

April 18, 2019

Dear Shareholder,

I am pleased to report a healthy first quarter for Merchants Financial Group, Inc. (MFGI), with solid earnings performance and progress on key strategic initiatives. Three of our four Bank regions exceeded plan for the first quarter, contributing to a net income of \$3.47 million. As a result of our continued profitable performance, at its meeting this week, your Board of Directors approved retention of a semiannual dividend of \$.70/share. The dividend will be paid on June 21, 2019 to Shareholders of record as of May 17, 2019.

This performance exceeds our income forecast for the first quarter by \$452,923, but is behind quarterly performance of a year ago by \$476,827. One impact on year-over-year earnings was an identified need in 2019 to make an addition of approximately \$240,000 to Allowance for Loan/Lease Loss Reserves at the end of the first quarter to accommodate identified risk. The risk profile in our consolidated portfolio remains relatively stable, but we continue to mitigate extensively risk that remains elevated in the agriculture concentration of our portfolio.

Some important financial and strategic notes from the first quarter include:

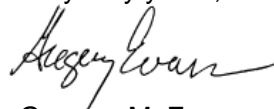
- Year-over-year growth of \$80 million in total loans and \$53.2 million in total deposits.
- New business activity for both Commercial and Mortgage loans was soft in the first quarter. New commercial loan originations totaled \$61.4 million compared to \$72 million in 2018. Mortgage loan volume was \$60.2 million compared to \$75 million in the first quarter of 2018.
- Our focus on interest rate risk management remains intense with the inversion of the yield curve toward the end of the first quarter. Our net interest margin actually improved from 3.42% in 2018 to 3.47% in 2019 as a result of great pricing discipline on the part of all of our bankers in association with new business opportunities.

It was a pleasure to see so many of you at our Annual Shareholder Meeting on April 4. We were thrilled to have exceptionally high attendance at this year's meeting. Thank you for taking the time to learn about our 2018 results and celebrate with your fellow shareholders and Merchants staff.

As I mentioned at the Shareholder meeting, we have been actively pursuing strategic acquisition opportunities and I am excited to provide a brief update on that front. I'm excited to announce that another action item at our quarterly Holding Company Board meeting this week was the approval of a definitive agreement to move forward with an excellent strategic acquisition opportunity. Public announcement will be forthcoming within the next 30 days.

Thank you, as always, for being a loyal shareholder and helping us continue to grow in our commitment to community banking. As long as we're able to take care of our customers in exceptional ways, I'm confident we'll achieve strong performance results for the balance of the year and beyond.

Very truly yours,

A handwritten signature in black ink that reads "Gregory M. Evans".

Gregory M. Evans
President and CEO

Balance Sheet Highlights

Period-end	March 31, 2019	March 31, 2018	Variance	December 31, 2018	Variance
Assets					
Cash & Fed Funds	\$ 29,347,167	\$ 36,552,684	-19.71%	\$ 59,234,457	-50.46%
Investments	134,645,389	149,817,260	-10.13%	138,021,915	-2.45%
Net Loans	1,450,646,421	1,365,658,305	6.22%	1,435,745,041	1.04%
Intangible assets	23,060,513	23,444,174	-1.64%	23,060,513	0.00%
Other assets	96,892,612	98,977,159	-2.11%	100,279,144	-3.38%
Total Assets	1,734,592,102	1,674,449,582	3.59%	1,756,341,069	-1.24%
Liabilities & Equity					
Deposits	1,456,988,417	1,403,982,654	3.78%	1,435,028,565	1.53%
Trust Preferred Securities	41,254,000	41,254,000	0.00%	41,254,000	0.00%
Other Liabilities	54,376,210	62,939,891	-13.61%	102,340,133	-46.87%
Equity	181,973,475	166,273,037	9.44%	177,718,372	2.39%
Total Liabilities & Equity	1,734,592,102	1,674,449,582	3.59%	1,756,341,069	-1.24%

Income Statement Highlights

	Three months ended			2018 Per Quarter Results			Year Ended	
	March 31, 2019	March 31, 2018	Variance	-----			December 31, 2018	3 Mo %
	Actual	Actual		Fourth Quarter	Third Quarter	Second Quarter	Actual	of YE
Income								
Investments & Funds Sold	\$ 1,102,414	\$ 1,097,713	0.43%	\$ 1,145,010	\$ 1,073,707	\$ 1,079,079	\$ 4,395,508	25.08%
Loan Interest	18,138,880	15,626,906	16.07%	16,888,863	17,417,275	16,938,521	66,871,564	27.12%
Total Interest Income	19,241,294	16,724,618	15.05%	18,033,874	18,490,982	18,017,599	71,267,072	27.00%
Interest Expense	(3,098,531)	(1,816,021)	70.62%	(2,888,383)	(2,456,413)	(2,099,943)	(9,260,759)	33.46%
Net Interest Income	16,142,763	14,908,597	8.28%	15,145,491	16,034,569	15,917,656	62,006,313	26.03%
Non-interest Income	4,969,603	5,504,494	-9.72%	7,081,178	5,930,770	5,448,505	23,964,946	20.74%
Non-interest expense	(15,765,665)	(14,744,526)	6.93%	(15,161,458)	(15,455,020)	(14,561,742)	(59,922,746)	26.31%
Provision expense	(665,103)	(307,139)	116.55%	(457,138)	(250,539)	203,661	(811,155)	81.99%
Pretax Income	4,681,598	5,361,426	-12.68%	6,608,072	6,259,780	7,008,080	25,237,358	18.55%
Taxes	(1,209,000)	(1,412,000)	-14.38%	(1,506,050)	(1,627,000)	(1,805,000)	(6,350,050)	19.04%
Net Income	3,472,598	3,949,426	-12.07%	5,102,022	4,632,780	5,203,080	18,887,308	18.39%
				*Restated to align with audit reclassifications				

Bank Yield and Margin Highlights

	March 31, 2019		February 28, 2019		March 31, 2018	
	Balances	Rate	Balances	Rate	Balances	Rate
Earning Assets						
Fed Funds Excess	\$ -	0.00%	\$ 19,365,654	2.58%	\$ -	0.00%
Investments	\$ 180,357,880	2.93%	\$ 181,028,719	2.96%	\$ 195,103,557	2.69%
Loans	\$ 1,398,186,003	4.41%	\$ 1,394,352,420	4.40%	\$ 1,320,259,992	4.03%
OREO & Non-accrual	\$ 27,633,464	0.00%	\$ 27,443,411	0.00%	\$ 24,939,868	0.00%
Earning Assets Total	\$ 1,606,177,347	4.17%	\$ 1,622,190,204	4.14%	\$ 1,540,303,417	3.80%
Paying Liabilities						
Non-interest deposits	\$ 331,767,927	0.00%	\$ 327,958,109	0.00%	\$ 315,906,954	0.00%
Interest deposits	\$ 1,126,425,977	0.89%	\$ 1,146,616,686	0.87%	\$ 1,089,098,237	0.46%
Non-core deposits	\$ 19,105,908	0.69%	\$ 19,410,263	0.66%	\$ 18,886,190	0.52%
Borrowings	\$ 8,000,000	2.72%	\$ 8,000,000	2.72%	\$ 10,000,000	2.55%
Fed Funds Purchased	\$ 1,989,920	2.64%	\$ -	0.00%	\$ 1,741,262	1.94%
Paying Liabilities Total	\$ 1,487,289,732	0.70%	\$ 1,501,985,058	0.69%	\$ 1,428,516,098	0.38%
Net Interest Spread		3.47%		3.45%		3.42%

Credit Quality Ratios

Period ended	March 31, 2019	December 31, 2018	September 30, 2018
Classified Loans to Total Loans	4.41%	4.46%	5.21%
Criticized Loans to Total Loans	6.51%	6.81%	7.77%
Classified Loans to Capital	28.53%	29.25%	33.96%
Classified Loans to Capital	42.12%	44.71%	50.67%
Non-accrual Loans to Total Loans *	1.85%	1.86%	1.60%
Past Due > 90 days to Total Loans *	0.02%	0.03%	0.01%
Net Charge-offs to Total Loans *	0.00%	0.08%	0.06%
Loss Reserve to Total Loans *	1.30%	1.26%	1.31%

* Total loans includes held for sale and operating leases

Key Ratios

Period-end	March 31, 2019	March 31, 2018	December 31, 2018	September 30, 2018	June 30, 2018
<u>Internal Ratios</u>					
Return on Average Assets	0.81%	0.95%	1.10%	1.08%	1.09%
Return on Ending Equity	7.60%	9.39%	10.51%	10.48%	10.69%
Efficiency Ratio	73.90%	71.38%	68.83%	69.20%	69.14%
Net Interest Margin	4.07%	3.99%	4.04%	4.09%	4.02%
Common Equity Tier 1	10.32%	9.92%	10.11%	9.92%	9.89%
Tier 1 Capital Ratio	12.77%	12.51%	12.56%	12.40%	12.42%
Total Capital Ratio	13.94%	13.75%	13.69%	13.54%	13.59%
Tier 1 Leverage Ratio	12.18%	11.65%	11.93%	11.85%	11.68%
<u>Investor Ratios</u>					
Number of Shares Outstanding	2,726,247	2,726,247	2,726,247	2,726,247	2,726,247
YTD Earnings Per Share	1.27	1.45	6.93	5.06	3.36
Book Value Per Share	66.75	60.99	65.19	63.37	61.97
Tangible Book Value (TBV)	58.29	52.06	56.73	54.44	53.03
Share price	75.00	75.00	71.50	77.00	74.85
Price to TBV	128.67%	144.06%	126.04%	141.45%	141.15%

*Ratios with shares use outstanding shares versus GAAP weighted average shares