

July 23, 2021

Dear Shareholder,

I am pleased to report outstanding performance results for Merchants Financial Group, Inc. (MFGI) with year-to-date net income of \$18.16 million through the end of the second quarter. At this mid-way point in 2021, we are nearly \$6.0 million ahead of earnings forecast, and \$9.7 million ahead mid-year earnings of 2020, when the early onset of COVID was dramatically impacting our performance.

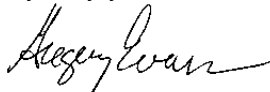
Our mid-year results once again reflect a total team effort with all four Bank regions, Merchants Bank Equipment Finance and the Secondary Market Mortgage division exceeding earnings plans for the first six months. The significant positive variance to our forecast is largely attributed to accelerated forgiveness and fee income associated with our active involvement in the Small Business Administration Paycheck Protection Program to provide relief for our local businesses. Additionally, residential mortgage lending volume exceeded our forecast considerably for first half of the year, the continued growth of our Trust Wealth Management channel resulted in significant additional fee income, and at the end of the second quarter we took a reversal of excess Allowance for Loan/Lease Loss Reserves (ALLLR).

Some important financial highlights for the second quarter include:

- Residential mortgage lending volume in the first half of the year was \$483.9 million (164% of plan and even slightly ahead of volume for the first half of 2020).
- Paycheck Protection Plan (PPP) Loan origination volume during an approved round of additional funding in 2021 was just over \$80 million. To date we have assisted customers in receiving forgiveness of 65% of total loans originated in 2020 and 2021, and we have recognized \$3.9 million in fee income for assisting with these loans.
- Deposit balances have stabilized but continue to be strong. Checking balances are similar to prior year but 29% over our plan. Interest bearing account balances are up 17.7% from last year and 31% over our plan.
- Total loans have declined 12.63% since mid-year 2020 as PPP loans have been forgiven. Conventional loan growth has not materialized at the levels we are accustomed to. With limited commercial loan demand, excess liquidity in the banking system and the low rate environment, margins on new business opportunities have been at historically-low levels, but our bankers continue to be aggressive in pursuit of new business. Lack of loan growth contributed to the ALLLR reversal at the end of the second quarter.

On a more personal note, I've been fortunate to participate in many community and bank association events this summer and am grateful for the return to somewhat normal activities. This time of the year always reinforces the important role we have as community bankers to be active community members too. We appreciate your support of our commitment to being a community leader. I hope you are able to spend time with your family and friends as we all enjoy a beautiful Midwest summer and I look forward to seeing you out and about. Thank you for your continued trust in and support of your community bank.

Very truly yours,

A handwritten signature in black ink that reads "Gregory Evans".

Gregory M. Evans  
President and CEO

## Balance Sheet Highlights

Period-end	June 30, 2021	March 31, 2021	Variance	December 31, 2020	Variance
<b>Assets</b>					
Cash & Fed Funds	\$ 726,614,103	\$ 712,892,202	1.92%	\$ 423,969,359	71.38%
Investments	160,072,324	129,019,967	24.07%	122,646,944	30.51%
Net Loans	1,663,678,342	1,750,393,506	-4.95%	1,793,929,501	-7.26%
Intangible assets	37,588,689	37,824,087	-0.62%	38,073,070	-1.27%
Other assets	117,209,083	117,616,711	-0.35%	116,277,302	0.80%
Total Assets	2,705,162,541	2,747,746,473	-1.55%	2,494,896,176	8.43%
<b>Liabilities &amp; Equity</b>					
Deposits	2,392,003,114	2,431,519,748	-1.63%	2,191,771,250	9.14%
Trust Preferred Securities	41,254,000	41,254,000	0.00%	41,254,000	0.00%
Other Liabilities	45,778,969	54,501,406	-16.00%	51,081,804	-10.38%
Equity	226,126,458	220,471,319	2.57%	210,789,122	7.28%
Total Liabilities & Equity	2,705,162,541	2,747,746,473	-1.55%	2,494,896,176	8.43%

## Income Statement Highlights

	Six months ended			2020 Per Quarter Results			
	June 30, 2021	June 30, 2020	Variance	Second Quarter	First Quarter	Fourth Quarter	Third Quarter
	Actual	Actual					
<b>Income</b>							
Investments & Funds Sold	\$ 1,048,233	\$ 1,987,907	-47.27%	\$ 581,135	\$ 467,098	\$ 334,737	\$ 683,974
Loan Interest	40,453,973	43,193,728	-6.34%	20,841,696	19,612,277	22,718,254	21,415,308
Total Interest Income	41,502,206	45,181,635	-8.14%	21,422,831	20,079,375	23,052,991	22,099,282
Interest Expense	(4,429,508)	(7,122,227)	-37.81%	(2,233,485)	(2,196,023)	(2,761,314)	(3,225,600)
Net Interest Income	37,072,698	38,059,408	-2.59%	19,189,346	17,883,352	20,291,677	18,873,682
Non-interest Income	24,563,415	18,248,843	34.60%	9,847,955	14,715,460	12,566,636	13,476,325
Non-interest expense	(38,061,185)	(38,554,496)	-1.28%	(18,983,747)	(19,077,438)	(20,640,082)	(19,768,425)
Provision expense	1,276,600	(6,285,763)	-120.31%	1,562,500	(285,900)	(3,036,692)	(4,039,592)
Pretax Income	24,851,528	11,467,992	116.70%	11,616,054	13,235,474	9,181,539	8,541,990
Taxes	(6,694,000)	(3,025,000)	121.29%	(3,125,000)	(3,569,000)	(2,388,000)	(2,267,000)
Net Income	18,157,528	8,442,992	115.06%	8,491,054	9,666,474	6,793,539	6,274,990

## Bank Yield and Margin Highlights

	June 30, 2021		March 31, 2021		December 31, 2020	
	Balances	Rate	Balances	Rate	Balances	Rate
<b>Earning Assets</b>						
Fed Funds Excess	\$ 692,332,574	0.10%	\$ 673,413,493	0.10%	\$ 382,307,043	0.10%
Investments	\$ 217,411,092	1.87%	\$ 186,884,169	1.75%	\$ 138,466,846	1.92%
Loans *	\$ 1,636,409,411	3.58%	\$ 1,723,811,226	3.54%	\$ 1,762,375,423	3.60%
OREO & Non-accrual	\$ 16,539,898	0.00%	\$ 18,312,138	0.00%	\$ 19,074,619	0.00%
Earning Assets Total	\$ 2,562,692,975	2.47%	\$ 2,602,421,026	2.49%	\$ 2,302,223,931	2.88%
<b>Paying Liabilities</b>						
Non-interest deposits	\$ 575,324,213	0.00%	\$ 590,800,446	0.00%	\$ 546,210,075	0.00%
Interest deposits	\$ 1,804,411,806	0.36%	\$ 1,826,070,396	0.40%	\$ 1,635,212,754	0.49%
Non-core deposits	\$ 15,004,444	0.38%	\$ 15,004,814	0.40%	\$ 12,715,808	0.51%
Borrowings	\$ 11,500,000	2.07%	\$ 14,000,000	2.07%	\$ 14,000,000	2.07%
Fed Funds Purchased	\$ -	0.00%	\$ -	0.00%	\$ -	-1.94%
Paying Liabilities Total	\$ 2,406,240,463	0.28%	\$ 2,445,875,656	0.31%	\$ 2,208,138,637	0.38%
Net Interest Spread		2.19%		2.18%		2.50%

## Credit Quality Ratios

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

## Key Ratios

Period-end	June 30, 2021	March 31, 2021	December 31, 2020	September 30, 2020
<b>Internal Ratios</b>				
Return on Average Assets	1.38%	1.46%	0.91%	0.80%
Return on Ending Equity	16.12%	17.66%	10.28%	9.54%
Efficiency Ratio	59.82%	56.30%	62.53%	63.45%
Net Interest Margin **	3.85%	4.16%	4.31%	4.01%
Common Equity Tier 1	10.82%	10.46%	9.81%	9.58%
Tier 1 Capital Ratio	13.01%	12.64%	11.98%	11.72%
Total Capital Ratio	14.26%	13.89%	13.69%	13.23%
Tier 1 Leverage Ratio	9.14%	9.18%	10.01%	9.61%
Tang Common Equity/Tang Assets	7.03%	6.75%	7.03%	6.62%
<b>Investor Ratios</b>				
Number of Shares Outstanding	2,726,247	2,726,247	2,726,247	2,726,247
YTD Earnings Per Share	6.66	3.55	7.89	5.40
Book Value Per Share	82.94	80.87	77.32	76.00
Tangible Book Value (TBV)	69.16	67.00	63.35	61.93
Share price	72.50	70.05	54.38	54.38
Price to EPS	5.44	4.94	6.89	7.55
Price to TBV	104.83%	104.56%	85.84%	87.80%
*Ratios with shares use outstanding shares versus GAAP weighted average shares				
** Net Interest Margin is inflated due to Mortgage Fees being included in calculation				