

October 30, 2025

Dear Shareholder,

I am pleased to report strong performance results for the third quarter for Merchants Financial Group, Inc. Year-to-date net income was \$23,291,618, which is \$2.86 million ahead of our 2025 plan and an improvement of \$9.0 million compared to 2024 results. In recognition of continued strong performance, your Board of Directors has authorized a semiannual dividend payment of \$.41/share, to be paid on December 19, 2025 to Shareholders of record as of November 21, 2025. The dividend amount is a 7.9% increase over the semiannual payment of \$.38 for the first half of the year.

Our performance through the first three quarters of 2025 continues to be driven by the strength of our transformed balance sheet, the diversity of our business lines, and the improved/stable credit risk profile for the Company.

Third quarter performance highlights include:

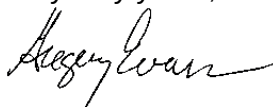
- The deposit franchise remains strong and stable, with total deposits at \$2.45 billion; while slightly below plan (\$11.1 million) total deposits are up \$121.6 million from 2024
- Commercial loan demand throughout our market footprint remains soft and new commercial production of \$105 million through three quarters has not been enough to replace runoff; total loans are currently \$2.05 billion (\$91.2 million below plan; \$108.7 million below 2024)
- Despite the lack of loan growth, because of our strong liquidity and well-positioned balance sheet, net interest income is virtually right on plan year-to-date, while non-interest income is \$1.56 million (6.88%) above plan and \$2.33 million (10.66%) ahead of 2024
- Stabilization of the credit risk profile in our consolidated loan portfolio, when combined with our lack of loan growth, allowed us to reverse a total of approximately \$547,000 out of Allowance for Credit Loss (ACL) during the third quarter; we remain conservatively positioned with our ACL at 1.35% of total loans

We begin the final quarter of 2025, with tremendous confidence about our ability to finish the year strong and intense focus on several strategic initiatives, with customer experience as a driver of future business growth at the forefront. The value that our One Merchants team is capable of bringing to our clients across all of our business lines is extraordinary, which is what it takes to continue to earn trust and loyalty from our customers. Thank you for the role you play in supporting our customer experience focus.

With winter looming, I would ask that if you have plans to travel extensively for the cold-weather months, please share your alternate address with Becky Tiedje to ensure all stock-related mail reaches you and not returned to the bank. You can reach Becky at shareholderrelations@merchantsbank.com or 507-457-9323. For those of you who will be changing your address with your local teller or banker, you may request that your address update is provided to Becky.

On behalf of the entire Merchants team, I wish you a wonderful holiday season ahead.

Very truly yours,

A handwritten signature in black ink, appearing to read 'Gregory Evans', written in a cursive style.

Gregory M. Evans
President and CEO

Merchants Financial Consolidated

Consolidated Statements of Financial Condition

Unaudited

(\$ in thousands, except share data)

September 30, 2025

December 31, 2024

ASSETS

Cash and cash equivalents	213,986	177,566
Federal funds sold	-	228
Available-for-sale securities	339,520	283,149
Held-to-maturity securities	37,978	36,057
Loans held for sale	12,877	1,049
Loans and direct financing leases, net	2,024,823	2,086,285
Operating lease assets	12,074	16,896
Premises and equipment	24,125	24,835
Investment in restricted stock	5,054	5,397
Other real estate and other personal property owned	2,072	6,457
Accrued interest receivable and other assets	31,114	32,933
Cash value of life insurance	61,857	60,735
Mortgage servicing rights, net	14,082	14,801
Goodwill	35,665	35,665
Intangibles	-	54
Deferred tax assets	8,096	-
Total assets	<u>2,823,321</u>	<u>2,782,107</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Liabilities

Deposits		
Noninterest-bearing	468,977	463,169
Interest-bearing	<u>1,982,403</u>	<u>1,960,589</u>
Total deposits	2,451,380	2,423,758
Federal funds purchased	36	-
Repurchase agreements	15,045	15,060
Notes payable	1,979	11,900
Subordinated debentures	28,351	28,351
Deferred tax liability	0	1,865
Accrued interest payable and other liabilities	<u>25,799</u>	<u>25,453</u>
Total liabilities	2,522,589	2,506,387

Stockholders' Equity

Common stock, par value \$.025 per share	68	68
Additional paid-in-capital	10,242	10,242
Retained earnings	306,195	286,011
Accumulated other comprehensive gain	(5,627)	(12,655)
Unearned ESOP shares	<u>(10,146)</u>	<u>(7,946)</u>
Total stockholders' equity	<u>300,731</u>	<u>275,720</u>
Total liabilities and stockholders' equity	<u>2,823,321</u>	<u>2,782,107</u>

Merchants Financial Consolidated

Consolidated Statements of Income

Unaudited

(\$ in thousands, except share data)

	<u>September 30, 2025</u>	<u>September 30, 2024</u>
<u>INTEREST INCOME:</u>		
Loan interest	83,862	84,467
Loan fees	2,876	3,279
Securities	10,868	5,440
Direct financing leases	1,079	1,269
Other income	<u>5,124</u>	<u>832</u>
Total interest income	103,808	95,288
<u>INTEREST EXPENSE:</u>		
Deposits	37,524	33,419
Notes payable, federal funds purchased and repurchase agreements	697	2,195
Subordinated debentures	<u>1,182</u>	<u>1,488</u>
Total interest expense	<u>39,403</u>	<u>37,103</u>
Net interest income	64,405	58,185
Provision for loan and lease losses	<u>(634)</u>	<u>6,389</u>
Net interest income after provision for loan and lease losses	65,039	51,796
<u>NON-INTEREST INCOME:</u>		
Trust department	2,253	1,988
Service charges and other fees	5,248	5,239
Loan servicing fees	5,038	5,148
Net gain on sale of available-for sale securities	114	(1,175)
Net gain on sale of loans	2,487	1,520
Net gain(loss) on sale of other real estate & other personal prop.	(86)	(6)
Operating lease income	4,081	4,738
Other income	<u>7,009</u>	<u>6,671</u>
Total Non-interest income	26,144	24,124
<u>NON-INTEREST EXPENSE:</u>		
Salaries and employee benefits	32,549	29,957
Occupancy	10,925	10,286
Depreciation expense on operating leases	3,163	3,852
Net loss on disposal of premises and equipment	16	-
Mortgage servicing rights	2,310	2,337
Other expense	<u>12,671</u>	<u>10,717</u>
Total non-interest expense	<u>61,633</u>	<u>57,148</u>
Income before income taxes	29,550	18,772
Provision for income taxes	<u>6,258</u>	<u>4,511</u>
Net income	<u>23,292</u>	<u>14,261</u>

Merchants Financial Consolidated

Consolidated Financial Highlights

Third Quarter 2025

Unaudited

	Quarterly					Year to Date	
(\$ in thousands, except share data)	3rd Qtr 2025	2nd Qtr 2025	1st Qtr 2025	4th Qtr 2024	3rd Qtr 2024	September 30, 2025	September 30, 2024
\$ Earnings							
Net Interest Income	\$ 22,834	20,272	21,299	21,044	19,575	64,405	56,702
Provision (Reversal) for loan loss	\$ (3)	(989)	358	3,712	4,845	(634)	6,389
Other non-interest income	\$ 8,993	9,457	7,581	8,574	8,400	26,030	25,299
Security Gains/Losses	\$ -	-	114	-	-	114	(1,175)
Other non-interest expense	\$ 19,785	21,766	20,082	20,764	18,480	61,633	57,148
Pre-tax income	\$ 12,045	8,952	8,553	5,640	5,160	29,550	18,772
Taxes	\$ 2,987	1,202	2,069	1,362	1,133	6,258	4,511
Net Income	\$ 9,058	7,750	6,484	4,278	4,027	23,292	14,261
Pre-tax, pre-provision earnings	\$ 12,042	7,963	8,911	9,352	10,005	28,917	25,161
Earnings per share	\$ 1.11	0.95	0.79	0.52	0.49	2.85	1.74
Performance Ratios							
Return on average assets	1.28%	1.13%	0.93%	0.62%	0.60%	1.12%	0.73%
Return on average equity	12.23%	10.86%	9.48%	6.19%	5.91%	10.89%	7.09%
Return on average tangible common equity	13.93%	12.47%	10.95%	7.18%	6.88%	12.47%	8.28%
Yield on earning assets	5.42%	5.43%	5.32%	5.36%	5.37%	5.39%	5.28%
Cost of funds (inc non-int bearing deposits)	1.98%	2.32%	2.07%	2.09%	2.18%	2.12%	2.12%
Net interest margin	3.53%	3.21%	3.33%	3.35%	3.29%	3.36%	3.24%
Loan to Deposit Ratio	83.73%	86.24%	84.67%	87.25%	92.76%	83.73%	92.76%
Efficiency ratio	60.16%	72.79%	68.56%	68.11%	64.65%	67.00%	69.69%
Net overhead ratio	1.53%	1.79%	1.78%	1.72%	1.51%	1.70%	1.68%
Capital							
Tier 1 leverage capital ratio	11.26%	11.11%	10.62%	10.92%	11.13%	11.26%	11.13%
Common equity risk-based capital ratio	11.71%	11.18%	11.08%	10.61%	11.11%	11.71%	11.11%
Tier 1 risk-based capital ratio	12.85%	12.30%	12.21%	11.73%	12.29%	12.85%	12.29%
Total risk-based capital ratio	14.01%	13.55%	13.46%	12.98%	13.54%	14.10%	13.54%
Tangible capital to tangible assets	9.49%	9.33%	9.04%	8.74%	9.10%	9.49%	9.10%
Book value per share	\$ 36.77	35.54	35.07	33.71	33.91	36.77	33.91
Tangible book value per share	\$ 32.41	31.18	30.70	29.34	29.54	32.41	29.54
Outstanding shares	8,178,741	8,178,741	8,178,741	8,178,741	8,178,741	8,178,741	8,178,741
Average outstanding shares	8,178,741	8,178,741	8,178,741	8,178,741	8,178,741	8,178,741	8,178,741
Asset Quality							
Net charge-offs (recoveries) YTD	\$ 699	599	128	7,892	3,511	699	277
Net charge-offs (recoveries) to average loans	0.03%	0.03%	0.01%	0.37%	0.16%	0.03%	0.01%
Allowance for loan losses	\$ 27,667	27,528	28,751	28,490	29,210	27,667	29,210
Allowance to total loans	1.35%	1.33%	1.39%	1.35%	1.35%	1.35%	1.35%
Nonperforming loans (Nonaccrual & 90 days Past Due)	\$ 18,636	16,247	7,406	7,004	17,131	18,636	17,131
Other real estate owned	\$ 2,072	4,543	5,638	6,457	959	2,072	959
Nonperforming loans to total loans	0.91%	0.78%	0.36%	0.33%	0.79%	0.91%	0.79%
Nonperforming assets to total assets	0.73%	0.75%	0.46%	0.48%	0.67%	0.73%	0.67%
End of Period Balances							
Assets	\$ 2,827,784	2,769,366	2,812,811	2,782,107	2,690,456	2,827,784	2,690,456
Tangible Assets	\$ 2,792,120	2,733,697	2,777,124	2,746,388	2,654,692	2,792,120	2,654,692
Earning Assets	\$ 2,627,409	2,554,630	2,605,623	2,579,684	2,498,642	2,627,409	2,498,642
Total investments	\$ 382,551	375,350	337,456	327,316	262,239	382,551	262,239
Total loans	\$ 2,052,490	2,076,227	2,071,697	2,114,775	2,161,189	2,052,490	2,161,189
Intangible assets	\$ 35,665	35,669	35,687	35,719	35,764	35,665	35,764
Deposit	\$ 2,451,380	2,407,431	2,446,934	2,423,758	2,329,810	2,451,380	2,329,810
Customer repurchase agreements	\$ 15,045	15,048	15,058	15,060	15,060	15,045	15,060
Borrowings	\$ 1,979	1,979	6,900	11,900	17,280	1,979	17,280
Tangible Common Equity	\$ 265,067	254,983	251,120	240,001	241,610	265,067	241,610
Shareholders' Equity	\$ 300,731	290,652	286,807	275,720	277,375	300,731	277,375
Average Balances							
Assets	\$ 2,797,690	2,758,678	2,819,626	2,748,389	2,660,575	2,791,918	2,625,310
Tangible Assets	\$ 2,762,024	2,723,001	2,783,922	2,712,647	2,624,781	2,756,235	2,589,445
Earning Assets	\$ 2,602,469	2,569,209	2,629,401	2,570,978	2,483,955	2,600,261	2,447,211
Total investments	\$ 375,985	360,749	341,926	305,064	248,055	357,866	261,176
Total loans	\$ 2,079,468	2,077,226	2,101,282	2,137,829	2,191,880	2,085,912	2,189,796
Intangible assets	\$ 35,666	35,678	35,704	35,742	35,795	35,682	35,865
Deposit	\$ 2,432,162	2,396,350	2,459,692	2,390,964	2,302,998	2,429,300	2,250,269
Customer repurchase agreements	\$ 14,841	14,952	15,006	15,003	15,004	14,932	14,616
Borrowings	\$ 1,979	6,537	11,233	16,624	17,280	6,549	10,331
Tangible Common Equity	\$ 258,069	250,494	241,749	239,081	235,497	250,164	232,758
Shareholders' Equity	\$ 293,735	286,171	277,453	274,823	271,292	285,846	268,622
Stock Valuation							
Closing Market Price (OTCPink)	\$ 27.10	25.10	23.75	25.25	25.50	27.10	25.50
Multiple of Tangible Book Value	0.84	0.81	0.77	0.86	0.86	0.84	0.86
Price/EPS	8.04	9.11	5.10	4.50	5.02	9.52	14.62

****Previous quarter per share data restated to reflect May 13, 2022 Stock Split**