

April 22, 2022

Dear Shareholder,

I am pleased to announce solid first quarter earnings for Merchants Financial Group, Inc. (MFGI) with year-to-date net income of \$7.35 million, which allowed your Board of Directors to approve an increase in our semiannual dividend. The dividend level reflects the 3-for-1 stock split (200% stock dividend) that we announced at the end of our virtual Annual Shareholder Meeting on Thursday, April 14.

As I shared at the Annual Meeting, the stock dividend will be paid on May 13 to Shareholders of record on May 5. Our semiannual cash dividend of \$.30/share will be paid on June 17 to Shareholders of record on May 20. Our record of dividend payments over a period of decades is a source of pride for all of us on the Executive Leadership Team of your Company.

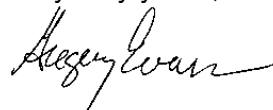
Our earnings performance for the first quarter exceeded our Plan by \$2.2 million but was \$2.3 million behind 2021's extraordinary first quarter results. Core loan growth in the first quarter remained soft, and our mortgage volume was just 52% of the same period last year. However, our income was bolstered by our never-ending focus on credit quality. An improved risk profile in our consolidated loan portfolio and the lack of loan growth allowed for a significant reversal of Allowance for Loan/Lease Loss Reserves of approximately \$2 million. We also had an interest income recovery resulting from the payoff of a large non-performing loan at the end of the first quarter.

Our primary business objective for the balance of 2022 is to put our excess liquidity to work in form of higher-yielding assets. Our deposit franchise continues to grow stronger, with total deposits up 3.74% from the first quarter of 2021 to \$2.52 billion. We have a strategy to continue to purchase investments without taking on significant duration risk, and we have experienced an uptick in our commercial loan new business pipeline. Adding commercial loan volume is a critical component to sustaining the momentum associated with first quarter earnings results.

It was a pleasure to have many of you join our virtual Shareholder Meeting. I want to again thank Scott Biesanz as he retires from 34 years of service to the Merchants organization as a Director, and welcome our newest MFGI Board members Molly Jungbauer, CPA/CEO & Co-Owner of Hollstadt Consulting and James Rogers III, Chief Business Development Officer for Mayo Clinic.

We have been transparent about the challenges we expected this year. I'm proud that our team continues to embrace those as opportunities, and we are very pleased with our first quarter results. Thank you for your loyalty and trust in the important work we do to help our customers and communities achieve hopes and dreams.

Very truly yours,



Gregory M. Evans
President and CEO

Merchants Financial Consolidated

Consolidated Statements of Financial Condition

Unaudited

(\$ in thousands, except share data)

	<u>March 31, 2022</u>	<u>December 31, 2021</u>
ASSETS		
Cash and cash equivalents	824,222	845,680
Federal funds sold	317	413
Available-for-sale securities	211,218	197,372
Held-to-maturity securities	26,183	10,440
Loans held for sale	17,184	24,071
Loans and direct financing leases, net	1,577,932	1,579,275
Operating lease assets	14,953	13,024
Premises and equipment	27,335	27,666
Investment in restricted stock	7,271	6,880
Other real estate and other personal property owned	1,123	1,123
Accrued interest receivable and other assets	12,410	14,191
Cash value of life insurance	49,272	48,986
Mortgage servicing rights, net	16,807	16,268
Goodwill	35,665	35,665
Intangibles	1,299	1,494
Total assets	<u>2,823,191</u>	<u>2,822,549</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits		
Noninterest-bearing	609,544	620,988
Interest-bearing	1,912,953	1,897,575
Total deposits	2,522,497	2,518,564
Federal funds purchased	-	-
Repurchase agreements	2	1,700
Notes payable	14,540	14,540
Subordinated debentures	41,254	41,254
	915	3,370
	-	-
Deferred taxes, net	915	3,370
Accrued interest payable and other liabilities	12,322	12,483
Total liabilities	2,591,530	2,591,910
Stockholders' Equity		
Common stock, par value \$.025 per share	68	68
Additional paid-in-capital	10,135	10,135
Retained earnings	235,981	228,632
Accumulated other comprehensive gain	(7,118)	(791)
Unearned ESOP shares	(7,405)	(7,405)
Total stockholders' equity	<u>231,661</u>	<u>230,640</u>
Total liabilities and stockholders' equity	<u>2,823,191</u>	<u>2,822,549</u>

Merchants Financial Consolidated

Consolidated Statements of Income

Unaudited

(\$ in thousands, except share data)

	<u>March 31, 2022</u>	<u>March 31, 2021</u>
<u>INTEREST INCOME:</u>		
Loan interest	16,659	16,651
Loan fees	2,479	5,233
Securities	812	467
Direct financing leases	749	883
Other income	607	413
Total interest income	<u>21,306</u>	<u>23,646</u>
<u>INTEREST EXPENSE:</u>		
Deposits	1,302	1,864
Notes payable, federal funds purchased and repurchase agreement:	66	89
Subordinated debentures	434	243
Total interest expense	<u>1,802</u>	<u>2,196</u>
Net interest income	19,504	21,450
Provision for loan and lease losses	<u>(1,596)</u>	<u>286</u>
Net interest income after provision for loan and lease losses	21,100	21,164
<u>NON-INTEREST INCOME:</u>		
Trust department	467	457
Service charges and other fees	1,258	1,163
Loan servicing fees	1,801	1,746
Net gain on sale of available-for sale securities	-	-
Net gain on sale of loans	940	6,466
Net gain(loss) on sale of other real estate & other personal prop.	-	94
Other income	1,577	1,223
Total Non-interest income	<u>6,042</u>	<u>11,149</u>
<u>NON-INTEREST EXPENSE:</u>		
Salaries and employee benefits	9,744	10,198
Occupancy	3,688	3,966
Net loss on disposal of premises and equipment	15	-
Mortgage servicing rights	722	1,656
Other expense	2,929	3,257
Total non-interest expense	<u>17,098</u>	<u>19,077</u>
Income before income taxes	10,044	13,235
Provision for income taxes	<u>2,695</u>	<u>3,569</u>
Net income	<u>7,349</u>	<u>9,666</u>

Merchants Financial Consolidated

Consolidated Financial Highlights

First Quarter 2022

Unaudited

	Quarterly					Year to Date	
	1st Qtr 2022	4th Qtr 2021	3rd Qtr 2021	2nd Qtr 2021	1st Qtr 2021	March 31, 2022	March 31, 2021
(\$ in thousands, except share data)							
\$ Earnings							
Net Interest Income	\$ 19,504	19,493	21,391	19,753	21,450	19,504	21,450
Provision (Reversal) for loan loss	\$ (1,596)	(293)	(641)	(1,563)	286	(1,596)	286
Other non-interest income	6,042	7,698	8,044	9,292	11,149	6,042	11,149
Security gains/losses	\$ -	-	-	-	-	-	-
Other non-interest expense	17,098	23,260	19,991	18,984	19,077	17,098	19,077
Pre-tax income	\$ 10,044	4,225	10,084	11,623	13,235	10,044	13,235
Taxes	\$ 2,695	1,016	2,680	3,125	3,569	2,695	3,569
Net Income	\$ 7,349	3,209	7,404	8,498	9,666	7,349	9,666
Pre-tax, pre-provision earnings	\$ 8,448	3,932	9,443	10,061	13,521	8,448	13,521
Earnings per share	\$ 2.70	1.18	2.72	3.12	3.55	2.70	3.55
Performance Ratios							
Return on average assets	1.06%	0.45%	1.08%	1.07%	1.28%	1.06%	1.28%
Return on average equity	12.88%	5.46%	12.81%	7.09%	8.18%	12.88%	8.18%
Yield on earning assets	3.18%	3.10%	3.54%	3.11%	3.56%	3.18%	3.56%
Cost of funds (inc non-int bearing deposits)	0.37%	0.40%	0.42%	0.43%	0.45%	0.37%	0.45%
Net interest margin	2.94%	2.70%	3.10%	2.47%	2.81%	2.94%	2.81%
Efficiency ratio	65.97%	84.78%	66.50%	63.73%	56.30%	65.97%	56.30%
Net overhead ratio	2.35%	3.08%	2.73%	2.22%	2.30%	2.35%	2.30%
Capital							
Tier 1 leverage capital ratio	9.19%	9.05%	9.34%	9.14%	9.23%	9.19%	9.23%
Common equity risk-based capital ratio	11.09%	10.81%	10.87%	10.82%	10.53%	11.09%	10.53%
Tier 1 risk-based capital ratio	13.18%	12.92%	12.99%	13.01%	12.72%	13.18%	12.72%
Total risk-based capital ratio	14.43%	14.17%	14.24%	14.26%	13.97%	14.43%	13.97%
Tangible capital to tangible assets	6.92%	6.89%	7.20%	7.03%	6.78%	6.92%	6.78%
Book value per share	\$ 84.97	84.60	85.30	82.95	81.33	84.97	81.33
Tangible book value per share	\$ 65.08	64.86	65.82	63.44	62.07	65.08	62.07
Outstanding shares	2,726,247	2,726,247.0	2,726,247	2,726,247	2,726,247	2,726,247	2,726,247
Asset Quality							
Net charge-offs (recoveries)	\$ -	-	-	-	-	-	-
Net charge-offs (recoveries) to average loans	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Allowance for loan losses	\$ (27,080)	(28,650)	(29,026)	(29,895)	(31,599)	(27,080)	(31,599)
Allowance to total loans	-1.67%	-1.76%	-1.79%	-1.78%	-1.78%	-1.67%	-1.78%
Allowance to total loans (excluding PPP loans)	-1.68%	-1.78%	-1.83%	-1.86%	-1.95%	-1.68%	-1.95%
Nonperforming loans (Non-accrual & 90 days Past Due)	\$ 12,717	15,820	17,177	16,168	18,619	12,717	18,619
Other real estate owned	\$ 1,123	1,123	2,345	2,529	2,862	1,123	2,862
Nonperforming loans to total loans	0.78%	0.97%	1.06%	0.96%	1.05%	0.78%	1.05%
Nonperforming assets to total assets	0.49%	0.60%	0.71%	0.69%	0.78%	0.49%	0.78%
End of Period Balances							
Assets	\$ 2,823,191	2,822,549	2,737,846	2,709,234	2,748,113	2,823,191	2,748,113
Total investments	\$ 293,943	263,678	218,724	219,685	189,145	293,943	189,145
Total loans	\$ 1,622,246	1,631,837	1,621,726	1,681,637	1,771,016	1,622,246	1,771,016
Paycheck Protection Program loans	\$ 10,112	20,486	33,787	75,431	146,535	10,112	146,535
Intangible assets	\$ 54,238	53,805	53,121	53,178	52,520	54,238	52,520
Deposit	\$ 2,522,497	2,518,563	2,416,784	2,392,003	2,431,520	2,522,497	2,431,520
Customer repurchase agreements	\$ 2	1,700	12,369	15,004	15,005	2	15,005
Borrowings	\$ 14,540	14,540	14,920	14,920	17,420	14,540	17,420
Shareholders' Equity	\$ 231,661	230,640	232,553	226,134	221,725	231,661	221,725
Average Balances							
Assets	\$ 2,820,266	2,818,012	2,725,744	3,191,132	3,071,172	2,820,266	3,071,172
Total investments	\$ 286,201	245,478	219,235	195,524	185,398	286,201	185,398
Total loans	\$ 1,620,556	1,612,873	1,644,148	1,899,609	1,959,179	1,620,556	1,959,179
Paycheck Protection Program loans	\$ 15,299	27,136	54,609	110,983	149,651	15,299	149,651
Intangible assets	\$ 53,585	53,077	52,997	52,683	52,069	53,585	52,069
Deposit	\$ 2,511,768	2,496,254	2,408,889	2,439,208	2,307,797	2,511,768	2,307,797
Customer repurchase agreements	\$ 7,779	10,803	12,047	14,528	14,467	7,779	14,467
Borrowings	\$ 14,540	14,916	14,920	17,145	17,420	14,540	17,420
Shareholders' Equity	\$ 231,334	232,978	229,369	480,723	479,383	231,334	479,383
Stock Valuation							
Closing Market Price (OTCPink)	\$ 79.50	75.25	73.00	72.50	70.05	79.50	70.05
Multiple of Tangible Book Value	1.22	1.16	1.11	1.14	1.13	1.22	1.13