

July 17, 2019

Dear Shareholder,

I am pleased to report strong quarterly results for Merchants Financial Group, Inc. (MFGI) with year-to-date net income of \$8.93 million through the end of the second quarter. At this mid-way point in 2019 we are \$1.1 million ahead of plan and just slightly behind last year's earnings pace by \$206,944.

Our quarterly performance exceeded our expectations, given that we recognized a deficiency in Allowance for Loan/Lease Loss Provision as part of our quarterly analysis and boosted reserves by approximately \$543,000 over our normal monthly provision to accommodate identified risk in our loan portfolio.

As usual, our strong performance during the first half of the year has resulted from a total team effort, with meaningful contributions coming from business growth. Three of our four Bank regions and our Secondary Market Mortgage division are ahead of their respective income forecasts through six months.

Here is a brief review of some noteworthy highlights of our progress to date in 2019:

- We continue to place intense focus on credit quality to mitigate risk, reduce levels of problem loans and set aside appropriate reserve allocations.
- Low mortgage rates and an aggressive housing market resulted in significant earnings performance for our Secondary Market Mortgage division, which exceeded plan every month in the second quarter.
- We are making excellent progress on a number of strategic Information Technology projects, most notably the implementation of a more robust on-line/mobile platform for our business clients, which is expected to be live before the end of September.

In addition to our financial news, I'm proud to share that we have received regulatory approval from the Federal Reserve Bank for our application to acquire First National Bank of Northfield and are on track to close on the purchase in August. Members of our team have enjoyed spending time in Northfield and getting to know the First National staff as we make plans for a smooth transition in the fall. We are privileged to be joining a community that values community bankers and our personalized approach to financial services.

As we wind down the summer event season, look for Merchants Bank staff at your local parades, festivals and community events. This time of the year we're proud to be a business leader and support so many community efforts throughout our footprint. Thank you for believing in our community banking philosophy and for your loyalty as a Merchants Bank shareholder.

Very truly yours,



Gregory M. Evans
President and CEO

Balance Sheet Highlights

Period-end	June 30, 2019	June 30, 2018 *	Variance	March 31, 2019	Variance
Assets					
Cash & Fed Funds	\$ 42,272,935	\$ 41,760,256	1.23%	\$ 29,347,167	44.04%
Investments	130,676,964	142,826,031	-8.51%	134,645,389	-2.95%
Net Loans	1,501,164,125	1,386,669,215	8.26%	1,450,646,421	3.48%
Intangible assets	23,060,516	23,316,287	-1.10%	23,060,513	0.00%
Other assets	99,192,728	99,683,167	-0.49%	96,892,612	2.37%
Total Assets	1,796,367,268	1,694,254,956	6.03%	1,734,592,102	3.56%
Liabilities & Equity					
Deposits	1,477,855,878	1,381,697,019	6.96%	1,456,988,417	1.43%
Trust Preferred Securities	41,254,000	41,254,000	0.00%	41,254,000	0.00%
Other Liabilities	91,111,096	102,364,616	-10.99%	54,376,211	67.56%
Equity	186,146,294	168,939,322	10.19%	181,973,474	2.29%
Total Liabilities & Equity	1,796,367,268	1,694,254,956	6.03%	1,734,592,102	3.56%
*Restated to align with audit reclassifications					

Income Statement Highlights

	Six months ended			2019/2018 Per Quarter Results			Year Ended	
	June 30, 2019	June 30, 2018 *	Variance	Second Quarter	First Quarter	Fourth Quarter	December 31, 2018	6 Mo % of YE
	Actual	Actual					Actual	
Income								
Investments & Funds Sold	\$ 2,165,961	\$ 2,176,791	-0.50%	\$ 1,063,547	\$ 1,102,414	\$ 1,145,010	\$ 4,395,508	49.28%
Loan Interest	37,989,817	32,565,426	16.66%	19,850,937	18,138,880	16,888,863	66,871,564	56.81%
Total Interest Income	40,155,778	34,742,217	15.58%	20,914,484	19,241,294	18,033,874	71,267,072	56.35%
Interest Expense	(6,550,216)	(3,915,964)	67.27%	(3,451,686)	(3,098,531)	(2,888,383)	(9,260,759)	70.73%
Net Interest Income	33,605,562	30,826,253	9.02%	17,462,798	16,142,763	15,145,491	62,006,313	54.20%
Non-interest Income	10,806,157	10,952,999	-1.34%	5,836,555	4,969,603	7,081,178	23,964,946	45.09%
Non-interest expense	(30,743,633)	(29,306,269)	4.90%	(14,977,968)	(15,765,665)	(15,161,458)	(59,922,746)	51.31%
Provision expense	(1,638,106)	(103,478)	1483.05%	(973,003)	(665,103)	(457,138)	(811,155)	201.95%
Pretax Income	12,029,980	12,369,505	-2.74%	7,348,382	4,681,598	6,608,072	25,237,358	47.67%
Taxes	(3,102,000)	(3,217,000)	-3.57%	(1,893,000)	(1,209,000)	(1,506,050)	(6,350,050)	48.85%
Net Income	8,927,980	9,152,505	-2.45%	5,455,382	3,472,598	5,102,022	18,887,308	47.27%
*Restated to align with audit reclassifications								

Bank Yield and Margin Highlights

	June 30, 2019		March 31, 2019		June 30, 2018	
	Balances	Rate	Balances	Rate	Balances	Rate
Earning Assets						
Fed Funds Excess	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%
Investments	\$ 177,911,261	2.90%	\$ 180,357,880	2.93%	\$ 189,819,155	2.61%
Loans	\$ 1,450,793,588	4.40%	\$ 1,398,186,003	4.41%	\$ 1,339,802,630	4.14%
OREO & Non-accrual	\$ 26,236,621	0.00%	\$ 27,633,464	0.00%	\$ 25,339,481	0.00%
Earning Assets Total	\$ 1,654,941,470	4.17%	\$ 1,606,177,347	4.17%	\$ 1,554,961,266	3.89%
Paying Liabilities						
Non-interest deposits	\$ 337,838,684	0.00%	\$ 331,767,927	0.00%	\$ 320,170,927	0.00%
Interest deposits	\$ 1,140,520,901	0.96%	\$ 1,126,425,977	0.89%	\$ 1,062,403,816	0.55%
Non-core deposits	\$ 14,325,485	0.98%	\$ 19,105,908	0.69%	\$ 20,830,169	0.58%
Borrowings	\$ 22,000,000	2.30%	\$ 8,000,000	2.72%	\$ 10,000,000	2.55%
Fed Funds Purchased	\$ 13,161,883	2.54%	\$ 1,989,920	2.64%	\$ 38,821,152	2.12%
Paying Liabilities Total	\$ 1,527,846,953	0.78%	\$ 1,487,289,732	0.70%	\$ 1,452,226,064	0.49%
Net Interest Spread		3.39%		3.47%		3.40%

Credit Quality Ratios

Period ended	June 30, 2019	March 31, 2019	December 31, 2018
Classified Loans to Total Loans	4.07%	4.41%	4.46%
Criticized Loans to Total Loans	6.35%	6.51%	6.81%
Classified Loans to Capital	26.52%	28.53%	29.25%
Criticized Loans to Capital	41.32%	42.12%	44.71%
Non-accrual Loans to Total Loans *	1.65%	1.85%	1.86%
Past Due > 90 days to Total Loans *	0.00%	0.02%	0.03%
Net Charge-offs to Total Loans *	0.03%	0.00%	0.08%
Loss Reserve to Total Loans *	1.30%	1.30%	1.26%

* Total loans includes held for sale and operating leases

Key Ratios

Period-end	June 30, 2019	June 30, 2018	March 31, 2019	December 31, 2018	September 30, 2018
<u>Internal Ratios</u>					
Return on Average Assets	1.00%	1.09%	0.81%	1.10%	1.08%
Return on Ending Equity	9.60%	10.69%	7.60%	10.51%	10.48%
Efficiency Ratio	68.18%	69.14%	73.90%	68.83%	69.20%
Net Interest Margin	4.13%	4.02%	4.07%	4.04%	4.09%
Common Equity Tier 1	10.54%	9.89%	10.32%	10.11%	9.92%
Tier 1 Capital Ratio	12.99%	12.42%	12.77%	12.56%	12.40%
Total Capital Ratio	14.20%	13.59%	13.94%	13.69%	13.54%
Tier 1 Leverage Ratio	12.24%	11.68%	12.18%	11.93%	11.85%
<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	3.27	3.36	1.27	6.93	5.06
Book Value Per Share	68.28	61.97	66.75	65.19	63.37
Tangible Book Value (TBV)	59.82	53.03	58.29	56.73	54.44
Share price	72.50	74.85	75.00	71.50	77.00
Price to TBV	121.20%	141.15%	128.67%	126.04%	141.45%

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