

**MERCHANTS FINANCIAL GROUP, INC.
NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**

April 4, 2019

The Annual Meeting of the Shareholders of Merchants Financial Group, Inc., a Minnesota corporation (the “Company”), will be held at Merchants Bank, National Association, 102 East Third Street, Winona, Minnesota, on Thursday, April 4, 2019, at 4:00 p.m. (local time), for the following purposes:

1. To elect three members of the Board of Directors for a term of three years, to serve until their successors are elected.
2. To approve a non-binding advisory vote on the Company's appointment of its independent registered public accounting firm.
3. To transact such other business as may properly be brought before the meeting or any adjournments thereof.

The Board of Directors has fixed the close of business on February 8, 2019 as the record date for the determination of the shareholders entitled to notice of, to attend, and to vote at, the meeting. Accordingly, only shareholders of record at the close of business on that date will be entitled to attend and vote at the meeting, or any adjournments thereof.

TO ENSURE YOUR REPRESENTATION AT THE MEETING, THE BOARD OF DIRECTORS OF THE COMPANY SOLICITS YOU TO MARK, SIGN, DATE AND RETURN THE ACCOMPANYING PROXY IN THE ENCLOSED ENVELOPE. YOUR PROXY MAY BE REVOKED AT ANY TIME BEFORE IT IS EXERCISED. IF YOU ARE ABLE TO ATTEND THE MEETING AND WISH TO VOTE YOUR SHARES PERSONALLY, YOU MAY WITHDRAW YOUR PROXY AND DO SO.

**IMPORTANT NOTICE REGARDING AVAILABILITY OF PROXY MATERIALS FOR THE
SHAREHOLDERS' MEETING TO BE HELD ON APRIL 4, 2019.**

This Notice of Annual Meeting, Proxy Statement, and our Annual Report to Shareholders for the fiscal year ended December 31, 2018, are available online and may be accessed at www.proxyvote.com. Use your 16 digit control number and you will be taken to our hosted area. In accordance with applicable rules, we do not use “cookies” or other software that identifies visitors accessing these materials on this website. *We encourage you to review the proxy materials before voting.*

Date: February 25, 2019

By Order of the Board of Directors

Merchants Financial Group, Inc.
102 E. 3rd Street
Winona, MN 55987

Gregory M. Evans
President and CEO

**PROXY STATEMENT FOR THE ANNUAL MEETING OF SHAREHOLDERS OF
MERCHANTS FINANCIAL GROUP, INC.**

TO BE HELD ON APRIL 4, 2019

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**MERCHANTS FINANCIAL GROUP, INC.
102 E. 3RD STREET
WINONA, MINNESOTA 55987**

PROXY STATEMENT FOR ANNUAL MEETING OF SHAREHOLDERS

To Be Held on April 4, 2019

This Proxy Statement is furnished to shareholders of Merchants Financial Group, Inc. (the “Company”) in connection with the solicitation of proxies by the Board of Directors of the Company for the Annual Meeting of Shareholders to be held at the Merchants Bank, National Association, 102 E. 3rd Street, Winona, Minnesota, on Thursday, April 4, 2019, at 4:00 p.m., local time, and any adjournments thereof. This Proxy Statement and form of Proxy enclosed herewith are first being sent to the shareholders of the Company entitled to vote at the Annual Meeting on or about February 25, 2019.

General Information about the Meeting and Voting Securities and Procedures

Who may vote at the meeting?

The Board of Directors has fixed the close of business on February 8, 2019 as the record date for the determination of shareholders who are entitled to notice of and to vote at the meeting. You are entitled to one vote for each share of common stock you held on the record date, including shares:

- held directly in your name; and
- held for you in an account with a broker, bank or other nominee (shares held in “street name”).

How many shares must be present to hold the meeting?

The presence in person or by proxy of a majority of the Company’s common shares entitled to vote at the Annual Meeting shall constitute a quorum for purposes of holding the meeting and conducting business. On the record date there were 2,726,247 shares of the Company’s common stock outstanding, which includes unvested shares of restricted stock entitled to voting rights. Each of the holders of the outstanding shares and restricted stock grants, totaling 2,726,247 shares, is entitled to one vote per share. Your shares are counted as present at the meeting if you:

- are present and vote in person at the meeting; or
- have properly submitted a proxy card prior to the meeting.

Abstentions and broker non-votes are counted for purposes of determining the presence or absence of a quorum for the transaction of business at the meeting.

What proposals will be voted on at the meeting?

There are two proposals scheduled to be voted on at the meeting which include: (i) the election of members to serve on the Company Board of Directors; and (ii) an advisory vote on the selection of our independent registered accounting firm, which gives you the opportunity to endorse or not endorse the Company’s appointment of the independent registered public accounting firm.

Who is requesting my vote?

The solicitation of proxies on the enclosed form is made on behalf of the Board of Directors of the Company and will be conducted primarily through the mail. Please mail your completed proxy in the envelope included with these proxy materials. In addition to the use of the mail, members of the Board of Directors and certain officers and employees of the Company or its subsidiary may solicit the return of proxies by telephone, facsimile, and other electronic media or through personal contact. The directors, officers and employees that participate in such solicitation will not receive additional compensation for such efforts, but will be reimbursed for out-of-pocket expenses. The cost of preparing, assembling and mailing this Proxy Statement, the Notice of Meeting and the enclosed proxy will be borne by the Company.

How many votes are required to approve each proposal?

Proposal One:

Because the election of Directors is determined by a plurality, the nominees receiving the most votes “FOR” will be elected. Shareholders of the Company do not have cumulative voting rights in the election of Directors.

Proposal Two:

The affirmative vote of a majority of the votes cast by the holders of the Company’s common stock is required to approve Proposal Two, a non-binding advisory vote on the appointment of the independent registered public accounting firm.

What are the effects of abstentions and broker non-votes on each proposal?

If you hold your shares in a trust or brokerage account (sometimes referred to as holding shares in “street name”) please note that your bank or brokerage firm has no discretionary voting authority with respect to Proposals One and Two, and therefore cannot vote on any of such proposal in the absence of your instructions. As a result, unless you direct your broker on how to vote your shares with respect to those proposals, your shares will remain un-voted on Proposals One and Two. Shares held in street name for which no voting instructions have been provided by the beneficial owner (and which are not voted by the broker pursuant to discretionary voting authority) are generally referred to as “broker non-votes.” Although abstentions and broker non-votes will be counted for purposes of determining the presence of a quorum, they are not considered votes cast at the meeting.

Proposal One:

Under Proposal One, Directors will be elected by a plurality of the votes cast at the Annual Meeting. This means that the three nominees who receive the largest number of “FOR” votes cast will be elected as directors. Abstentions from voting and broker non-votes, if any on Proposal One, will have no effect on the outcome on the election of Directors.

Proposal Two:

Proposal Two requires only the vote of the majority of the “votes cast” at the Annual Meeting. Because abstentions from voting and broker non-votes are not treated as “votes cast”, they will have no effect on the outcome of this proposal.

How does the Board recommend that I vote?

The Board of Directors urges you to read the Proxy Statement carefully and then vote your shares for the Annual Meeting. The Board of Directors recommends that you vote **FOR** each of the Director nominees named in this Proxy Statement, and **FOR** approval of Proposal Two.

How are shares voted?

For Proposal One, a shareholder may:

- Vote “FOR” each of the nominees for election to the Company’s Board of Directors
- “WITHHOLD AUTHORITY” to vote for one or more nominees
- Abstain from voting on the proposal

For Proposal Two, a shareholder may:

- Vote “FOR” the proposal
- Vote “AGAINST” the proposal
- Abstain from voting on the proposal

If the accompanying proxy is properly signed and returned and is not withdrawn or revoked, the shares represented thereby will be voted in accordance with the specifications thereon. If the manner of voting such shares is not indicated on the proxy, the shares will be voted **FOR** the election of the nominees for Directors named herein and **FOR** the approval of Proposal Two. Your shares will also be voted in the discretion of the Proxy Committee on any other business properly brought forth at the Annual Meeting.

If your shares are held in street name, your bank or broker is not permitted to discretionarily vote on your behalf in the absence of voting instructions from you for Proposal One. For your vote to be counted on such proposal, you must communicate your voting decisions to your bank, broker or other holder of record before the date of the Annual Meeting.

How do I vote my shares without attending the meeting?

Whether you hold shares directly or in “street name,” you may direct your vote without attending the Annual Meeting.

If you are a shareholder of record, you may vote by signing and dating your proxy card and mailing it to the Company in the envelope provided. You should sign your name exactly as it appears on the proxy card. If you are signing in a representative capacity (for example as guardian, trustee, custodian, attorney or officer of a corporation), you should indicate your name and title or capacity.

For shares held in “street name,” you should follow the voting instructions provided by your broker or nominee. You may complete and mail a voting instruction card to your broker or nominee or, in some cases, submit voting instructions to your broker or nominee by telephone or the internet. If you provide specific voting instructions by mail, telephone, or internet, your broker or nominee will vote your shares as you have directed.

How do I vote my shares in person at the meeting?

Even if you plan to attend the meeting, we encourage you to submit your proxy by mail so your vote will be counted if you later decide not to attend the meeting.

If you choose to vote at the Annual Meeting:

- If you are a shareholder of record, to vote your shares at the meeting you should bring the enclosed proxy card and proof of identity.
- If you hold your shares in “street name,” you must obtain a proxy in your name from your bank, broker or other holder of record in order to vote at the meeting and bring proof of beneficial ownership (such as a recent brokerage statement or a letter from your bank or broker) and proof of identity.

What does it mean if I receive more than one proxy?

It likely means you hold shares registered in more than one account. To ensure that all of your shares are voted, sign and return each proxy.

May I change my vote?

Yes. A shareholder may revoke his or her proxy at any time prior to the voting thereof by filing with the Treasurer of the Company at the Company’s principal office at 102 E. 3rd Street, Winona, Minnesota 55987, a written revocation or a duly executed proxy bearing a later date. A shareholder may also withdraw the proxy at the meeting at any time before it is exercised. The presence of a shareholder at the Annual Meeting will not automatically revoke such shareholder’s previously submitted proxy.

How may I view the proxy statement and annual report electronically?

The Proxy Statement and our Annual Report to Shareholders for the fiscal year ended December 31, 2018 are available online and may be accessed at www.proxyvote.com. Use your 16 digit control number and you will be taken to our hosted area.

When will the proxy and annual report be mailed to shareholders?

This Proxy Statement and the accompanying Notice of Annual Meeting of Shareholders and Proxy are being mailed to the Company's shareholders on or about February 25, 2019.

**PROPOSAL ONE - ELECTION OF DIRECTORS
INFORMATION CONCERNING NOMINEES FOR ELECTION AS DIRECTORS**

The Company currently has nine Directors with staggered terms of office. The Board of Directors has no reason to believe that any nominee will be unable to serve as a Director, if elected. However, in case any nominee should become unavailable for election, the proxy will be voted for such substitute, if any, as the Board of Directors may designate.

Each nominee also serves as a Director of the Company’s wholly-owned subsidiary, Merchants Bank, National Association (the “Bank”), which is a commercial bank. The Company anticipates that, following the election of the nominees set forth below, the nominees and all other Directors of the Company, will continue to serve as Directors of the Bank. The Directors of the Bank are elected by the vote of the Company as the sole shareholder of the Bank.

Set forth below are the names of the three persons nominated by the Board of Directors for election as Directors of the Company at the 2019 Annual Meeting, along with certain other information concerning such persons.

Directors Serving Until the 2022 Annual Meeting

Name and Year First Became Director	Age	Positions & Offices Held With Company	Principal Occupation or Employment During the Past Five Years and Education Pertaining to Board of Director Qualifications
Scott K. Biesanz 1988 - Company 1988 - Bank	69	Chairman of the Board	Chairman of Goodson Engine Building Supplies, a national wholesale distributor of tools for engine rebuilding. His business skills include sales, marketing, customer cultivation, product development and enterprise management. He has a BA in Psychology from St. Olaf College and an MS in Psychology from Mankato State University. Mr. Biesanz is the Chair of the Governance Committee, serves on the Director Loan Committee and is ex officio member of Personnel and Audit Committees.
John H. Killen 2019 - Company 2018 - Bank	56	Director	Mr. Killen is President and Chief Executive Officer of WinCraft, Inc. He has held this role since 2017 and was previously President and Chief Operating Officer and Senior Vice President of Sales at WinCraft. He graduated from University of Kansas in 1985. Mr. Killen is a member of the Personnel Committee.
James A. Trenda 2007 - Company 2015 - Bank	67	Director	Mr. Trenda is the Founder, Owner and President of CP Advisors, LLC. CP Advisors provides contract professional advisory services in accounting, finance, management, and board governance. He joined the Merchants Bank – Twin Cities Charter Board in 2001 and served until its merger to one Charter in 2007. Mr. Trenda is Vice-chair of the Audit Committee and a member of the Governance Committee. He is also the Chair of our Twin Cities Advisory Board.

Additional information regarding the Directors to serve until the 2022 Annual Meeting is as follows:

Scott K. Biesanz: Mr. Biesanz was elected to the Company and Bank Board of Directors in 1988 and was named Chairman of both Boards in 2012. Mr. Biesanz has served on the Directors Loan Committee and Governance Committee, as well as ex-officio on all other Committees. Mr. Biesanz received his bachelor degree from St. Olaf and masters from Mankato State University, both in Psychology. Mr. Biesanz is Chairman of Goodson Engine Building Supplies, a national wholesale distributor of tools for engine rebuilding. His business skills include sales, marketing, customer cultivation, product development and enterprise management.

John H. Killen: Mr. Killen was elected to the Bank Board of Directors in 2018 and has served on the Personnel Committee. We are asking that Mr. Killen be elected to the Company Board of Directors in this election. Mr. Killen is President and Chief Executive Officer of WinCraft, Inc. During his 26 year tenure with WinCraft he has progressed through a variety of roles including President and COO, Executive Vice President of Sales & Marketing and Senior Vice President of Sales & Marketing. Prior to WinCraft, Mr. Killen worked for NBA Properties in New York City as the Director and Group Manager of Premiums and Promotions for the League. He graduated from University of Kansas in 1985. He has board experience having served as a member on the Board of Vernon Company and WinCraft, Inc. He is very active with Winona State University and Ducks Unlimited’s National Marketing & Communications Committee.

James A. Trenda: Mr. Trenda was elected to the Company Board of Directors in 2008. He joined the Merchants Bank – Twin Cities Charter Board in 2001 and served until its merger to one Charter in 2007. Mr. Trenda is Vice-chair of the Audit Committee and a member of the Governance Committee. He is also the Chair of our Twin Cities Advisory Board. Mr. Trenda began his career with Arthur Andersen in 1973 and became partner in 1986. He was partner-in-charge of the Saint Paul tax practice and the Minneapolis/Saint Paul Compensation and Benefits Services Group. He joined CliftonLarsonAllen in 1993 as a partner in their tax and business advisory group. Mr. Trenda is the Founder, Owner and President of CP Advisors, LLC, which he started in 1997. CP Advisors provides contract professional advisory services in accounting, finance, management, and board governance. He is a CPA and member of the American Institute and Minnesota Society of Certified Public Accountants. He has served on the boards of the Arboretum Foundation, Junior Achievement, Saint Paul United Way, Minnesota Zoo Foundation, Minnesota Zoo, Minnesota Golf Association, and Town & Country Club. He currently is serving on the Board of Directors of WinCraft, Incorporated and ActiFi, Incorporated as well as the Board of Governors of the Western Golf Association/Evans

Scholars Foundation. He has also done volunteer work for churches, schools, Valley Athletic Association and University of Minnesota-Carlson School of Management.

None of the nominees currently serves, or has served in the past five years, as a Director of another company whose securities are registered pursuant to Section 12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act") or whose securities are subject to the requirements of Section 15(d) of the Exchange Act or a company registered under the Investment Company Act of 1940, as amended. There are no family relationships among the Company's Directors, nominees for Director and executive officers.

The Board of Directors unanimously recommends to the Shareholders a vote "FOR" the election of the above-listed persons as Directors for the Company.

**PROPOSAL TWO -
NON-BINDING ADVISORY VOTE ON THE APPOINTMENT OF THE INDEPENDENT
REGISTERED PUBLIC ACCOUNTING FIRM**

The Audit Committee of the Board of Directors proposes and recommends that the shareholders approve the selection by the Committee of the firm of RSM US LLP to serve as the Company's independent registered public accounting firm for the 2019 fiscal year. The firm has served as independent auditors for the Company since 1990. Action by the shareholders is not required by law in the appointment of an independent registered public accounting firm, but their appointment is submitted by the Audit Committee of the Board of Directors in order to give the shareholders a voice in the designation of auditors. If the resolution approving RSM US LLP as the Company's independent registered public accounting firm is rejected by the shareholders, the Committee will reconsider its choice of independent auditors. Even if the resolution is approved, the Audit Committee in its discretion may direct the appointment of different independent auditors at any time during the year if it determines that such a change would be in the best interests of the Company and its shareholders.

Proxies in the form solicited hereby which are returned to the Company will be voted in favor of this non-binding proposal unless otherwise instructed by the shareholder. The affirmative vote of a majority of the shares of common stock cast at the meeting, in person or by proxy, and entitled to vote thereon is required to approve Proposal Two.

The Board of Directors unanimously recommends to the Shareholders a vote "FOR" the non-binding advisory proposal to approve the appointment of the Company's Independent Registered Public Accounting Firm.

INFORMATION CONCERNING DIRECTORS OTHER THAN NOMINEES

The following tables set forth certain information with respect to Directors of the Company who will continue to serve as Directors subsequent to the 2019 Annual Meeting and who are not nominees for election at the 2019 Annual Meeting.

Directors Serving Until the 2020 Annual Meeting

Name and Year First Became Director	Age	Positions & Offices Held With Company	Principal Occupation or Employment During the Past Five Years and Education Pertaining to Board of Director Qualifications
Gregory M. Evans 2017 - Company 2017 - Bank	56	Chief Executive Officer	Mr. Evans has been with the Merchants organization since 1989 in roles of Marketing Director, Regional President, Chief Banking Officer and as of February 1, 2017, Chief Executive Officer. Prior to beginning his career in banking, Mr. Evans held writing positions for several news publications. He is a graduate of Valparaiso University. He currently serves as Chairman for the Winona State University Foundation Board of Trustees and is a member of the Board of Directors for Winona Health and Chairs that organization's Finance/Audit Committee.
Richard T. Lommen, Jr. 2008 - Company 2015 - Bank	53	Director	Mr. Lommen is the Owner-Operator and President of Courtesy Corporation in Onalaska, Wisconsin. Courtesy Corporation is one of the largest McDonald's Franchises in the Midwest. Mr. Lommen graduated from the University of Wisconsin-Madison with a double major in finance and accounting; he then went on to earn a law degree at Marquette University Law School. After practicing law in Milwaukee, Mr. Lommen returned to Onalaska, WI, to help his father direct and manage Courtesy Corporation's rapid growth. In 2007, Mr. Lommen took over as President of Courtesy Corporation. Mr. Lommen is currently Vice-Chair of the Personnel Committee, serves on Directors Loan Committee and serves as Chair of the La Crescent/Onalaska Advisory Board.
Kenneth J. Mogren 2005 - Company 2002 - Bank	70	Vice-Chairman	Mr. Mogren is retired President of Winona Agency. He is a Winona native and graduated in 1970 from Winona State University. Mr. Mogren also serves as the Chair of the Winona Health Board in Winona and is on the boards of Winona State University Foundation and Great River Shakespeare Festival. Post retirement, Mr. Mogren has provided consulting in the area of ESOP's. He also serves as Chair of the Personnel Committee, Vice-Chair of the Governance Committee and is a member of Directors Loan Committee.

Directors Serving Until the 2021 Annual Meeting

Name and Year First Became Director	Age	Positions & Offices Held With Company	Principal Occupation or Employment During the Past Five Years and Education Pertaining to Board of Director Qualifications
Michael F. Cichanowski 2003 - Company 1998 - Bank	70	Director	Founder, Owner and CEO of WeNoNah Canoe, a family owned manufacturer of canoes, kayaks and stand-up paddleboards. Mr. Cichanowski has been on the Winona Port Authority for 25 years and the President for 15 years. He also serves as Chair of the Directors Loan Committee and Directors Trust Committee and is a member of Governance Committee.
Ann E. Merchlewitz 2002 - Bank	60	Director	J.D., General Counsel and University Secretary for Saint Mary's University of Minnesota. Ms. Merchlewitz is an attorney who has practiced law in the higher education field for over 25 years. She also serves as Chair of the Audit Committee, Vice-Chair of Personnel Committee and is a member of Governance Committee.
Bruce E. Ryan 2006 - Company 2003 - Bank	60	Director	Founder, Owner and CEO of Ryan Windows and Siding, a family owned construction company providing quality products and superior service. Mr. Ryan is also the Chair of our Rochester Advisory Board. He also serves as Vice-Chair of Directors Trust Committee and is a member of Directors Loan Committee.

CORPORATE GOVERNANCE AND THE BOARDS OF DIRECTORS

Board of Directors of the Company

The Board of Directors of the Company meets on a regularly scheduled basis. During 2018, the Board of Directors of the Company held an annual meeting and five regular meetings. During 2018, all Directors of the Company attended at least seventy-five percent of the total number of meetings of the Board and all of the committees to which such Directors were appointed. Although the Company does not have a formal policy regarding attendance by Directors at annual shareholder meetings, such attendance is encouraged. In 2018, nine of the ten of the Company's Directors attended the annual shareholders' meeting.

The Board of Directors of the Company has established a committee (the "Governance Committee") consisting of the five non-employee Directors, consisting in 2018 of Directors Biesanz, Mogren, Trenda, Merchlewitz, and Cichanowski, all of whom are considered to be independent. The Governance Committee assists in identifying individuals qualified to become Board members, and to recommend nominees for director (including evaluating candidates recommended by shareholders), recommends the corporate governance guidelines applicable to the Company, oversees a bi-annual review of the Board's performance, recommends director nominees for each committee, recommends a determination of each outside director's "independence" under applicable rules and guidelines, oversees the Company's engagement with stockholders and other interested parties concerning governance and other related matters, and oversees reputation risk related to Committee's responsibilities and is a joint committee of the Company and the Bank. The Governance Committee met three times in 2018. The Board of Directors has adopted a written charter for the Governance Committee, a copy of which is available upon request.

The Board of Directors of the Company has established a committee (the "Audit Committee") consisting of four non-employee Directors, consisting in 2018 of Directors Merchlewitz, Trenda, Cunningham, and Murphy. The Board of Directors has adopted a written charter for the Audit Committee and is a joint committee of the Company and the Bank. A copy of the charter is available upon request. The Audit Committee is responsible for oversight of risk management, the engagement of the independent registered public accounting firm and reviews with the independent registered public accounting firm, the scope and results of the audits, the Company's internal accounting controls and the professional services furnished by the independent registered public accounting firm. All four members of the Audit Committee are "independent" as defined under the rules of NASDAQ. Due to their experience as noted above, the Board has determined that Directors Merchlewitz and Trenda qualify as Audit Committee Financial Experts under applicable regulations. Director Trenda serves as Vice Chair. The Audit Committee met six times in 2018, however is expected to meet four times in 2019 due to the creation of the Risk Committee as described below.

The Board of Directors of the Company has established a committee (the "Personnel Committee") consisting of the five non-employee Directors, consisting in 2018 of Directors Mogren, Lommen, Jr., Killen, Merchlewitz and Cunningham, all of whom are considered to be independent. The Personnel Committee makes decisions regarding executive officer salaries, bonuses, health plans, contributions to the Merchants Financial Group, Inc. Employee Stock Ownership Plan, and contributions to the Merchants Financial Group, Inc. 401(k) Profit Sharing Plan and is a joint committee of the Company and the Bank. The Personnel Committee held two meetings during 2018. The Board of Directors has adopted a written charter for the Personnel Committee, a copy of which is available upon request.

The Board of Directors of the Company has determined it is appropriate to establish a committee (the "Risk Committee") consisting of five non-employee Directors, consisting in 2019 of Directors Cichanowski, Lommen, Jr., Merchlewitz, Mogren and Ryan, all of whom are considered to be independent. The Directors not appointed to the Risk Committee will be rotated through the meetings on a quarterly basis. The Risk Committee is responsible for overseeing the Company's overall risk framework, risk appetite and ensuring management is measuring and monitoring and controlling key risks facing the Company, including strategic, credit, market, liquidity, operational, compliance and reputational risks. The Risk Committee will meet six times a year. The Board of Directors has adopted a written charter for the Risk Committee, a copy of which is available upon request.

Board of Directors of the Bank

The business and affairs of the Bank are managed by the Board of Directors of the Bank. All Directors of the Company are also Directors of the Bank. The Board of Directors of the Bank holds regular monthly meetings. In 2018, the Board of Directors of the Bank held an annual meeting and twelve regular meetings. The Board of Directors of the Bank has established the Trust Committee, as a standing committee of the Board of Directors of the Bank. Directors Cichanowski, Ryan, Murphy and Mr. Jack Miller of the Bank Director group, served on the Trust Committee in 2018. Mr. Miller did resign from the Board in June 2018 and the remaining four directors then served as this Committee. Directors Cichanowski, Biesanz, Lommen, Ryan and Mogren served on the Loan Committee in 2018. The Directors not appointed to the Loan Committee are rotated through the meetings on a quarterly basis. The Loan Committee will be eliminated in 2019 and incorporated into the credit portion of the Risk Committee.

The Trust Committee of the Bank is responsible for overseeing and annually reviewing the operations of the Trust Department of the Bank and the status of all trusts for which the Bank's Trust Department acts in a fiduciary capacity. The Trust Committee met four times during 2018. The Loan Committee held twelve meetings during 2018 and was responsible for review and oversight of the loan activities of the Bank. During 2018, other than Mr. Miller who resigned in June 2018, all of the Directors of the Bank attended at least 75% of the total

number of meetings of the Board of Directors and all of the Directors of the Bank appointed to committees attended at least 75% of the meetings of the committee to which such Directors were appointed.

Board Leadership Structure and Role in Risk Oversight

The Board of Directors leadership structure has historically separated the function of the Chairperson of the Board of the Company and the Principal Executive Officer. This structure is expected to continue in the future with the Chairperson of the Company's Board of Directors being a non-employee Director. The Bank similarly separates these functions. This structure promotes good corporate governance by providing a non-management leadership structure and such a leadership structure is encouraged by bank regulators. The Company's Board of Directors has designated Mr. Biesanz as Chairperson, and he has held this role since 2012.

The Company is exposed to risks as part of the normal course of business. The Company has developed a comprehensive framework of programs and processes that apply to the Company and its operations to manage the Company's risk exposure. The Company has established a risk management framework to manage risks and provide reasonable assurance of the achievement of the Company's strategic objectives. The primary risks identified and managed through the framework are strategic risk, liquidity risk, market risk, credit risk, trust risk, information technology and security risk, operational risk, legal risk and reputational risk. The creation of the Risk Committee will further develop and enhance the risk management oversight of the Company.

The principal risk management functions of the Board are to oversee processes for evaluating the adequacy of internal controls, risk management, financial reporting and compliance with laws and regulations. The Board, through its Risk Committee, has developed a formal plan to address Enterprise Risk Management ("ERM") within the Company. The Company's ERM includes a formal process to identify and document the key risk to the Company and provides a common framework and terminology to ensure consistency in identification, reporting and management of key risks. The Board annually approves, upon the recommendation of its Risk Committee, a Risk Appetite and Tolerance Statement that reflects core business principles and provides the foundation of the Company's risk appetite, which is the aggregate amount of risk the Company is willing to accept in pursuit of its mission. By establishing boundaries around risk taking and business decisions, and by incorporating the needs and goals of its shareholders, regulators, customers and other stakeholders, the Company's risk appetite is aligned with its priorities and goals.

The Board has formed an Enterprise Risk Management Committee ("ERMC") of the Company comprised of the Company's executive team and business unit leaders and is led by the Company's Vice President, Risk/Audit/Compliance Manager, to help ensure the consistent application of the Company's risk management approach. The primary activities of the ERMC include:

- Annual comprehensive risk assessments for all of the risks identified in the Company's risk management framework;
- Monitoring signals that may indicate possible risk issues for the Company;
- Identifying risks and determining which Company areas and/or products will be affected;
- Ensuring there are mechanisms in place to specifically determine how risks will affect the Company or its products;
- Monitoring and reporting on risk tolerance thresholds approved by the Board on a quarterly basis; and
- Reviewing the limits, policies, and procedures in place to ensure the continued appropriateness of risk controls.

As part of the risk assessment process, the ERMC reports the results of their evaluations to the Risk Committee (previously reported to the Audit Committee) of the Board of Directors and makes recommendations to the Risk Committee regarding adjustments to controls as conditions or risk tolerances change.

AUDIT COMMITTEE

Audit Committee Report

The report of the Audit Committee that follows shall not be deemed incorporated by reference by any general statement incorporating by reference this Proxy Statement or future filings into any filing under the Securities Act of 1933 or under the Securities Exchange Act of 1934, except to the extent that the Company specifically incorporates the information by reference, and shall not otherwise be deemed filed under such Acts.

The Board of Directors has adopted a written charter for the Audit Committee, a copy of which is available upon request.

February 25, 2019

To the Board of Directors:

The Audit Committee consists of the following members of the Board of Directors: Ann E. Merchlewitz, Chairperson; James A Trenda, Vice-Chairperson; Timothy A. Murphy and Michael D. Cunningham. Each of the members of the Audit Committee is independent.

The Audit Committee has:

- reviewed and discussed the Company's audited financial statements as of and for the year ended December 31, 2018 with its management and RSM US LLP, the Company's independent registered public accounting firm;
- discussed with RSM US LLP the matters required to be discussed by the Public Company Accounting Oversight Board Auditing Standard No. 16; and
- received and reviewed the written disclosures and letter from RSM US LLP required by the applicable requirements of the Public Company Accounting Oversight Board regarding the independent accountant's communications with the Audit Committee concerning independence and we have discussed with the auditors the auditors' independence.

Based on the reviews and discussions referred to above, we recommend to the Board of Directors that the financial statements referred to above be included in the Company's Annual Report for the year ended December 31, 2018.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee has selected RSM US LLP as the Company's independent registered public accounting firm for 2019. Representatives of RSM US LLP are expected to be present at the Annual Meeting. They will have the opportunity to make a statement if they desire to do so and will be available to respond to appropriate questions.

PROPOSALS BY SHAREHOLDERS

Shareholder proposals intended to be presented at the Annual Meeting of Shareholders to be held in 2020 must be received by the Company no later than November 30, 2019 for inclusion in the Company's proxy statement and form of proxy relating to that meeting. Proposals should be submitted to the Company at its principal executive offices at 102 E. 3rd Street, Winona, Minnesota 55987. Any other proposals from shareholders for presentation at the 2020 annual meeting received by the Company after January 31, 2020 will be considered untimely. With respect to such proposals, the Company will vote all shares for which it has received proxies in the interest of the Company as determined in the sole discretion of its Board of Directors. The Company also retains its authority to discretionarily vote proxies with respect to shareholder proposals received by the Company after November 30, 2019 but prior to January 31, 2020, unless the proposing shareholder takes the necessary steps outlined in Rule 14a-4(c)(2) under the Securities Exchange Act of 1934 to ensure the proper delivery of proxy materials related to the proposal.

BOARD NOMINATING PROCESS

The Company has a Governance Committee. In connection with its performance of such nominating functions, the Board of Directors has adopted a written charter, a copy of which is available upon request

The Governance Committee is responsible for the consideration of Director nominees. Each of the Directors, with the exception of Mr. Evans, is independent. If one or more positions on the Board of Directors were to become vacant for any reason, the vacancy would be filled by the Governance Committee, and would participate in the selection of a person to fill each such vacancy.

The process by which the Governance Committee identifies and evaluates nominees for Director is described below. The size of the Board is established by the Company's Bylaws. In the event any vacancy would reduce the number of Directors to less than nine, the Board will consider various potential candidates for Director. Candidates may come to the attention of the Board through current Board members, shareholders, or other persons. Shareholders who wish to recommend an individual for consideration by the Board as a nominee for election to the Board of Directors should submit a written notice to the Secretary of the Company containing information sufficient for the Board to fully evaluate the experience and charter of the potential candidate. In that respect, the Board recommends that shareholders submit information substantially equivalent to what is required in connection with an outright nomination, as discussed more thoroughly below. Individuals recommended by shareholders for nomination will be evaluated in the same manner as other nominees, and the Board of Directors retains absolute discretion to either approve for nomination or reject any person recommended for consideration by a shareholder.

The Board is not obligated to nominate any particular candidate for election. Candidates will be evaluated at meetings of the Board. In evaluating possible candidates for membership on the Board of Directors, the Board will seek to achieve a balance of knowledge, experience, and capability on the Board and will consider the qualifications of possible candidates based on the criteria described below. Members of the Board should have the highest professional and personal ethics and values, excellent personal and professional reputations, and must satisfy any necessary regulatory requirements to serve as Directors. They should have broad experience at the policy-making level in business, government, education, technology, or public interest. They should be committed to furthering the long-term as well as short-term interest of the Company and its shareholders, and in doing so they should be willing to consider the effect of any action on the Company's shareholders, employees, suppliers, creditors and customers, and in the communities in which the Company and its subsidiary operate. They should have sufficient time to carry out their duties and to provide insight and practical wisdom based on experience. Their service on other boards of public companies should be limited to a number that permits them, given their individual circumstances, to perform responsibly all Directors' duties for the Company. The Board deems it a requirement that members of the Board reside within the trade area of the Bank and the Company. The Board of Directors reserves the right to modify these qualifications from time to time. The Board nominating process has no formal diversity policy. However, the Board of Directors is committed to considering diversity, including experience, gender and ethnicity in the nomination process.

Shareholders who wish to nominate an individual for election to the Board of Directors may do so only pursuant to a timely notice in writing to the Secretary of the Company. To be timely, a shareholder's notice shall be delivered to or mailed and received at the principal executive offices of the Company not less than 120 calendar days before the first anniversary of the mailing date of the proxy statement sent to shareholders in connection with the previous year's annual meeting of shareholders. Such shareholder's notice shall set forth (a) as to each person who is not an incumbent director whom the shareholder proposes to nominate for election as a director, (i) the name, age, business address and residence address of such person; (ii) the principal occupation or employment of such person; (iii) the class and number of shares of the Company which are beneficially owned by such person; and (iv) any other information relating to such person that is required to be disclosed in solicitations for proxies for election of directors pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended; and (b) as to the shareholder giving the notice, (i) the name and record address of such shareholder and (ii) the class and number of shares of the Company which are beneficially owned by such shareholder. Such notice shall be accompanied by the written consent of each proposed nominee to serve as a director of the Company, if elected.

COMMUNICATION WITH THE BOARD OF DIRECTORS

The Board of Directors has established a process for shareholders of the Company to send communications to the Board. Any shareholder desiring to communicate with the Board or one or more individual Board members may write to the Secretary of the Company at the following address:

Merchants Financial Group, Inc.
Board of Directors
c/o Secretary
102 E. 3rd Street
Winona, MN 55987

The Secretary of the Company has been instructed to forward all such communications to all Board members. The Board of Directors has adopted a policy requiring that a copy of all communications addressed to any member of the Board of Directors in his or her capacity as a Director be promptly provided to the Secretary of the Company for distribution to all other members of the Board of Directors. All Directors will review any communication from a shareholder directed to the Board of Directors or to any one or more individual Board members in such capacity. The President and Chief Executive Officer of the Company will determine if any shareholder communication not addressed to Board members should be reviewed by the Board.

OTHER MATTERS

Management of the Company knows of no other matters which will be presented for consideration at the 2019 Annual Meeting of Shareholders other than those stated in the Notice of Annual Meeting of Shareholders, which is part of this Proxy Statement, and management does not intend to present any such other business. If any other matters do properly come before the meeting, it is intended that the persons named in the accompanying proxy will vote thereon in accordance with their judgment. The proxy will also have the power to vote for the adjournment of the meeting from time to time.

A copy of the Annual Report of the Company for the year ended December 31, 2018, is being mailed to shareholders together with this Proxy Statement. Such report is not incorporated in this Proxy Statement and is not to be considered a part of the proxy soliciting material.

Date: February 25, 2019

By Order of the Board of Directors

Merchants Financial Group, Inc.
102 E. 3rd Street
Winona, MN 55987

Gregory M. Evans
President and CEO