

October 18, 2018

Dear Shareholder,

As the third quarter has come to a close for Merchants Financial Group, Inc. (MFGI), I am pleased to report to you continued strong financial performance. Our consolidated net income after three quarters is \$13,785,285 -- \$3.1 million ahead of plan and an increase of \$4.94 million compared to last year. All four of our Bank regions, and our Merchants Bank Equipment Finance and Secondary Market Mortgage Operations divisions have exceeded their respective performance forecasts through three quarters. As is always the case, our strong performance to date has been the result of a total team effort.

In recognition of our year-to-date performance your Merchants Financial Group Board of Directors at its quarterly meeting has declared a semiannual dividend payment of \$.70. This is nearly a 15% increase in the dividend rate compared to the \$.61/share payment made during the first half of 2018. This dividend will be paid on December 21, 2018 to Shareholders of record as of November 16, 2018.

New business activity through 2018 has been softer than we had forecast, but Merchants does continue to grow. Drivers of our performance success through three quarters would include:

- Increase in our loan portfolio. Total loans are up \$26.8 million compared to the first three quarters of 2017.
- Strategic focus on deposit growth. Our initiative to increase deposits has placed us in a stronger liquidity position to finish up 2018. Total deposits are up \$37.7 million compared to last year. To date, our recent company-wide Certificate of Deposit special offering has resulted in \$14.2 million of new retail deposits.
- Continued focus on credit qualified and maintaining a diversified loan portfolio. As we continue to provide individuals and businesses with loan opportunities, we are aware of the critical role credit quality plays in our success. Due to the hard work of our loan officers and credit team, we were able to adjust our loan loss provision again this quarter, and to date have set aside \$4.3 million less in Allowance for Loan/Lease Loss Reserves than last year.

We value your loyalty – and the loyalty of all of our Shareholders – to a great degree. We would welcome comments from you and/or your stories about your history as a Merchants Shareholder. If you have an interest in sharing your story, kindly complete the enclosed questionnaire and return it to us in the envelope provided. It would be greatly appreciated.

Thank you for your continued support of Merchants. We can only thrive in this intensively competitive financial industry because we believe – as I know you do – in the power of personalized service and the critical importance of true community banking. As we set our sights on the last few months of 2018, I am optimistic about a strong finish for the current year and the establishment of a platform for continued success next year. Also, please accept my sincere best wishes to you and your family for the upcoming joyous holiday time of the year.

Very truly yours,



Gregory M. Evans
President and CEO