

July 28, 2025

Dear Shareholder,

I am pleased to share a strong mid-year earnings report for Merchants Financial Group, Inc. (MFGI) with year-to-date net income of \$14.23 million. This is \$1.88 million above our 2025 plan and ahead of 2024 mid-year earnings by \$4.00 million.

Our performance for the first half of the year resulted from the diversification strength of the enterprise, bolstered by a very well-positioned balance sheet, increased revenue from several business lines, higher than forecast interest income, and continued deposit growth and fee income associated with our strong deposit franchise. In addition to strong core earnings, we had several accounting adjustments that added some nonrecurring volatility to the income statement, with positive adjustments more than offsetting those with negative impact.

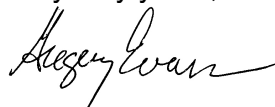
Second quarter performance highlights include:

- Deposit franchise strength and stability – modest deposit growth occurred during the first half of the year; total deposits at the end of the second quarter were \$2.41 billion, a negligible negative variance of \$17 million compared to our plan but \$153.84 million above 2024.
- A modest uptick in commercial loan activity – while total net loans of \$2.07 billion are still \$30.40 million below plan and \$118.74 million below 2024's second quarter results, May and June produced two months of consecutive loan growth as our bankers continue aggressive pursuit of new commercial loan opportunities with a disciplined approach to credit and pricing. The pipeline for new commercial loan activity suggests optimism for continued growth in the third quarter, as well.
- Strong contributions from Residential Mortgage Lending and Trust – Despite a challenging housing market environment and persistently high interest rates, our residential mortgage volume of \$140.5 million is slightly above plan and 16.2% above production levels for mid-year 2024. The continued growth of our Trust wealth management division has contributed to fee-income of \$1.47 million, which is an 11.5% increase compared to the same period a year ago.

This month was also the pinnacle for our 150th anniversary celebration, with many of our branches honoring the occasion with special community and client appreciation events. It was great to see many of you at the series of activities that were held throughout the region we have the tremendous privilege of calling our home. It was gratifying for our entire team to celebrate our history and share powerful success stories about our mission-focused work to help customers realize their financial hopes and dreams throughout the communities we serve.

As I shared at our Annual Shareholder Meeting in April, 150 years of uninterrupted service is a truly special milestone for a community bank – and one that would not have been possible without the support of our loyal shareholders. Please know that you are part of our legacy, your role has been critical to our history of success, and you contribute to the great sense of confidence we have about our ability to remain relevant in an intensely competitive market environment. Thank you for your loyalty.

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)

	<u>June 30, 2025</u>	<u>December 31, 2024</u>
<u>ASSETS</u>		
Cash and cash equivalents	134,240	177,566
Federal funds sold	289	228
Available-for-sale securities	329,448	283,149
Held-to-maturity securities	38,099	36,057
Loans held for sale	16,973	1,049
Loans and direct financing leases, net	2,048,698	2,086,285
Operating lease assets	13,756	16,896
Premises and equipment	24,291	24,835
Investment in restricted stock	5,055	5,397
Other real estate and other personal property owned	4,543	6,457
Accrued interest receivable and other assets	42,514	32,933
Cash value of life insurance	61,426	60,735
Mortgage servicing rights, net	14,364	14,801
Goodwill	35,665	35,665
Intangibles	5	54
Deferred tax assets	-	-
Total assets	<u>2,769,366</u>	<u>2,782,107</u>
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
<u>Liabilities</u>		
Deposits		
Noninterest-bearing	454,988	463,169
Interest-bearing	<u>1,952,443</u>	<u>1,960,589</u>
Total deposits	2,407,431	2,423,758
Federal funds purchased	-	-
Repurchase agreements	15,048	15,060
Notes payable	1,979	11,900
Subordinated debentures	28,351	28,351
Deferred tax liability	3,123	1,865
Accrued interest payable and other liabilities	<u>22,782</u>	<u>25,453</u>
Total liabilities	2,478,714	2,506,387
<u>Stockholders' Equity</u>		
Common stock, par value \$.025 per share	68	68
Additional paid-in-capital	10,242	10,242
Retained earnings	297,137	286,011
Accumulated other comprehensive gain	(8,848)	(12,655)
Unearned ESOP shares	<u>(7,946)</u>	<u>(7,946)</u>
Total stockholders' equity	<u>290,652</u>	<u>275,720</u>
Total liabilities and stockholders' equity	<u>2,769,366</u>	<u>2,782,107</u>

Merchants Financial Consolidated

Consolidated Statements of Income

Unaudited

(\$ in thousands, except share data)

	<u>June 30, 2025</u>	<u>June 30, 2024</u>
<u>INTEREST INCOME:</u>		
Loan interest	55,480	55,702
Loan fees	1,918	2,029
Securities	6,953	3,402
Direct financing leases	736	826
Other income	<u>4,352</u>	<u>1,085</u>
Total interest income	69,438	63,045
<u>INTEREST EXPENSE:</u>		
Deposits	25,691	21,465
Notes payable, federal funds purchased and repurchase agreements	565	1,699
Subordinated debentures	<u>788</u>	<u>992</u>
Total interest expense	<u>27,044</u>	<u>24,156</u>
Net interest income	42,394	38,888
Provision for loan and lease losses	<u>(631)</u>	<u>1,544</u>
Net interest income after provision for loan and lease losses	43,025	37,344
<u>NON-INTEREST INCOME:</u>		
Trust department	1,474	1,322
Service charges and other fees	3,255	3,291
Loan servicing fees	3,362	3,422
Net gain on sale of available-for sale securities	114	(1,175)
Net gain on sale of loans	1,474	831
Net gain(loss) on sale of other real estate & other personal prop.	25	(6)
Operating lease income	2,856	3,149
Other income	<u>3,769</u>	<u>4,101</u>
Total Non-interest income	16,328	14,936
<u>NON-INTEREST EXPENSE:</u>		
Salaries and employee benefits	22,478	21,189
Occupancy	7,295	6,678
Depreciation expense on operating leases	2,212	2,591
Net loss on disposal of premises and equipment	10	-
Mortgage servicing rights	1,400	1,154
Other expense	<u>8,453</u>	<u>7,056</u>
Total non-interest expense	<u>41,848</u>	<u>38,668</u>
Income before income taxes	17,505	13,612
Provision for income taxes	<u>3,271</u>	<u>3,378</u>
Net income	<u>14,234</u>	<u>10,234</u>

Merchants Financial Consolidated
Consolidated Financial Highlights
Second Quarter 2025
Unaudited

	Quarterly					Year to Date	
(\$ in thousands, except share data)	2nd Qtr 2025	1st Qtr 2025	4th Qtr 2024	3rd Qtr 2024	2nd Qtr 2024	June 30, 2025	June 30, 2024
\$ Earnings							
Net Interest Income	20,686	21,708	21,953	20,549	20,138	42,394	38,888
Provision (Reversal) for loan loss	\$ (989)	358	3,712	4,845	1,188	(631)	1,544
Other non-interest income	9,043	7,172	8,164	7,936	7,413	16,215	16,110
Security Gains/Losses	-	114	-	-	-	114	(1,175)
Other non-interest expense	21,766	20,082	20,764	18,480	20,080	41,848	38,668
Pre-tax income	\$ 8,952	8,553	5,640	5,160	6,282	17,505	13,612
Taxes	\$ 1,202	2,069	1,362	1,133	1,497	3,271	3,378
Net Income	\$ 7,750	6,484	4,278	4,027	4,785	14,234	10,234
Pre-tax, pre-provision earnings	\$ 7,963	8,911	9,352	10,005	7,470	16,874	15,156
Earnings per share	\$ 0.95	0.79	0.52	0.49	0.58	1.74	1.25
Performance Ratios							
Return on average assets	1.13%	0.93%	0.62%	0.60%	0.73%	1.03%	0.79%
Return on average equity	10.86%	9.48%	6.19%	5.91%	7.14%	10.18%	7.70%
Return on average tangible common equity	12.43%	10.95%	7.18%	6.88%	8.34%	11.69%	9.00%
Yield on earning assets	5.37%	5.26%	5.31%	5.33%	5.31%	5.31%	5.19%
Cost of funds (inc non-int bearing deposits)	2.33%	2.07%	2.10%	2.18%	2.12%	2.20%	2.10%
Net interest margin	3.20%	3.32%	3.27%	3.21%	3.24%	3.26%	3.14%
Loan to Deposit Ratio	86.24%	84.67%	87.25%	92.76%	97.66%	86.24%	97.66%
Efficiency ratio	72.79%	68.56%	68.11%	64.65%	73.07%	70.69%	72.39%
Net overhead ratio	3.06%	2.82%	2.96%	2.59%	2.98%	2.94%	2.90%
Capital							
Tier 1 leverage capital ratio	11.11%	10.62%	10.92%	11.13%	11.21%	11.11%	11.21%
Common equity risk-based capital ratio	11.18%	11.08%	10.61%	11.11%	10.78%	11.18%	10.78%
Tier 1 risk-based capital ratio	12.30%	12.21%	11.73%	12.29%	11.93%	12.30%	11.93%
Total risk-based capital ratio	13.42%	13.46%	12.98%	13.54%	13.18%	13.55%	13.18%
Tangible capital to tangible assets	9.33%	9.04%	8.74%	9.10%	9.10%	9.33%	9.10%
Book value per share	\$ 35.54	35.07	33.71	33.91	33.32	35.54	33.32
Tangible book value per share	\$ 31.18	30.70	29.34	29.54	28.94	31.18	28.94
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	\$ 599	128	7,892	3,511	595	599	277
Net charge-offs (recoveries) to average loans	0.03%	0.01%	0.37%	0.16%	0.03%	0.03%	0.01%
Allowance for loan losses	27,528	28,751	28,490	29,210	26,996	27,528	26,996
Allowance to total loans	1.33%	1.39%	1.35%	1.35%	1.23%	1.33%	1.23%
Nonperforming loans (Nonaccrual & 90 days Past Due)	\$ 16,247	7,406	7,004	17,131	12,338	16,247	12,338
Other real estate owned	\$ 4,543	5,638	6,457	959	959	4,543	959
Nonperforming loans to total loans	0.78%	0.36%	0.33%	0.79%	0.56%	0.78%	0.56%
Nonperforming assets to total assets	0.75%	0.46%	0.48%	0.67%	0.50%	0.75%	0.50%
End of Period Balances							
Assets	\$ 2,770,048	2,812,811	2,782,107	2,690,456	2,636,537	2,770,048	2,636,537
Tangible Assets	\$ 2,734,378	2,777,124	2,746,388	2,654,692	2,600,714	2,734,378	2,600,714
Earning Assets	\$ 2,616,055	2,666,419	2,640,419	2,559,252	2,518,019	2,616,055	2,518,019
Total investments	\$ 434,028	395,522	400,019	322,646	302,119	434,028	302,119
Total loans	\$ 2,076,227	2,071,697	2,114,775	2,161,189	2,200,773	2,076,227	2,200,773
Intangible assets	\$ 35,669	35,687	35,719	35,764	35,823	35,669	35,823
Deposit	\$ 2,407,431	2,446,934	2,423,758	2,329,810	2,253,576	2,407,431	2,253,576
Customer repurchase agreements	\$ 15,048	15,058	15,060	15,060	15,063	15,048	15,063
Borrowings	\$ 1,979	6,900	11,900	17,280	17,280	1,979	17,280
Tangible Common Equity	\$ 254,983	251,120	240,001	241,610	236,715	254,983	236,715
Shareholders' Equity	\$ 290,652	286,807	275,720	277,375	272,538	290,652	272,538
Average Balances							
Assets	\$ 2,758,686	2,819,626	2,748,389	2,660,575	2,619,053	2,788,987	2,607,484
Tangible Assets	\$ 2,723,008	2,783,922	2,712,647	2,624,781	2,583,192	2,753,297	2,571,584
Earning Assets	\$ 2,630,436	2,690,359	2,631,671	2,544,532	2,500,870	2,660,232	2,488,585
Total investments	\$ 419,235	400,159	366,083	308,377	285,506	409,750	288,775
Total loans	\$ 2,077,227	2,101,282	2,137,829	2,191,880	2,203,377	2,089,188	2,188,742
Intangible assets	\$ 35,678	35,704	35,742	35,795	35,861	35,691	35,900
Deposit	\$ 2,396,350	2,459,692	2,390,964	2,302,998	2,246,055	2,427,846	2,223,615
Customer repurchase agreements	\$ 14,952	15,006	15,003	15,004	14,997	14,979	14,420
Borrowings	\$ 6,537	11,233	16,624	17,280	6,851	8,872	6,818
Tangible Common Equity	\$ 250,494	241,749	239,081	235,497	233,585	246,146	231,373
Shareholders' Equity	\$ 286,171	277,453	274,823	271,292	269,446	281,836	267,273
Stock Valuation							
Closing Market Price (OTCPink)	\$ 25.10	23.75	25.25	25.50	23.70	25.10	23.70
Multiple of Tangible Book Value	0.81	0.77	0.86	0.86	0.82	0.81	0.82
Price/EPS	9.11	9.92	7.56	6.27	6.63	14.42	18.94

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