

April 29, 2024

Dear Shareholder,

As I shared at our Annual Shareholders Meeting, we continue to navigate successfully in what is a challenging market environment for the entire banking industry. Net income for Merchants Financial Group, Inc., was \$5.45 million. While this was just \$104,800 below our forecast for the first quarter, it is \$1.74 million below our performance for the same period in 2023.

The Company's profitability remains representative of the resilience, strength, and stability of Merchants, and allowed your Board of Directors to approve with confidence the retention of our \$.36/share semiannual dividend. The dividend will be paid on June 21st to Shareholders of record as of May 17th.

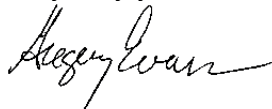
Tight liquidity across the industry continues to drive pricing pressure for deposits resulting in compressed net interest margins. Merchants is not insulated from these forces in the current interest rate environment. Growth expectations for the balance of 2024 are modest and will be dictated by our ability to grow core deposits. Deposit growth in the first quarter was 2.4% to a total of \$2.23 billion, which was \$30 million above our budget forecast.

Additional first quarter performance notes and highlights include:

- Restricted by the composition of the balance sheet and tight liquidity, loan growth is being managed intently; total net loans ended the first quarter up just slightly to \$2.16 billion, which is \$38 million above plan.
- Residential mortgage lending remains soft by our historic standards due largely to the interest rate environment, but volume in the first quarter ticked up slight to \$44.3 million, which was \$10.6 million above our plan and 4.3% above production in the first quarter of 2023.
- Credit quality remains strong, with no significant signs of stress for borrowing customers in the current environment. We did increase our Allowance for Credit Loss by \$252,000 at the end of the first quarter, primarily to accommodate loan growth.

I was pleased to see many Shareholders at our Annual Meeting last week as we celebrated our 2023 performance and addressed the challenges we will continue to embrace as opportunities throughout the balance of this year. In addition to April being the month of our Annual Meeting, National Volunteer Week took place April 21-27. There's no better time to showcase our impact as a community bank, and I'm proud to share that our Merchants team volunteered more than 10,000 hours to 250 local organizations across our footprint in 2023. Community leadership is at the heart of our community banking philosophy, and we remain grateful for your loyalty and support of our mission. Thank you for your continued investment in our Company and the contributions your investment allows us to make to the economic vitality of our communities.

Very truly yours,



Gregory M. Evans
President and CEO

Merchants Financial Consolidated

Consolidated Statements of Financial Condition

Unaudited

(\$ in thousands, except share data)

	<u>March 31, 2024</u>	<u>December 31, 2023</u>
<u>ASSETS</u>		
Cash and cash equivalents	29,228	39,056
Federal funds sold	-	-
Available-for-sale securities	184,526	202,215
Held-to-maturity securities	36,531	37,721
Loans held for sale	12,350	1,929
Loans and direct financing leases, net	2,147,715	2,131,813
Operating lease assets	19,761	20,469
Premises and equipment	25,529	25,728
Investment in restricted stock	6,414	9,430
Other real estate and other personal property owned	1,336	1,005
Accrued interest receivable and other assets	17,031	19,917
Cash value of life insurance	59,782	59,753
Mortgage servicing rights, net	15,171	15,336
Goodwill	35,665	35,665
Intangibles	231	317
Deferred tax assets	-	-
Total assets	<u>2,591,268</u>	<u>2,600,354</u>
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
<u>Liabilities</u>		
Deposits		
Noninterest-bearing	457,472	482,293
Interest-bearing	<u>1,769,100</u>	<u>1,692,116</u>
Total deposits	2,226,572	2,174,409
Federal funds purchased	27,626	94,691
Repurchase agreements	15,057	15,065
Notes payable	6,780	7,262
Subordinated debentures	28,351	28,351
Deferred tax liability	763	1,617
Accrued interest payable and other liabilities	<u>16,486</u>	<u>15,024</u>
Total liabilities	2,321,635	2,336,418
<u>Stockholders' Equity</u>		
Common stock, par value \$.025 per share	68	68
Additional paid-in-capital	10,274	10,274
Retained earnings	278,619	273,170
Accumulated other comprehensive gain	(12,350)	(12,598)
Unearned ESOP shares	<u>(6,978)</u>	<u>(6,978)</u>
Total stockholders' equity	<u>269,633</u>	<u>263,936</u>
Total liabilities and stockholders' equity	<u>2,591,268</u>	<u>2,600,354</u>

Merchants Financial Consolidated

Consolidated Statements of Income

Unaudited

(\$ in thousands, except share data)

	<u>March 31, 2024</u>	<u>March 31, 2023</u>
<u>INTEREST INCOME:</u>		
Loan interest	27,203	21,100
Loan fees	1,389	1,713
Securities	1,647	2,160
Direct financing leases	407	418
Other income	504	2,103
Total interest income	<u>31,149</u>	<u>27,494</u>
<u>INTEREST EXPENSE:</u>		
Deposits	10,331	4,236
Notes payable, federal funds purchased and repurchase agreements	1,057	66
Subordinated debentures	496	694
Total interest expense	<u>11,885</u>	<u>4,996</u>
Net interest income	19,265	22,497
Provision for loan and lease losses	<u>355</u>	<u>977</u>
Net interest income after provision for loan and lease losses	18,909	21,521
<u>NON-INTEREST INCOME:</u>		
Trust department	650	543
Service charges and other fees	1,621	1,510
Loan servicing fees	1,719	1,791
Net gain on sale of available-for sale securities	532	(248)
Net gain on sale of loans	304	251
Net gain(loss) on sale of other real estate & other personal prop.	(78)	-
Other income	2,262	1,844
Total Non-interest income	<u>7,009</u>	<u>5,691</u>
<u>NON-INTEREST EXPENSE:</u>		
Salaries and employee benefits	10,127	9,080
Occupancy	4,623	4,510
Net loss on disposal of premises and equipment	-	-
Mortgage servicing rights	455	670
Other expense	3,383	3,166
Total non-interest expense	<u>18,588</u>	<u>17,426</u>
Income before income taxes	7,330	9,786
Provision for income taxes	<u>1,881</u>	<u>2,602</u>
Net income	<u>5,449</u>	<u>7,183</u>

Merchants Financial Consolidated

Consolidated Financial Highlights

First Quarter 2024

Unaudited

	Quarterly					Year to Date	
	1st Qtr 2024	4th Qtr 2023	3rd Qtr 2023	2nd Qtr 2023	1st Qtr 2023	March 31, 2024	March 31, 2023
(\$ in thousands, except share data)							
\$ Earnings							
Net Interest Income	\$ 19,265	20,765	21,220	21,313	22,497	19,265	22,497
Provision (Reversal) for loan loss	\$ 355	(152)	1,044	(489)	977	355	977
Other non-interest income	7,087	7,414	6,970	6,517	5,691	7,009	5,691
Security gains/losses	\$ 532	-	-	114	(248)	532	(248)
Other non-interest expense	18,666	21,367	18,702	19,541	17,426	18,666	17,426
Pre-tax income	\$ 7,330	6,964	8,444	8,778	9,786	7,330	9,786
Taxes	\$ 1,881	1,565	2,005	2,298	2,602	1,881	2,602
Net Income	\$ 5,449	5,399	6,439	6,480	7,184	5,449	7,184
Pre-tax, pre-provision earnings	\$ 7,686	6,813	9,488	8,289	10,763	7,686	10,763
Earnings per share	\$ 0.67	0.66	0.79	0.79	0.88	0.67	0.88
Performance Ratios							
Return on average assets	0.84%	0.82%	1.02%	1.05%	1.14%	0.84%	1.14%
Return on average equity	7.96%	8.40%	10.18%	10.49%	11.97%	7.96%	11.97%
Yield on earning assets	5.28%	5.51%	5.47%	5.37%	5.04%	5.28%	5.04%
Cost of funds (inc non-int bearing deposits)	2.59%	2.37%	1.97%	1.73%	1.20%	2.59%	1.20%
Net interest margin	3.38%	3.71%	3.99%	4.09%	4.17%	3.38%	4.17%
Loan to Deposit Ratio	96.57%	98.27%	95.90%	95.24%	88.55%	96.57%	88.55%
Efficiency ratio	70.32%	74.94%	65.54%	69.41%	60.89%	70.32%	60.89%
Net overhead ratio	2.81%	3.10%	2.85%	3.05%	2.65%	2.81%	2.65%
Capital							
Tier 1 leverage capital ratio	11.20%	11.35%	11.76%	11.47%	10.99%	11.20%	10.99%
Common equity risk-based capital ratio	10.56%	10.17%	10.24%	10.14%	10.28%	10.56%	10.28%
Tier 1 risk-based capital ratio	11.70%	11.29%	11.90%	11.83%	12.02%	11.70%	12.02%
Total risk-based capital ratio	12.76%	12.54%	13.15%	13.08%	13.27%	12.95%	13.27%
Tangible capital to tangible assets	9.10%	8.84%	8.82%	8.76%	8.47%	9.10%	8.47%
Book value per share	\$ 32.97	32.27	31.38	30.64	30.32	32.97	30.32
Tangible book value per share	\$ 26.72	26.00	25.03	24.29	23.91	26.72	23.91
Outstanding shares	8,178,741	8,178,741	8,178,741	8,178,741	8,178,741	8,178,741	8,178,741
Average outstanding shares	8,178,741	8,178,741	8,178,741	8,178,741	8,178,741	8,178,741	8,178,741
Asset Quality							
Net charge-offs (recoveries) YTD	\$ 366	573	333	211	277	-	277
Net charge-offs (recoveries) to average loans	0.02%	0.03%	0.02%	0.01%	0.01%	0.00%	0.01%
Allowance for loan losses	25,644	25,030	24,736	23,899	24,008	25,644	24,008
Allowance to total loans	1.18%	1.16%	1.19%	1.18%	1.23%	1.18%	1.23%
Nonperforming loans (Non-accrual & 90 days Past D)	\$ 13,889	9,582	5,383	6,442	7,712	13,889	7,712
Other real estate owned	\$ 1,336	1,005	780	787	866	1,336	866
Nonperforming loans to total loans	0.64%	0.44%	0.26%	0.32%	0.39%	0.64%	0.39%
Nonperforming assets to total assets	0.59%	0.41%	0.24%	0.29%	0.34%	0.59%	0.34%
End of Period Balances							
Assets	\$ 2,594,133	2,603,726	2,521,613	2,469,913	2,519,186	2,594,133	2,519,186
Earning Assets	\$ 2,390,477	2,382,969	2,295,928	2,244,271	2,304,601	2,390,477	2,304,601
Total investments	\$ 288,772	310,638	297,284	308,702	323,459	288,772	323,459
Total loans	\$ 2,175,849	2,161,796	2,086,595	2,022,958	1,957,515	2,175,849	1,957,515
Paycheck Protection Program loans	\$ -	575	980	3,307	10,112	-	10,112
Intangible assets	\$ 51,067	51,317	51,924	51,913	52,470	51,067	52,470
Deposit	\$ 2,226,551	2,174,408	2,149,979	2,099,026	2,183,447	2,226,551	2,183,447
Customer repurchase agreements	\$ 15,057	15,065	15,029	12,147	15,020	15,057	15,020
Borrowings	\$ 6,780	7,262	7,160	7,160	11,660	6,780	11,660
Shareholders' Equity	\$ 269,633	263,936	256,635	250,607	248,011	269,633	248,011
Average Balances							
Assets	\$ 2,606,357	2,605,263	2,509,050	2,473,264	2,562,819	2,606,357	2,562,819
Earning Assets	\$ 2,519,882	2,384,629	2,289,640	2,257,853	2,349,953	2,519,882	2,349,953
Total investments	\$ 292,075	300,024	300,959	311,096	373,068	292,075	373,068
Total loans	\$ 2,174,354	2,121,982	2,048,773	1,967,521	1,910,670	2,174,354	1,910,670
Paycheck Protection Program loans	\$ 287	778	2,144	6,710	15,299	287	15,299
Intangible assets	\$ 51,098	51,654	51,727	52,123	52,756	51,098	52,756
Deposit	\$ 2,201,020	2,248,983	2,157,232	2,137,709	2,237,256	2,201,020	2,237,256
Customer repurchase agreements	\$ 13,845	15,004	12,148	12,359	11,470	13,845	11,470
Borrowings	\$ 6,785	7,167	7,160	10,720	11,668	6,785	11,668
Shareholders' Equity	\$ 275,482	254,972	250,827	247,898	243,384	275,482	243,384
Stock Valuation							
Closing Market Price (OTCPink)	\$ 23.75	23.75	24.93	26.00	27.90	23.75	27.90
Multiple of Tangible Book Value	0.89	0.91	1.00	1.07	1.17	0.89	1.17
Price/EPS	8.17	7.62	7.98	8.09	11.51	35.65	31.76

**Previous quarter per share data restated to reflect May 13, 2022 Stock Split