

January 23, 2019

Dear Shareholder,

Happy New Year, and thank you for your loyalty and support of Merchants Financial Group, Inc. throughout 2018. It was another outstanding year for Merchants. Ahead of our traditional Annual Report mailing, I wanted to share with you preliminary information about our year-end results. The complete audited financial report and detailed inventory of strategic accomplishments will be mailed in late February as usual.

I'm tremendously proud of the Merchants team and our accomplishments in 2018. While preliminary and not yet fully audited, it appears year-end net income will exceed \$18.8 million. Most notably, our performance exceeded Plan by more than \$3 million. We benefitted from corporate tax reform throughout 2018, but we increased pre-tax earnings to nearly \$25.3 million, a 12% improvement compared to 2017.

As always, our success is the culmination of a total team effort from all areas of the organization. Three of our four Bank Regions exceeded income performance targets for the year. We also we experienced profit contributions from Merchants Bank Equipment Finance and our Secondary Market Mortgage operation that significantly exceeded forecast. Specific items of note in contributing to our strong performance include:

- Modest year-over-year business growth on both sides of the balance sheet. The main driver of loan growth was an impressive 27% increase in new commercial loan volume compared to 2017 -- \$320 million in new commercial loan business and more than \$1.1 million of loan origination income related to new business.
- Mitigation of credit risk through the intense monitoring and high standards of our credit team, which drove a significant year-over-year reduction in Allowance for Loan/Lease Loss Reserve allocation. Credit risk remains slightly elevated, driven largely by continued stress in the ag sector of the economy.
- Strong pricing margins in the Secondary Mortgage Market, allowing for a profit contribution that exceeded plan by \$1.5 million.
- Always worthy of strategic mention is the extraordinary diversification in our primary business segments, product offerings and markets. This allows us to weather market cycles in the various industries we serve.

It's a privilege that I'm given the opportunity to share this preliminary report about 2018 with you. You will receive your more detailed report soon. Please save the date for our annual Shareholder Meeting on Thursday, April 4. It's my sincere hope you will attend.

On behalf of the entire Merchants team, thank you again for your confidence and trust. We wish you the best in 2019.

Very truly yours,



Gregory M. Evans
President and CEO