

January 27, 2026

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 2025. Net income, while not yet independently audited, is projected to be \$32.38 million, which is \$4.04 million above plan and a year-over-year earnings increase of \$13.84 million (74.64%).

This will only be the second time in the 150-year history of the Company having exceeded \$30 million in net income, and 2025's performance results far exceed our previous record for net income in 2022 of \$30.42 million. Key to our financial rebound was the optimal position of our balance sheet and the resulting improvement in net interest income, progress in working out of a small number of large and stressed credit facilities that was the most significant drag on 2024 performance, and strong year-over-year profit contribution growth for residential mortgage lending and our Trust division of our wealth management practice.

Specific performance and strategic highlights which will be detailed in our 2025 Annual Report and Annual Shareholder Meeting include:

- Year-over-year deposit growth of 4.02%, which was above our plan by \$97.39 million
- Year-over-year profit contribution growth from residential mortgage lending was \$606K (7.64%)
- Year-over-year revenue fee income growth of \$258.6K (8.20%) in our Trust Department
- While loan growth did not materialize as we planned in 2025, with total net loans declining by 3.66% compared to 2024, the lack of growth and stabilization of the risk profile in our consolidated loan portfolio allowed us to reverse \$1.6 million of excess Allowance for Credit Loss (ACL) throughout the year, compared to the \$10.1 million we added to ACL in 2024.

It is an honor to share this preliminary report on behalf of the Merchants team with you. I am enormously proud of the commitment of our team and that this record earnings year was the culmination of our 150th anniversary year of uninterrupted service to our customers and 19 communities. Thank you for your encouragement, support and loyalty as we embark on our 151st year as an independent community bank. I look forward to seeing you at our Annual Shareholder meeting on Thursday, April 23.

Very truly yours,



Gregory M. Evans
President and CEO

Merchants Financial Consolidated

Consolidated Statements of Financial Condition

Unaudited

(\$ in thousands, except share data)

	<u>December 31, 2025</u>	<u>December 31, 2024</u>
ASSETS		
Cash and cash equivalents	242,145	177,566
Federal funds sold	295	228
Available-for-sale securities	400,820	283,149
Held-to-maturity securities	37,534	36,057
Loans held for sale	14,014	1,049
Loans and direct financing leases, net	2,011,316	2,086,285
Operating lease assets	10,780	16,896
Premises and equipment	24,043	24,835
Investment in restricted stock	5,067	5,397
Other real estate and other personal property owned	970	6,457
Accrued interest receivable and other assets	41,821	32,933
Cash value of life insurance	62,213	60,735
Mortgage servicing rights, net	13,800	14,801
Goodwill	35,665	35,665
Intangibles	-	54
Deferred tax assets	-	-
Total assets	<u><u>2,900,482</u></u>	<u><u>2,782,107</u></u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits		
Noninterest-bearing	476,273	463,169
Interest-bearing	<u>2,044,875</u>	<u>1,960,589</u>
Total deposits	2,521,148	2,423,758
Federal funds purchased	-	-
Repurchase agreements	15,043	15,060
Notes payable	1,599	11,900
Subordinated debentures	28,351	28,351
Deferred tax liability	4,959	1,865
Accrued interest payable and other liabilities	<u>21,689</u>	<u>25,453</u>
Total liabilities	2,592,789	2,506,387
Stockholders' Equity		
Common stock, par value \$.025 per share	68	68
Additional paid-in-capital	10,261	10,242
Retained earnings	312,165	286,011
Accumulated other comprehensive gain	(5,021)	(12,655)
Unearned ESOP shares	<u>(9,781)</u>	<u>(7,946)</u>
Total stockholders' equity	<u>307,693</u>	<u>275,720</u>
Total liabilities and stockholders' equity	<u><u>2,900,482</u></u>	<u><u>2,782,107</u></u>

Merchants Financial Consolidated

Consolidated Statements of Income Unaudited

(\$ in thousands, except share data)

	<u>December 31, 2025</u>	<u>December 31, 2024</u>
<u>INTEREST INCOME:</u>		
Loan interest	111,438	112,625
Loan fees	2,959	3,195
Securities	15,173	8,263
Direct financing leases	1,426	1,663
Other income	<u>6,923</u>	<u>2,481</u>
Total interest income	137,918	128,227
<u>INTEREST EXPENSE:</u>		
Deposits	48,902	45,825
Notes payable, federal funds purchased and repurchase agreements	866	2,605
Subordinated debentures	<u>1,445</u>	<u>1,580</u>
Total interest expense	<u>51,213</u>	<u>50,010</u>
Net interest income	86,706	78,217
Provision for loan and lease losses	<u>(1,587)</u>	<u>10,101</u>
Net interest income after provision for loan and lease losses	88,293	68,116
<u>NON-INTEREST INCOME:</u>		
Trust department	3,413	3,154
Service charges and other fees	7,074	7,002
Loan servicing fees	6,718	6,867
Net gain on sale of available-for sale securities	114	(1,175)
Net gain on sale of loans	4,957	3,720
Net gain(loss) on sale of other real estate & other personal prop.	(70)	(33)
Operating lease income	5,172	6,303
Other income	<u>9,130</u>	<u>8,370</u>
Total Non-interest income	36,508	34,209
<u>NON-INTEREST EXPENSE:</u>		
Salaries and employee benefits	44,283	41,065
Occupancy	14,117	13,533
Depreciation expense on operating leases	4,110	5,094
Net loss on disposal of premises and equipment	16	-
Mortgage servicing rights	3,141	2,659
Other expense	<u>18,084</u>	<u>15,561</u>
Total non-interest expense	<u>83,752</u>	<u>77,912</u>
Income before income taxes	41,049	24,412
Provision for income taxes	<u>8,671</u>	<u>5,873</u>
Net income	<u>32,378</u>	<u>18,539</u>

Merchants Financial Consolidated

Consolidated Financial Highlights

Fourth Quarter 2025

Unaudited

(\$ in thousands, except share data)	Quarterly					Year to Date	
	4th Qtr 2025	3rd Qtr 2025	2nd Qtr 2025	1st Qtr 2025	4th Qtr 2024	December 31, 2025	December 31, 2024
\$ Earnings							
Net Interest Income	\$ 23,608	22,345	19,907	20,990	21,044	86,706	77,746
Provision (Reversal) for loan loss	\$ (954)	(3)	(989)	358	3,712	(1,587)	10,101
Other non-interest income	\$ 9,056	9,518	9,881	7,939	8,985	36,394	35,384
Security Gains/Losses	\$ -	-	-	114	-	114	(1,175)
Other non-interest expense	\$ 22,119	19,785	21,766	20,082	20,764	83,752	77,912
Pre-tax income	\$ 11,499	12,045	8,952	8,553	5,640	41,049	24,412
Taxes	\$ 2,413	2,987	1,202	2,069	1,362	8,671	5,873
Net Income	\$ 9,086	9,058	7,750	6,484	4,278	32,378	18,539
Pre-tax, pre-provision earnings	\$ 10,545	12,042	7,963	8,911	9,352	39,462	34,513
Earnings per share	\$ 1.11	1.11	0.95	0.79	0.52	3.96	2.27
Performance Ratios							
Return on average assets	1.28%	1.28%	1.13%	0.93%	0.62%	1.16%	0.70%
Return on average equity	11.90%	12.23%	10.86%	9.48%	6.19%	11.16%	6.86%
Return on average tangible common equity	13.49%	13.97%	12.47%	10.95%	7.18%	12.74%	8.00%
Yield on earning assets	5.34%	5.34%	5.37%	5.27%	5.36%	5.32%	5.30%
Cost of funds (inc non-int bearing deposits)	1.88%	1.98%	2.32%	2.07%	2.09%	2.06%	2.11%
Net interest margin	3.55%	3.46%	3.16%	3.29%	3.35%	3.36%	3.27%
Loan to Deposit Ratio	80.81%	83.73%	86.24%	84.67%	87.25%	80.81%	87.25%
Efficiency ratio	66.78%	60.21%	72.61%	68.42%	68.11%	66.97%	69.27%
Net overhead ratio	1.78%	1.45%	1.73%	1.73%	1.72%	1.67%	1.69%
Capital							
Tier 1 leverage capital ratio	11.35%	11.26%	11.11%	10.62%	10.92%	11.35%	10.92%
Common equity risk-based capital ratio	11.74%	11.71%	11.18%	11.08%	10.61%	11.74%	10.61%
Tier 1 risk-based capital ratio	12.86%	12.85%	12.30%	12.21%	11.73%	12.86%	11.73%
Total risk-based capital ratio	13.93%	14.01%	13.42%	13.40%	12.88%	13.93%	12.88%
Tangible capital to tangible assets	9.50%	9.51%	9.33%	9.04%	8.74%	9.50%	8.74%
Book value per share	\$ 37.62	36.77	35.54	35.07	33.71	37.62	33.71
Tangible book value per share	\$ 33.26	32.41	31.18	30.70	29.34	33.26	29.34
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	\$ 1,320	699	599	128	7,892	1,320	7,892
Net charge-offs (recoveries) to average loans	0.06%	0.03%	0.03%	0.01%	0.37%	0.06%	0.36%
Allowance for loan losses	\$ 25,996	27,667	27,528	28,751	28,490	25,996	28,490
Allowance to total loans	1.28%	1.35%	1.33%	1.39%	1.35%	1.28%	1.35%
Nonperforming loans (Nonaccrual & 90 days Past Due)	\$ 17,080	18,636	16,247	7,406	7,004	17,080	7,004
Other real estate owned	\$ 970	2,072	4,543	5,638	6,457	970	6,457
Nonperforming loans to total loans	0.84%	0.91%	0.78%	0.36%	0.33%	0.84%	0.33%
Nonperforming assets to total assets	0.62%	0.73%	0.75%	0.46%	0.48%	0.62%	0.48%
End of Period Balances							
Assets	\$ 2,900,482	2,823,519	2,769,366	2,812,811	2,782,107	2,900,482	2,782,107
Tangible Assets	\$ 2,864,817	2,787,855	2,733,697	2,777,124	2,746,388	2,864,817	2,746,388
Earning Assets	\$ 2,698,556	2,627,409	2,554,630	2,605,623	2,579,684	2,698,556	2,579,684
Total investments	\$ 443,420	382,551	375,350	337,456	327,316	443,420	327,316
Total loans	\$ 2,037,312	2,052,490	2,076,227	2,071,697	2,114,775	2,037,312	2,114,775
Intangible assets	\$ 35,665	35,665	35,669	35,687	35,719	35,665	35,719
Deposit	\$ 2,521,144	2,451,380	2,407,431	2,446,934	2,423,758	2,521,144	2,423,758
Customer repurchase agreements	\$ 15,043	15,045	15,048	15,058	15,060	15,043	15,060
Borrowings	\$ 1,599	1,979	1,979	6,900	11,900	1,599	11,900
Tangible Common Equity	\$ 272,028	265,067	254,983	251,120	240,001	272,028	240,001
Shareholders' Equity	\$ 307,693	300,731	290,652	286,807	275,720	307,693	275,720
Average Balances							
Assets	\$ 2,815,060	2,797,643	2,758,678	2,819,626	2,748,389	2,797,739	2,656,248
Tangible Assets	\$ 2,779,395	2,761,977	2,723,001	2,783,922	2,712,647	2,762,061	2,620,414
Earning Assets	\$ 2,624,139	2,602,469	2,569,209	2,629,401	2,570,978	2,606,280	2,478,322
Total investments	\$ 401,956	375,985	360,749	341,926	305,064	368,979	272,208
Total loans	\$ 2,041,230	2,079,468	2,077,226	2,101,282	2,137,829	2,074,650	2,176,733
Intangible assets	\$ 35,665	35,666	35,678	35,704	35,742	35,678	35,834
Deposit	\$ 2,439,732	2,432,162	2,396,350	2,459,692	2,390,964	2,431,930	2,285,635
Customer repurchase agreements	\$ 14,987	14,841	14,952	15,006	15,003	14,946	14,714
Borrowings	\$ 1,975	1,979	6,537	11,233	16,624	5,396	11,913
Tangible Common Equity	\$ 267,152	258,069	250,494	241,749	239,081	254,446	234,347
Shareholders' Equity	\$ 302,817	293,735	286,171	277,453	274,823	290,123	270,181
Stock Valuation							
Closing Market Price (OTCPink)	\$ 31.99	27.10	25.10	23.75	25.25	31.99	25.25
Multiple of Tangible Book Value	0.96	0.84	0.81	0.77	0.86	0.96	0.86
Price/EPS	8.08	8.04	4.03	3.15	3.74	8.08	11.14