

January 22, 2020

Dear Shareholder,

Before we exhaust the first full month of the New Year, I want to express my gratitude for your support of the Merchants organization in 2019 and provide preliminary year-end information ahead of our traditional Annual Report mailing. The complete audited financial report and detailed inventory of strategic accomplishments will be mailed in late February as usual.

The past year was another excellent one for Merchants with strong earnings and many strategic accomplishments. While preliminary and not yet fully audited, net income exceeded \$19.76 million. This was \$2.6 million above plan for the year and an increase of approximately \$880,000 (4.7%) over 2018 earnings.

As we expected when making our 2019 forecast, we experienced net interest margin compression throughout the year resulting from an inverted yield curve and intense competitive pricing pressure on both sides of our balance sheet. That was offset by strong business growth, extraordinary residential mortgage loan volume that far exceeded our forecast, and the net income contribution (\$429,000) over the final four months of the year from First National Bank of Northfield, which we acquired on August 30.

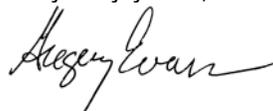
As always, our success resulted from a total team effort, with each of our 480 teammates intensely focused on an extraordinary service orientation and a tremendous spirit of collaboration. All of our Bank Regions, and our Equipment Finance and Secondary Market Mortgage divisions exceeded income targets. Specific noteworthy performance accomplishments include:

- Total residential mortgage loan volume exceeded \$538 million, an increase of 48% year-over-year; both our Retail (157%) and Correspondent (124%) channels exceeded plan targets by significant margins.
- We experienced strong year-over-year business growth in both loans and deposits but most noteworthy was the net growth of \$173.5 million (12.1%) in deposits for Merchants Bank. With the inclusion of First National Bank of Northfield, total consolidated deposits increased to \$380 million (26.5%) and total loans stood at \$1.7 billion (growth of 20.6%). Year-over-year loan growth for Merchants Bank (before adding Northfield) was \$108 million (7.6%).
- We launched several technology products and services over the course of the year that will provide many benefits and efficiencies for both our staff and customers, including an enhanced commercial online banking and treasury management system for business clients.
- There was meaningful project readiness progress associated with a replacement upgrade to our consumer online/mobile banking solution suite to be released March of 2020 and the merger/systems integration of First National Bank to Merchants in May.

It's with great pride I share this preliminary report on behalf of the Merchants team. You will receive your more detailed report soon. As we continue to look at ways we can be more timely and efficient, if you are interested in receiving future updates from me electronically, simply provide your email address to my assistant, Becky Tiedje, by calling her at (507) 457-9323 or emailing to shareholderrelations@merchantsbank.com.

Thank you again for loyalty as a shareholder and believing in the importance of true community banking. We wish you the best in 2020 and look forward to seeing you at our Annual Shareholder meeting on Thursday, April 2.

Very truly yours,



Gregory M. Evans
President and CEO