

January 26, 2023

Dear Shareholder,

While we anticipate the mailing of our complete audited financial report to you in early March, I am extremely pleased to share strong preliminary performance results for year-end 2022. Net income, while not yet fully audited, is projected to be \$30.42 million, which is \$8.93 million above plan and a year-over-year earnings increase of \$1.65 million (5.72%).

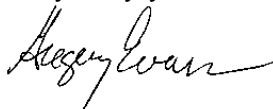
This is the first time in the rich 147-year history of Merchants Bank and Merchants Financial Group, Inc. that annual net income has exceeded \$30 million. Budgeting for a return to a more normal post-pandemic business environment going into 2022 was unpredictable, and our plan did not reflect the dramatic pivot by the Federal Reserve Bank to raise interest rates with aggression to curb inflation. Our disciplined approach to balance sheet management throughout the pandemic was rewarded throughout 2022 as the interest rate environment changed so dramatically.

Specific performance highlights which will be detailed in our 2022 Annual Report include:

- New commercial loan activity for 2022 was an all-time high for Merchants, with more than \$608.5 million in new origination activity. Fee income associated with that new volume was \$2.92 million and a significant contributor to our bottom-line performance.
- Because of the new commercial loan activity, year-over-year net loan growth was 15.9% to \$1.86 billion.
- Because of our balance sheet management discipline over the course of the last two years and the change in the interest rate environment, interest income on excess liquidity for 2022 exceeded the prior year by \$6.55 million.
- Our strong business line diversification allowed for record earnings even though residential mortgage lending activity in 2022 was just 47% of 2021 volume.
- Successful recruitment and transition for new members of our Executive Leadership Team as we celebrated four retirements in 2022. I cannot thank retirees Rick Barry, Beth Ede, Mark McGrory and Skip Stovern enough for their contributions to this organization.

It is an honor to share this preliminary report on behalf of the Merchants team with you. I am enormously proud of the dedicated commitment made in 2022 by every one of my teammates. The team's focus on our mission, our customers and our communities remains extraordinary. Thank you for your loyalty and believing in the importance of our role as a driver of economic vitality throughout our region as an independent community bank. I look forward to seeing you at our Annual Shareholder meeting on Thursday, April 13.

Very truly yours,

A handwritten signature in black ink that reads 'Gregory M. Evans'.

Gregory M. Evans
President and CEO