimated that we are within policy limits set by our board of directors for the -200, -100, +100, and +200 basis point scenarios.

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**Merchants Bancorp**

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.

	<b>Economic Value of Equity Sensitivity (Shock)</b>			
	<b>Immediate Change in Rates</b>			
	<b>- 200</b>	<b>- 100</b>	<b>+ 100</b>	<b>+ 200</b>
	<b>(Dollars in thousands)</b>			
<b>March 31, 2021:</b>				
Dollar change	\$ 3,095	\$ 28,290	\$ (29,092)	\$ (34,580)
Percent change	0.3 %	3.2 %	(3.2)%	(3.9)%
<b>December 31, 2020:</b>				
Dollar change	\$ 100,236	\$ 113,045	\$ (20,958)	\$ (27,259)
Percent change	12.8 %	14.4 %	(2.7)%	(3.5)%

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 March 31, 2021 projects that as interest rates increase (decrease) immediately, the economic value of equity position will be expected to decrease (increase). When interest rates rise, fixed rate assets generally lose economic value; the longer the duration, the greater the value lost. The opposite is true when interest rates fall.

**ITEM 3 Quantitative and Qualitative Disclosures About Market Risk**

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

**ITEM 4 Controls and Procedures**

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

Our management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this Form 10-Q. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of March 31, 2021, the Company’s disclosure controls and procedures were effective.

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

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

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**Merchants Bancorp  
Part II  
Other Information**

**ITEM 1. Legal Proceedings**

None.

**ITEM 1A. Risk Factors**

There have been no material changes from the risk factors previously disclosed in the “Risk Factors” section included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2020.

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

None.

**ITEM 3. Defaults Upon Senior Securities**

None.

**ITEM 4. Mine Safety Disclosures**

Not applicable.

**ITEM 5. Other Information**

None.

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### ITEM 6. Exhibits

<u>Exhibit Number</u>	<u>Description</u>
3.1	<a href="#"><u>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, 2018).</u></a>
3.2	<a href="#"><u>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).</u></a>
3.3	<a href="#"><u>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).</u></a>
3.4	<a href="#"><u>Articles of Amendment to the First Amended and Restated Articles of Incorporation dated March 23, 2021 designating the 6.00% Fixed-to-Floating Rate Series C Non-Cumulative Perpetual Preferred Stock (incorporated by reference to Exhibit 3.4 of the registration statement on Form 8-A filed on March 23, 2021).</u></a>
3.5	<a href="#"><u>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, 2018).</u></a>
31.1	<a href="#"><u>Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u></a>
31.2	<a href="#"><u>Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u></a>
32	<a href="#"><u>Written Statement of Chief Executive Officer and Chief Financial Officer furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u></a>
101.INS	XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File – The cover page interactive data file does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document

**Merchants Bancorp**  
**SIGNATURES**

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

**Merchants Bancorp**

Date: May 10, 2021

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

Date: May 10, 2021

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

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

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

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

May 10, 2021  
Date

/s/Michael F. Petrie  
Michael F. Petrie  
Chief Executive Officer

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

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

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

May 10, 2021

Date

/s/John F. Macke

John F. Macke

Principal Financial Officer

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

Michael F. Petrie, Chief Executive Officer, and John F. Macke, Principal Financial Officer, of Merchants Bancorp (the "Registrant"), each hereby certify, in their capacity as an officer of the Registrant that he has reviewed the quarterly report of the Registrant on Form 10-Q for the quarter ended March 31, 2021 (the "Report"), and that to the best of his knowledge:

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

May 10, 2021  
Date

/s/ Michael F. Petrie  
Michael F. Petrie  
Chief Executive Officer

May 10, 2021  
Date

/s/John F. Macke  
John F. Macke  
Principal Financial Officer

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

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