Merchants Financial Group

April 20, 2020

Dear Shareholder,

Never before has my quarterly report to our Shareholders been more important and at the same time, perhaps, our results so insignificant. In considering the events of the last quarter, I find myself thinking about how very long ago January feels. Now more than ever, I'm thankful for your unconditional loyalty and support.

We were experiencing a strong start to 2020 when the world began to rapidly change in March. Our net income performance for the first quarter was solid at $3,806,878; $334,280 over 2019 through three months, but we have quickly adapted our focus to the inevitable challenges we will encounter in the months ahead. The year-to-date performance, along with our history of strength and well-capitalized balance sheet, gave your Board of Directors confidence to proceed with declaring the retention of a semi-annual dividend of $.75/share. The dividend will be paid on June 19 to Shareholders of record as of May 22.

We know the balance of the year will require intense discipline to the core values that define Merchants. The global novel coronavirus (COVID-19) pandemic has obviously had an extraordinary impact on the economy and has hit close to home. Many of our customers, friends and neighbors have lost jobs and/or had to temporarily close down business operations. Next to their physical health and safety, the biggest fear for many at this time concerns their financial well-being. This is a time when our commitment to community leadership and customer support matters most, and the response of the Merchants employee team has been amazing.

The sole focus of team members right now is to continue to take care of our customers as we always have – as reliable trusted advisors. How we are making that happen in a safe manner, while balancing the responsibilities we have to all stakeholders, is detailed in the form of the supplemental information we have included with this report.

As you are aware, the Annual Meeting of Shareholders held earlier this month was abbreviated and conducted virtually with a small group of Shareholders participating in distributed manner. In addition to detailing a COVID-19 update in the accompanying material, we also want to be transparent to the full Shareholder base in summarizing presented content and discussion items coming out of the meeting. Topics addressed include:

- The request for approval of an increase in the number of authorized shares
- Northfield merger and systems integration update and other acquisition activity
- Progress on technology system upgrades
- Board governance and ongoing Director succession planning
- Risk profile elevation we expect to experience as a direct impact of the pandemic

I would be remiss if I didn't mention how tremendously proud I am of the Merchants team. We have been challenged over the past month and I have personally witnessed team members stepping up unconditionally to help our customers. Thank you for understanding the vital role our community bank can play and for your support of this amazing team. Take care and be well.

Very truly yours,

Gregory Evans

Gregory M. Evans
President and CEO

Balance Sheet Highlights

Period-end	March 31, 2020	December 31, 2019 *	Variance	September 30, 2019
Assets				
Cash & Fed Funds	$ 131,931,489	$ 94,783,266	39.19%	$ 109,822,890
Investments	134,212,276	143,203,122	-6.28%	147,846,463
Net Loans	1,719,233,826	1,727,364,482	-0.47%	1,695,723,549
Intangible assets	38,901,522	39,204,841	-0.77%	39,521,743
Other assets	112,779,998	108,138,081	4.29%	110,085,078
Liabilities & Equity				
Deposits	1,834,113,261	1,815,195,552	1.04%	1,800,873,533
Trust Preferred Securities	41,254,000	41,254,000	0.00%	41,254,000
Other Liabilities	61,606,614	58,989,884	4.44%	69,203,471
Equity	200,085,237	197,254,356	1.44%	191,668,719
	*Restated to align with audit reclassifications			

Income Statement Highlights

	Three months ended			2019 Per Quarter Results			
	March 31, 2020	March 31, 2019 *					
	Actual	Actual	Variance	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Income							
Investments & Funds Sold	$ 1,284,442	$ 1,102,413	16.51%	$ 1,253,964	$ 1,109,458	$ 1,063,547	$ 1,102,414
Loan Interest	21,416,705	18,138,880	18.07%	22,868,264	20,676,852	19,850,937	18,138,880
Total Interest Income	22,701,147	19,241,293	17.98%	24,122,228	21,786,310	20,914,484	19,241,294
Interest Expense	(3,803,367)	(3,098,530)	22.75%	(3,977,349)	(3,666,620)	(3,451,686)	(3,098,531)
Net Interest Income	18,897,780	16,142,763	17.07%	20,144,879	18,119,690	17,462,798	16,142,763
Non-interest Income	5,908,665	4,969,603	18.90%	7,115,782	6,539,688	5,836,555	4,969,603
Non-interest expense	(18,690,797)	(15,765,665)	18.55%	(18,723,076)	(16,982,092)	(14,977,968)	(15,765,665)
Provision expense	(957,771)	(665,103)	44.00%	(542,803)	(73,803)	(973,003)	(665,103)
Pretax Income	5,157,877	4,681,598	10.17%	7,994,782	7,603,483	7,348,382	4,681,598
Taxes	(1,350,999)	(1,209,000)	11.75%	(2,686,029)	(2,073,000)	(1,893,000)	(1,209,000)
Net Income	3,806,878	3,472,598	9.63%	5,308,753	5,530,483	5,455,382	3,472,598
	*Restated to align with audit reclassifications						

Bank Yield and Margin Highlights

	March 31, 2020		December 31, 2019		December 31, 2018	
	Balances	Rate	Balances	Rate	Balances	Rate
Earning Assets						
Fed Funds Excess	$ 88,913,437	0.10%	$ 51,680,968	1.76%	$ -	0.00%
Investments	$ 190,235,173	2.64%	$ 199,126,947	2.74%	$ 186,181,230	3.00%
Loans	$ 1,669,725,530	4.13%	$ 1,675,345,449	4.29%	$ 1,382,298,362	4.36%
OREO & Non-accrual	$ 23,835,129	0.00%	$ 23,336,302	0.00%	$ 27,660,409	0.00%
Earning Assets Total	$ 1,972,709,269	3.76%	$ 1,949,489,666	4.19%	$ 1,596,140,001	4.02%
Paying Liabilities						
Non-interest deposits	$ 439,664,284	0.00%	$ 424,840,230	0.00%	$ 351,895,902	0.00%
Interest deposits	$ 1,393,588,045	0.89%	$ 1,389,996,422	0.95%	$ 1,084,557,047	0.78%
Non-core deposits	$ 15,078,655	1.04%	$ 9,453,637	1.17%	$ 8,893,312	0.48%
Borrowings	$ 25,000,000	2.17%	$ 25,000,000	2.17%	$ 8,000,000	2.72%
Fed Funds Purchased	$ -	0.00%	$ -	0.00%	$ 62,253,147	2.58%
Paying Liabilities Total	$ 1,873,330,984	0.70%	$ 1,849,290,289	0.76%	$ 1,515,599,408	0.57%
Net Interest Spread		3.06%		3.43%		3.45%

Credit Quality Ratios

Period ended	March 31, 2020	December 31, 2019	September 30, 2019	June 30, 2019	March 31, 2019
Classified Loans to Total Loans	3.89%	4.51%	4.43%	4.07%	4.41%
Criticized Loans to Total Loans	6.11%	7.50%	7.10%	6.35%	6.51%
Classifed Loans to Capital	28.62%	34.17%	31.52%	26.52%	28.53%
Criticized Loans to Capital	44.93%	56.83%	50.59%	41.32%	42.12%
Non-accrual Loans to Total Loans *	1.32%	1.26%	1.94%	1.65%	1.85%
Past Due > 90 days to Total Loans *	0.26%	0.23%	0.00%	0.00%	2.00%
Net Charge-offs (Recoveries) to Total Loans *	-0.01%	0.08%	0.10%	0.03%	0.00%
Loss Reserve to Total Loans *	1.19%	1.12%	1.23%	1.30%	1.30%

* Total loans includes held for sale and operating leases

Key Ratios

Period-end	March 31,2020	December 31, 2019	September 30, 2019	June 30, 2019	March 31, 2019
Internal Ratios					
Return on Average Assets	0.71%	0.94%	0.96%	1.00%	0.81%
Return on Ending Equity	7.59%	10.04%	10.09%	9.60%	7.60%
Efficiency Ratio	74.14%	67.65%	67.86%	68.18%	73.90%
Net Interest Margin	4.04%	3.88%	3.77%	4.13%	4.07%
Common Equity Tier 1	9.69%	9.44%	10.29%	10.13%	10.32%
Tier 1 Capital Ratio	11.77%	11.51%	12.61%	12.49%	12.77%
Total Capital Ratio	12.83%	12.50%	13.70%	13.65%	13.94%
Tier 1 Leverage Ratio	10.69%	10.68%	11.44%	12.04%	12.18%
Investor Ratios					
Number of Shares Outstanding	2,726,247	2,726,247	2,726,247	2,726,247	2,726,247
YTD Earnings Per Share	1.40	7.25	5.30	3.27	1.27
Book Value Per Share	73.39	72.35	70.30	68.28	66.75
Tangible Book Value (TBV)	59.12	57.97	55.81	59.82	58.29
Share price	60.75	73.35	72.75	72.50	75.00
Price to EPS	10.88	10.12	10.29	11.07	14.72
Price to TBV	102.75%	126.52%	130.35%	121.20%	128.67%

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

MERCHANTS FINANCIAL GROUP, INC

Here is an inventory of Shareholder questions that were received either in advance of or at the Annual Meeting, along with strategic content updates that Management addressed at the Meeting:

1. Why did Management recommend and ask for shareholder approval for such a large increase in the number of authorized shares of Merchants Financial Group, Inc. (MFGI) stock? Won't this dilute the value of existing shares?

During the course of our current three-year strategic plan, Board and Management have engaged in meaningful discussion on increasing the market trading activity of MFGI stock. We have successfully pursued several initiatives, including increasing the level of institutional investment in our stock. We remain active in other Board engagement and education matters.

One suggestion that has come directly from a number of shareholders over the past two years has been considering splitting the stock or declaring and issuing a stock dividend. We were contemplating a stock split in Q4 of 2019 when our share price peaked and plateaued in the $75 range. At that time, we had 4,000,000 shares authorized shares and had 2,726,247 shares outstanding. This meant we could not even affect a 2-for-1 split without obtaining shareholder approval of an increase in the number of authorized shares. We chose to recommend increasing the authorized share count significantly at this time, primarily to have the flexibility for future splits of MFGI stock. There would be no dilution impact to existing shareholders in splitting the stock.

Obviously, the market volatility and fallout that has resulted from the COVID-19 pandemic has tempered any near-term consideration for a split. The increase in authorized shares approved by our shareholders provides the Board and Company with future flexibility to consider stock splits and capital raise activity associated with any long-term future acquisition needs. At this time, Management has no intention to recommend a capital raise, issue any new stock or take any action that would dilute existing shareholders' value.

2. Could you give us a current Merger and Acquisition activity update?

Our top priority is the successful merger and systems integration for Northfield. We took ownership of the First National Bank of Northfield last August, but our actual merger and systems conversion will occur the weekend of May 15-17, 2020. The transition team involving members of both Banks has planned and prepared extremely well for the upcoming merger. It is a complex undertaking, made even more challenging as we comply with necessary work-from-home restrictions for a number of the transition team members. We are very pleased that First National Bank President Tim Viere has accepted a long-term employment offer and will continue to bring value as a member of the Merchants Executive Leadership Team post-merger. At the shareholder meeting, Tim provided a very positive update about the transition.

We continued to review additional opportunities into March 2020. If, when and how we choose to progress in light of recent events will require intense consideration. We remain extremely disciplined in assessing any opportunity based on comprehensive strategic merit. Our evaluation of opportunities includes the assessment of geographic fit, culture, credit-risk profile, strength of the deposit franchise, talent, and market opportunities for future growth

3. Could you provide a Technology investment update?

We continue to increase our investment in information technology (IT) with meaningful strategic intent. Our priority focus has been continued enhancement of our information security systems and digital banking solutions. In 2019, 12.3% of our annual IT spend was specifically directed to information security. In the financial services industry, the direct spend rate on information security ranges from 6% to 13% of technology budgets, which in our view puts us on the prudent end of the industry average.

Over the course of the last six months, we have successfully enhanced our entire digital banking solution suite. Last November, we went live with a new digital treasury management system that replaced and enhanced our internet and mobile banking applications for our commercial clients. In March, right in the middle of our crisis management response associated with the COVID-19 pandemic, we converted on schedule the digital suite for all of our consumer and small business banking clients. Over the course of the past six weeks, we have successfully migrated more than 20,000 customers to the new digital platform. These were intense and complex projects. We appreciate our customers' patience as we continue to focus on customer care associated with any resulting service disruption. Our team remains active in addressing any lingering conversion fallout for our customers. Both of these new systems are open platforms that will allow us to integrate dozens of feature-rich applications as our customer needs continue to evolve. Today, we are absolutely better positioned to compete in the digital world than we were a year ago.

At the Annual Meeting, we formally introduced Stephen Swenson as our new Senior Vice President/Chief Information Officer, successfully completing the succession planning associated with Rodney Nelsestuen's retirement at the end of May. We conducted a broad search that introduced us to a dozen viable candidates, ultimately screened to three finalists. Stephen was the top candidate, accepted our employment offer and joined the team on March 2. He has worked in strategic Operations and IT management roles over a career spanning over 30 years, most of which has been in various roles with financial services companies. He will continue to work in tandem with Rodney until the end of May.

4. Could you update us on the Board of Director Election and on Board succession planning:

As recommended in our proxy statement, our shareholder elected Directors Gregory M. Evans (President & CEO of the Corporation), Richard T. Lommen Jr. (Vice Chairman of the MFGI Board, and Owner-Operator & President of Courtesy Corporation) and Bradley J. Peterson (Chairman & Chief Acquisition Officer for Mississippi Welders Supply Company, Inc.) to three-year Board terms. Mr. Peterson has served as a Director for the Merchants Bank Board since April of 2019. His election completes succession planning associated with the Board retirement of Kenneth J. Mogren. Mr. Mogren was first elected to the Merchants Bank Board of Directors in 2002 and was elected to the MFGI Board in 2005. He is the retired President of WA Group (formerly Winona Agency, Inc.). His service was appropriately acknowledged at the meeting and he has been presented with a gift in recognition of his service.

We also provided an update on some additional Board Governance and succession planning activity. Mike Cunningham's retirement from the Merchants Bank Board of Directors was announced. Mr. Cunningham is the retired owner of The Board Store. He served on the MFGI Board of Directors from 2004 to 2019. He will be retiring from the Merchants Bank Board at this time, but will continue in his role as a member of the Local Advisory Board for LaCrescent/Onalaska. Mr. Cunningham, too, was acknowledged and presented a gift for his service. Succession associated with these Merchants Bank Board retirements occurred this month with the election of Richard Falck and Jennifer Sawyer to the Merchants Bank Board. Rich is Owner and Advisor of Falck Financial Services and has served on the First National Bank of Northfield Board of Directors, including in the role as Chairman at time of acquisition, since 2004. Ms. Sawyer is Owner and President of Rebound Enterprises and BoardBOS. She has served on the First National Bank of Northfield Board since 2003.

In advance of the Annual Meeting, one shareholder submitted a comment associated with his vote of "opposed" to election of the three Director nominees based on his stated preference to have all Directors stand for re-election annually. The Board Governance Committee has evaluated the current practice of having staggered three-year terms associated with Board assignments and elections. Having evaluated merit, advantages, disadvantages and counsel associated with the current structure, the Board has determined that the current leadership continuity is an area of strength and stability contributing to the Company's long track record of earnings growth and enhanced shareholder value. As a result, the Board will leave the current structure in place, subject to periodic ongoing evaluation.

5. As it relates to credit quality, how are things in the Ag portfolio and have you seen any signs of improvement for our farmers?

As well documented, prior to the onset of the COVID-19 pandemic, the Ag concentration of our portfolio has occupied most of our risk mitigation focus. The level of identified problem loans in our portfolio remains elevated and more than half of substandard and non-performing loans are in the Ag sector. Even though it was a wet year for farmers, yield reports from our borrowers for the most part were average to above average. Commodity prices remain depressed, and the current pandemic isn't helping farmers, either. Because tax returns for many farm customers will be delayed, our Ag loan renewal activity has been a bit slower than normal. We expect that the stress will continue throughout 2020. We began the year with a goal of working to reduce our level of substandard loans by $20-25 million, either as the result of improved performance to justify risk rating upgrades or exit discussions with some borrowers. We had begun to make progress in that regard when all of our attention was necessarily drawn to the impact of the pandemic.

6. The Bank shows Company-Owned Life Insurance of 2% of the balance sheet; why do you have this much and wouldn't group term life insurance be more cost-effective?

There are a couple of parts in addressing this question. First, as a Company we do offer group **term** life insurance as a benefit to all full-time employees at the lesser of annual salary or $50,000/employee. This is an employee benefit expense absorbed by the Bank and is not the balance sheet item raised as a question by a shareholder.

The Company Owned Life Insurance (or Bank Owned Life Insurance – BOLI) on the balance sheet is a unique vehicle that many banks use because of its investment return and employee benefit value. BOLI is a benefit that we offer to officer level employees of the Bank. This insurance is guaranteed issue and the premium is paid in full. The Company then recognizes tax-exempt income monthly on the increase in the cash surrender value. The return on the investment has been above market returns historically. The net yield on this investment for Plan Year 2019 was 2.56% with a tax-equivalent yield of 3.59%. The investment also includes a split dollar value for the officers' beneficiaries upon death. If an employee should pass, the Company receives the death benefit less the split dollar benefit paid to the employee's beneficiary. If a former employee should pass, the Company receives the death benefit in full, which is typically significantly above the cash value. In either case, the Company is able to use the return on this investment and death benefit proceeds to cover costs associated with the total employee benefit plan package. This has been an excellent investment since we instituted the program in 1989. We expanded the program in 2004 because of its value, and we continue to add BOLI to the balance sheet to offer as a benefit for newly-hired Officers.

7. Please provide a COVID-19 Operations & Business Continuity Planning response update?

Our Executive Leadership Team began preparing casually in late January for the possibility of mobilizing with business continuity plans in the event of a widespread pandemic. Since March 13, we have been active in modifying and implementing our plan. Our leadership response has been defined by the responsibility we have to balance the interest of all stakeholders.

From day one, our response has been guided by an understanding that next to health and safety, the biggest source of fear and anxiety for virtually every single one of our customers is their financial well-being. We have consumer clients out of work. We have business customers who have had to close down operations. As a community bank and community leader, we continue to have enormous responsibility to serve the public trust, our communities and our customers by being the leaders we have always been and the leaders that they need us to be at this time. We have challenged our entire team to meet those expectations with a high degree of empathy, availability and respect while protecting the long-term interests of our shareholders to the best of our collective ability. Specific response actions that we have taken to sustain operations safely while serving our clients and communities include:

- We restricted access to customer traffic in our bank lobbies effective March 19. At present, only emergency appointments are being accommodated inside the bank locations.
- Drive-through banking service has gone on uninterrupted throughout the period of pandemic response.
- As referenced, we mobilized business continuity planning aggressively on Friday, March 13, and we are accommodating all critical operational support functions as necessary to sustain business as usual.
- More than 65% of our workforce is being accommodated with work-from-home provisioning.
- We have accommodated all employees throughout; we have not instituted furloughs, layoffs, or reduction of compensation/benefits – we continue to monitor and will respond appropriately as business needs evolve over time.
- We have enhanced levels of compensation for key at-risk employees, including our tellers, maintenance & custodial staff, and physical couriers who travel between all 24 locations.
- The Executive Leadership Team has been fully engaged throughout the process; we conduct rapid response huddles daily, with employee updates shared company-wide several times each week; all Board members are included on every piece of internal communication.
- The Executive Leadership Team has also adopted a schedule of work-from-home rotations to ensure appropriate health management and long-term continuity of leadership.
- Certain work areas – most notably our Secondary Market Mortgage Operation and Commercial Credit Administration teams – have required mandatory overtime support and our employee team has responded with extraordinary and uncompromised commitment to accommodate a large mortgage new business pipeline caused by a significant drop in interest rates and the demand associated with loan payment deferment and COVID-19 government relief loan program requests.

8. So, aside from the Company's operational response, what should I as a shareholder be concerned about as it relates to the pandemic's long-term impact on my investment?

Without question, the pandemic has elevated the risk profile associated with virtually every aspect of our business. The business of banking is the business of risk management, and we are fortunate to have a Leadership Team filled with long-tenured professionals who have experienced elevated risk cycles several times in the past. The greatest predictor of future success is past performance. Most recently, our performance coming out of the great recession of 2008-09 far exceeded that of most of our peers. Those early years when we were never out of the market for new business served as the springboard for the string of record pre-tax earnings years we have experienced since 2016. While we are incredibly resolute and optimistic about our ability to weather the current storm, the reality is that there has never been a forced economic shutdown of such immediacy in the recent history of the world. The key business risk areas that we will be monitoring for the balance of 2020 are covered in the following questions. In addition, we would like to call your attention to the "Additional Statement regarding Forward Looking Statements" at the end of this Q&A document.

9. What is our current Credit risk?

Many of our borrowing customers have experienced significant hardship associated with the pandemic, including at least temporary loss of employment or having to temporarily shut down business operations. We responded immediately with sensitivity in instituting loan payment deferment programs for customers meeting certain good-standing criteria. Deferment options are available on all loan types and range between 30- and 90-day extensions based on type of loan. We will review the need to expand these deferment ranges as conditions persist. We also mobilized quickly to leverage our designation as a Small Business Association (SBA) Preferred Lender in order to be an originating source of loan relief programs for our commercial clients. We have worked to accommodate dozens of customers with these options.

The impact of this response in terms of long-term elevation of risk in the portfolio will not be fully quantified until the economy shows signs of turning the corner and returning to normal. At that time, we will have the ability to make more accurate assessment with regard to the long-term repayment capacity of impacted borrowers. Our first quarter analysis for our Allowance for Loan/Lease Loss Reserves revealed a modest surplus of provision. We made the prudent decision to retain the surplus in reserves and set aside additional reserves only for markets where analysis revealed a reserve deficiency. That resulted in an increase to reserves of approximately $500,000. As we navigate through the second quarter, we expect the reserve analysis will impact earnings to a greater degree. Our approach is to have quantifiable data to drive that calculation, and we will adjust in a prudent and conservative manner as we always do based on the clearly defined risk profile identified in June as part of our comprehensive Q2 analysis.

10. What is our current Liquidity risk?

The deposit franchise for Merchants is very strong. The organic deposit growth of 12% that Merchants Bank experienced in 2019, combined with the strength of Northfield's deposit franchise as a result of the acquisition, has resulted in a consolidated balance sheet that has never been stronger in the history of the Company. We are extremely mindful of the critical importance for healthy liquidity at this time. It's pleasing to note that deposits for Merchants Bank as of March 31 were $1.63 billion compared to $1.46 billion a year ago. The loan-to-deposit ratio of 94.33% this year compares to 98.82% a year ago, putting us at an optimal balance in terms of liquidity and earnings. When we add in Northfield, total consolidated deposits on a pro forma for the Company would be $1.83 billion, with a consolidated loan-to-deposit ratio of 93.32% at the end of Q1.

Specifically related to the pandemic, we have not experienced any erosion on the deposit side of the balance sheet. We have had a very small number of customers driven by pandemic fear make large cash withdrawals from existing accounts, but we have not had any uptick in closed account activity. To be proactive, we have reached out to every source of institutional liquidity in the event conditions drive a need to tap into borrowing lines at any future point as pandemic conditions evolve. All of our upstream correspondent banks have assured us that the lines we have in place are available in the event we need to use them for short-term liquidity contingencies.

11. What is our current Interest Margin & Sensitivity risk?

The sharp decline in interest rates that resulted from the onset of the pandemic has accelerated pressure on our net interest margin. We entered 2020 with a forecast that projected an erosion of that margin between what we pay in the form of interest on our deposits and what we earn as a yield on our loans. The extended flattening/inversion of the yield curve created pressure on that margin throughout most of 2019 and we were prepared for that to continue. The sudden decline and volatility in interest rates will likely create margin compression that exceeds our forecast. To mitigate the impact, we are working hard to be extremely disciplined in pricing considerations on both sides of the balance sheet. One advantage we have at Merchants is the diversification associated with our lines of business and the source of non-interest income that diversity creates. As an example, with the decline in interest rates, our mortgage origination pipeline has exploded and we currently have more than 1,000 new loan applications in process. That business is a healthy source of fee income for the Company, and will offset to some degree the expected decline in net interest income.

12. What is the current Cyber Security risk?

Incidents that result in heightened public fear and vulnerability create a prime environment for perpetrators of cyber crimes. The nature of our business requires us to be in a constant state of high alert relative to information security and the protection of the private client information we are entrusted with. We continue to leverage all of our information security tools to optimal levels to mitigate this risk. We also continue to post information on our web site for customers with regard to known scams and patterns of fraud as we become aware of them.

13. What will be the impact of Regulatory Oversight on the Company?

There is significant burden that comes with operating in an intensely-regulated industry. We have always viewed our relationship with our primary federal regulator, the Office of the Comptroller of the Currency (OCC), in the form of a partnership. The OCC plays an important role in ensuring the safety and soundness of the Company, and Merchants has a strong track record of being in compliance with regulatory guidance. Currently, we receive daily correspondence from the OCC and we are proactive in reaching out to our regulatory contacts with more frequency than is typical. They have set expectations that allow us to work with our customers in providing tools for financial relief at this time, and have been supportive of our actions to restrict in-person customer activity while continuing to be open and available in meeting the needs of our customers. There has also been modest suspension of some regulation that affords us short-term flexibility.

14. Are we seeing a lot of stock market volatility?

As an OTC listed (albeit, thinly) Company, and with the presence of institutional investors within our shareholder base, we are not immune from the volatility being experienced in the broader stock market. Recent trades on the open market via our Over The Counter (OTC) trading platform have resulted in the current open market price of $60/share (April 13), which is a drop from the 52-week high of $76.74/share. Because our first quarter performance was solid and because we have not until now communicated anything publicly related to the specific impact we may experience as a result of the pandemic, we believe that the market reaction and reduction in share price is driven by macro considerations impacting all financial stocks.

Because we have an Employee Stock Ownership Plan (ESOP) which gives the Company's employees an ownership interest (18% collectively), we are required to engage an independent party to conduct an annual valuation of the Company. Wipfli is the independent party that was engaged to conduct the valuation for year-end 2019. The appraisal combines both market-based and earnings-based calculations. A marketability discount has been consistently applied to the valuation because of the thin trading volume for our stock. This valuation exercise resulted in a share price calculation of $90/share. Be mindful that this was based on market conditions and audited financial reports for year-end 2019 and is not predictive or reflective of current market conditions or any material impact on the value of the Company that will continue to play out for the balance of 2020

15. Given all of that, do you have an updated earnings forecast and what can I expect relative to the long-term value of my investment in Merchants?

It is impossible at this time to calculate the impact that we will undoubtedly experience from what has transpired without a crystal ball. Our Q1 earnings performance was near our plan target and exceeded Q1 of 2019, even with accrual expense associated with the upcoming Northfield conversion and a quarter-end adjustment of an additional $500K set aside for Loan/Lease Loss reserves. The headwinds that we will encounter through the balance of the year ahead, and which are described above, are real. At the same time, we know there will be market opportunities, and at present that includes the large mortgage origination pipeline that will be a significant source of fee income.

At the depth of the great recession a decade ago, Merchants reported an operating loss for the first quarter of 2010, the first quarterly loss reported by the Company dating back to the early 1980s. The Company rebounded quickly from that and ended with net income for the year that was similar to that of 2009. This is not intended to forecast any future loss experience, nor should it be interpreted as a prediction for a successful earnings outcome at year-end 2020. It's practical to expect that our Allowance for Loan/Lease Loss provisions throughout the balance of this year will impact earnings. But as we have demonstrated in the past, we will be aggressive in quantifying and identifying risk, and work to minimize its impact on our performance. We will continue to hold ourselves accountable for the long-term enhancement of value for our shareholders. In consistent alignment with our business discipline, we will resist the temptation to sacrifice long-term strength as a tradeoff for short-term earnings performance considerations.

The Board's recent declaration of a semi-annual dividend at the same $.75/share rate as the December payment was action taken with absolute confidence. In 2010, the Board declared a similar retention of dividend payment even after reporting a Q1 loss. Even though the challenges of today and the future may be vastly different and more severe than what we have encountered in the past. Going forward, and as we have data to better quantify the impact of the pandemic on our business, we will balance our long history of dividend payments with the need to maintain adequate capital buffers to mitigate any resulting loan loss exposure. We have always been conservative in our capital planning and stress testing, and we will continue to operate in that matter. We are absolutely confident in our ability to weather the current storm, learn from the experience and come out of it at some future point as an even stronger community banking organization.

Additional statement regarding Forward Looking Statements

Statements in this letter regarding the Company that are not historical facts are "forward-looking statements" that involve risks and uncertainties. These statements may be identified by the use of forward-looking terminology, including the words “may,” “believe,” “will,” “expect,” “look,” “anticipate,” “estimate,” “continue,” or similar words.

There are a number of risks and uncertainties to which these forward-looking statements may be subject, including

(i) the Company’s ability to successfully and profitably integrate the Northfield operations;

(ii) changes in general economic, market and regulatory conditions;

(iii) the severity and duration of the coronavirus outbreak and the impact of the outbreak (including federal, state and local governments’ response to the outbreak) on economic and financial markets, potential regulatory actions, and modifications to our operations, products, and services relating from these events;

(iv) disruptions in our and our customers’ operations and loss of revenue due to widespread health emergencies, government-imposed travel/business restrictions, or outbreaks of infectious diseases such as the coronavirus, and the associated adverse impact on our financial position, liquidity, and our customers’ abilities to repay their obligations to us or willingness to obtain financial services products from the Company;

(v) the development of an interest rate environment that may adversely affect the Company’s interest rate spread, other income or cash flow anticipated from the Company’s operations, investment and lending activities;

(vi) changes in laws and regulations affecting banks and bank holding companies;

(vii) and the Company’s ability to access financial resources in the amounts, at the times and on the terms required to support the Company’s ongoing and future business.

These risks and uncertainties could cause actual results, performance or achievements to differ materially from those projected in the forward-looking statements. The forward-looking statements speak only as of the date of this letter.