

October 26, 2021

Dear Shareholder,

While it's hard to imagine that we are already nearing the end of 2021, I am pleased to report strong performance results for the third quarter for Merchants Financial Group, Inc. Our year-to-date net income is \$25,568,747, which exceeds our earnings forecast by \$9.5 million and is \$10.85 million ahead of third quarter results for 2020, when COVID was significantly impacting our performance.

As a result of this performance, your Board of Directors took action to approve:

- A semiannual dividend increase to \$.85/share. This regular dividend will be paid on December 17, 2021 to Shareholders of record as of November 19, 2021.
- A one-time special dividend payment to Shareholders of \$1/share because of market factors that have contributed to exceptional performance that far exceeds our forecast expectations. This special dividend will be paid on December 24, 2021 to Shareholders of record as of November 19, 2021.

Everyone on the Merchants team has contributed to our performance results. Every business unit – all four Bank market regions, Merchants Bank Equipment Finance, and our secondary market mortgage operation – has exceeded its plan through three quarters. In addition, we were able to reverse an identified excess of \$1.1 million of our Allowance for Loan/Lease Loss Reserves (ALLLR) and back into income, contributing to an outstanding third quarter.

Some important financial highlights for the third quarter include:

- Continued strong residential mortgage loan volume – through three quarters, we have originated total loan volume of \$668 million, which has exceeded our projection by \$235 million.
- Accelerated loan forgiveness of Small Business Administration Paycheck Protection Program loans has contributed to strong fee income recognition of \$3.28 million in the third quarter alone as part of our participation in that small business relief program.
- Deposit growth remains outstanding – total deposits are now nearly \$2.42 billion, almost \$585 million above our plan and an increase of \$109.5 million (4.75%) compared to 2020.
- Commercial loan activity remains soft, and we remain challenged in putting our excess liquidity to work in the form of earnings assets without taking on market/duration risk.

I'm very proud to be a part of this team and continue to be impressed with our group of community bankers in working to meet the unique needs of our customers and communities during these interesting times. In my opinion, there is no greater responsibility than to be a trusted advisor for our families and businesses in this environment. We remain committed to serving them and working to fulfill their hopes and dreams. Thank you for making the work we do possible. All of our stakeholders benefit from your loyalty and support.

With gratitude,



Gregory M. Evans
President and CEO

Balance Sheet Highlights

Period-end	September 30, 2021	June 30, 2021	Variance	December 31, 2020	Variance
Assets					
Cash & Fed Funds	\$ 814,204,667	\$ 726,614,103	12.05%	\$ 423,969,359	92.04%
Investments	159,330,260	160,072,324	-0.46%	122,646,944	29.91%
Net Loans	1,607,530,728	1,663,678,342	-3.37%	1,793,929,501	-10.39%
Intangible assets	37,366,839	37,588,689	-0.59%	38,073,070	-1.85%
Other assets	115,972,094	117,209,083	-1.06%	116,277,302	-0.26%
Total Assets	2,734,404,588	2,705,162,541	1.08%	2,494,896,176	9.60%
Liabilities & Equity					
Deposits	2,416,782,775	2,392,003,114	1.04%	2,191,771,250	10.27%
Trust Preferred Securities	41,254,000	41,254,000	0.00%	41,254,000	0.00%
Other Liabilities	43,814,360	45,778,969	-4.29%	51,081,804	-14.23%
Equity	232,553,453	226,126,458	2.84%	210,789,122	10.33%
Total Liabilities & Equity	2,734,404,588	2,705,162,541	1.08%	2,494,896,176	9.60%

Income Statement Highlights

	Nine months ended			2021-2020 Per Quarter Results			
	September 30, 2021	September 30, 2020	Variance	Third Quarter	Second Quarter	First Quarter	Fourth Quarter
	Actual	Actual					
Income							
Investments & Funds Sold	\$ 1,573,079	\$ 2,671,881	-41.12%	\$ 524,845	\$ 581,135	\$ 467,098	\$ 334,737
Loan Interest	62,821,876	64,609,036	-2.77%	22,367,903	20,841,696	19,612,277	22,718,254
Total Interest Income	64,394,955	67,280,917	-4.29%	22,892,748	21,422,831	20,079,375	23,052,991
Interest Expense	(6,385,937)	(10,347,827)	-38.29%	(1,956,428)	(2,233,485)	(2,196,023)	(2,761,314)
Net Interest Income	58,009,018	56,933,090	1.89%	20,936,320	19,189,346	17,883,352	20,291,677
Non-interest Income	33,069,079	31,725,168	4.24%	8,505,664	9,847,955	14,715,460	12,566,636
Non-interest expense	(58,052,449)	(58,322,921)	-0.46%	(19,991,265)	(18,983,747)	(19,077,438)	(20,640,082)
Provision expense	1,917,100	(10,325,355)	-118.57%	640,500	1,562,500	(285,900)	(3,036,692)
Pretax Income	34,942,748	20,009,982	74.63%	10,091,219	11,616,054	13,235,474	9,181,539
Taxes	(9,374,000)	(5,292,000)	77.14%	(2,680,000)	(3,125,000)	(3,569,000)	(2,388,000)
Net Income	25,568,748	14,717,982	73.72%	7,411,219	8,491,054	9,666,474	6,793,539

Bank Yield and Margin Highlights

	September 30, 2021		June 30, 2021		March 31, 2021	
	Balances	Rate	Balances	Rate	Balances	Rate
Earning Assets						
Fed Funds Excess	\$ 780,878,728	0.15%	\$ 692,332,574	0.10%	\$ 673,413,493	0.10%
Investments	\$ 216,433,585	1.71%	\$ 217,411,092	1.87%	\$ 186,884,169	1.75%
Loans	\$ 1,572,381,364	3.63%	\$ 1,636,409,411	3.58%	\$ 1,723,811,226	3.54%
OREO & Non-accrual	\$ 17,754,616	0.00%	\$ 16,539,898	0.00%	\$ 18,312,138	0.00%
Earning Assets Total	\$ 2,587,448,293	2.39%	\$ 2,562,692,975	2.47%	\$ 2,602,421,026	2.49%
Paying Liabilities						
Non-interest deposits	\$ 600,415,549	0.00%	\$ 575,324,213	0.00%	\$ 590,800,446	0.00%
Interest deposits	\$ 1,804,028,458	0.34%	\$ 1,804,411,806	0.36%	\$ 1,826,070,396	0.40%
Non-core deposits	\$ 12,369,336	0.37%	\$ 15,004,444	0.38%	\$ 15,004,814	0.40%
Borrowings	\$ 11,500,000	2.07%	\$ 11,500,000	2.07%	\$ 14,000,000	2.07%
Fed Funds Purchased	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%
Paying Liabilities Total	\$ 2,428,313,343	0.26%	\$ 2,406,240,463	0.28%	\$ 2,445,875,656	0.31%
Net Interest Spread		2.13%		2.19%		2.18%

Credit Quality Ratios

Period ended	September 30, 2021	June 30, 2021	March 31, 2021	December 31, 2020
Classified Loans to Total Loans	4.75%	5.18%	4.97%	5.08%
Criticized Loans to Total Loans	6.77%	6.63%	7.08%	7.02%
Classified Loans to Capital	28.47%	33.03%	34.28%	36.05%
Criticized Loans to Capital	40.55%	42.28%	48.79%	49.85%
Non-accrual Loans to Total Loans *	0.97%	0.97%	1.04%	1.10%
Past Due > 90 days to Total Loans *	0.07%	0.02%	0.14%	0.12%
Net Charge-offs (Recoveries) to Total Loans *	0.05%	0.03%	0.02%	0.06%
Loss Reserve to Total Loans *	1.81%	1.80%	1.81%	1.76%
* Total loans includes held for sale and operating leases				

Key Ratios

Period-end	September 30, 2021	June 30, 2021	March 31, 2021	December 31, 2020
Internal Ratios				
Return on Average Assets	1.29%	1.38%	1.46%	0.91%
Return on Ending Equity	14.71%	16.12%	17.66%	10.28%
Efficiency Ratio	61.98%	59.82%	56.30%	62.53%
Net Interest Margin **	3.74%	3.85%	4.16%	4.31%
Common Equity Tier 1	10.87%	10.82%	10.46%	9.81%
Tier 1 Capital Ratio	12.99%	13.01%	12.64%	11.98%
Total Capital Ratio	14.24%	14.26%	13.89%	13.69%
Tier 1 Leverage Ratio	9.34%	9.14%	9.18%	10.01%
Tang Common Equity/Tang Assets	7.20%	7.03%	6.75%	7.03%
Investor Ratios				
Number of Shares Outstanding	2,726,247	2,726,247	2,726,247	2,726,247
YTD Earnings Per Share	9.38	6.66	3.55	7.89
Book Value Per Share	85.30	82.94	80.87	77.32
Tangible Book Value (TBV)	71.60	69.16	67.00	63.35
Share price	73.00	72.50	70.05	54.38
Price to EPS	5.84	5.44	4.94	6.89
Price to TBV	101.96%	104.83%	104.56%	85.84%
*Ratios with shares use outstanding shares versus GAAP weighted average shares				
** Net Interest Margin is inflated due to Mortgage Fees being included in calculation				