

April 22, 2021

Dear Shareholder,

I am pleased to report strong first quarter earnings for Merchants Financial Group, Inc. (MFGI). Every one of our four Bank regions and our secondary market residential mortgage lending operation exceeded plan for the first quarter, contributing to net income of \$9.67 million. As a result of our continued strong performance, at its meeting this week your Board of Directors approved an increase of our semiannual dividend to \$.80/share. The dividend will be paid on June 18, 2021 to Shareholders of record as of May 21, 2021.

This performance exceeds our income forecast for the first quarter by \$4.2 million. It's unusual to exceed our performance forecast by such a significant margin. Residential mortgage lending volume was significantly ahead of our plan, and the rapid acceleration of Paycheck Protection Program (PPP) loan forgiveness by the Small Business Administration (SBA) has allowed us to recognize fee income associated with 2020 PPP originations more aggressively than we anticipated. This performance is also nearly \$5.8 million above the same period last year, which was impacted by the onset of COVID-19 and the efforts we began to take in setting aside additions to our Allowance for Loan/Lease Loss Reserves.

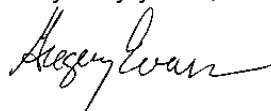
Some important financial highlights for the first quarter would include:

- Mortgage loan volume in the first quarter was \$233 million (186% of plan)
- We have received approval from the SBA for loan forgiveness of approximately 65% of the loan balances originated through the PPP program in 2020.
- New PPP loan origination of \$74 million was processed during the first quarter of 2021.
- Deposit growth continues – deposits totaled \$2.43 billion at the end of Q1, a year-over-year increase of \$600 million (32%)
- Excess liquidity – the deposit growth combined with lack of core commercial loan demand has resulted in the reduction of our loan-to-deposit to 71.54% (93.20% a year ago; this represents both a challenge and an opportunity to put those excess deposits to work if we can source loan growth opportunities.

It was a pleasure to have many of you join our Shareholder meeting virtually on April 8. I want to again thank Board Chair Scott Biesanz for his 33 years of service to the Merchants organization as a Director. As shared at the meeting, Scott will be stepping down from his Board Chair role on both the Holding Company and Bank Charter boards, and also retiring from the Merchants Bank Board. He will continue to serve as an at large Director for the MFGI Board through the Annual Shareholder Meeting in April of 2022. At its meeting this week, Directors elected Richard T. Lommen, Jr. as Board Chair and Ann E. Merchlewitz as Vice Chair.

This past year has been a year of firsts for many of us, but one thing that was not a first at Merchants was the ongoing intense focus on customer experience. I am intensely proud of the way the Merchants team adapted to assist customers this past year when in-person service was not recommended. We grew as the world around us changed, with our eye on what our customers and communities needed. The Merchants experience is something I hear about from customers frequently, and what continues to differentiate us in the marketplace and drive our financial performance success. Thank you for your continued trust in and support of your community bank.

Very truly yours,



Gregory M. Evans
President and CEO

Balance Sheet Highlights

Period-end	March 31, 2021	December 31, 2020	Variance	September 30, 2020
Assets				
Cash & Fed Funds	\$ 712,892,202	\$ 423,969,359	68.15%	\$ 460,205,811
Investments	129,019,967	122,646,944	5.20%	119,640,677
Net Loans	1,750,393,506	1,793,929,501	-2.43%	1,876,471,611
Intangible assets	37,824,087	38,073,070	-0.65%	38,335,637
Other assets	117,616,711	116,277,302	1.15%	120,050,236
Liabilities & Equity				
Deposits	2,431,519,748	2,191,771,250	10.94%	2,306,838,451
Trust Preferred Securities	41,254,000	41,254,000	0.00%	41,254,000
Other Liabilities	54,501,406	51,081,805	6.69%	58,172,837
Equity	220,471,319	210,789,122	4.59%	208,438,684
*Restated to align with audit reclassifications				

Income Statement Highlights

	Three months ended			2020 Per Quarter Results			
	March 31, 2021	March 31, 2020	Variance	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
	Actual	Actual		Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Income							
Investments & Funds Sold	\$ 467,098	\$ 1,284,442	-63.63%	\$ 334,737	\$ 683,974	\$ 703,465	\$ 1,284,442
Loan Interest	19,612,277	21,416,705	-8.43%	22,718,254	21,415,308	21,777,023	21,416,705
Total Interest Income	20,079,375	22,701,147	-11.55%	23,052,991	22,099,282	22,480,488	22,701,147
Interest Expense	(2,196,023)	(3,803,367)	-42.26%	(2,761,314)	(3,225,600)	(3,318,860)	(3,803,367)
Net Interest Income	17,883,352	18,897,780	-5.37%	20,291,677	18,873,682	19,161,628	18,897,780
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Non-interest Income	14,715,460	5,908,665	149.05%	12,566,636	13,476,325	12,340,178	5,908,665
Non-interest expense	(19,077,438)	(18,690,797)	2.07%	(20,640,082)	(19,768,425)	(19,863,699)	(18,690,797)
Provision expense	(285,900)	(957,771)	-70.15%	(3,036,692)	(4,039,592)	(5,327,992)	(957,771)
Pretax Income	13,235,474	5,157,877	156.61%	9,181,539	8,541,990	6,310,115	5,157,877
Taxes	(3,569,000)	(1,350,999)	164.17%	(2,388,000)	(2,267,000)	(1,674,001)	(1,350,999)
Net Income	9,666,474	3,806,878	153.92%	6,793,539	6,274,990	4,636,114	3,806,878

Bank Yield and Margin Highlights

	March 31, 2021		December 31, 2020		September 30, 2020	
	Balances	Rate	Balances	Rate	Balances	Rate
Earning Assets						
Fed Funds Excess	\$ 673,413,493	0.10%	\$ 382,307,043	0.10%	\$ 417,418,365	0.10%
Investments	\$ 186,884,169	1.75%	\$ 138,466,846	1.92%	\$ 121,322,892	1.96%
Loans *	\$ 1,723,811,226	3.54%	\$ 1,762,375,423	3.60%	\$ 1,653,435,509	3.54%
OREO & Non-accrual	\$ 18,312,138	0.00%	\$ 19,074,619	0.00%	\$ 24,209,120	0.00%
Earning Assets Total	\$ 2,602,421,026	2.49%	\$ 2,302,223,931	2.88%	\$ 2,216,385,886	2.76%
Paying Liabilities						
Non-interest deposits	\$ 590,800,446	0.00%	\$ 546,210,075	0.00%	\$ 509,857,963	0.00%
Interest deposits	\$ 1,826,070,396	0.40%	\$ 1,635,212,754	0.49%	\$ 1,563,915,586	0.57%
Non-core deposits	\$ 15,004,814	0.40%	\$ 12,715,808	0.51%	\$ 16,262,826	0.66%
Borrowings	\$ 14,000,000	2.07%	\$ 14,000,000	2.07%	\$ 14,000,000	2.07%
Fed Funds Purchased	\$ -	0.00%	\$ -	-1.94%	\$ -	0.00%
Paying Liabilities Total	\$ 2,445,875,656	0.31%	\$ 2,208,138,637	0.38%	\$ 2,104,036,375	0.44%
Net Interest Spread		2.18%		2.50%		2.32%

Credit Quality Ratios

Period ended	March 31, 2021	December 31, 2020	September 30, 2020	June 30, 2020
Classified Loans to Total Loans	4.97%	5.08%	4.97%	3.02%
Criticized Loans to Total Loans	7.08%	7.02%	7.08%	4.35%
Classified Loans to Capital	34.28%	36.05%	34.28%	23.93%
Criticized Loans to Capital	48.79%	49.85%	48.79%	34.50%
Non-accrual Loans to Total Loans *	1.04%	1.10%	1.04%	1.18%
Past Due > 90 days to Total Loans *	0.14%	0.12%	0.14%	0.38%
Net Charge-offs (Recoveries) to Total Loans *	0.02%	0.06%	0.02%	0.00%
Loss Reserve to Total Loans *	1.81%	1.76%	1.81%	1.32%
* Total loans includes held for sale and operating leases				

Key Ratios

Period-end	March 31, 2021	December 31, 2020	September 30, 2020	June 30, 2020
Internal Ratios				
Return on Average Assets	1.46%	0.91%	0.80%	0.74%
Return on Ending Equity	17.66%	10.28%	9.54%	8.30%
Efficiency Ratio	56.30%	62.53%	63.45%	66.19%
Net Interest Margin **	4.16%	4.31%	4.01%	4.22%
Common Equity Tier 1	10.46%	9.81%	9.58%	9.32%
Tier 1 Capital Ratio	12.64%	11.98%	11.72%	11.46%
Total Capital Ratio	13.89%	13.69%	13.23%	12.80%
Tier 1 Leverage Ratio	9.18%	10.01%	9.61%	10.13%
Investor Ratios				
Number of Shares Outstanding	2,726,247	2,726,247	2,726,247	2,726,247
YTD Earnings Per Share	3.55	7.89	5.40	3.10
Book Value Per Share	80.87	77.32	76.00	75.17
Tangible Book Value (TBV)	67.00	63.35	61.93	61.01
Share price	70.05	54.38	54.38	53.00
Price to EPS	4.94	6.89	7.55	8.56
Price to TBV	104.56%	85.84%	87.80%	86.88%
*Ratios with shares use outstanding shares versus GAAP weighted average shares				
** Net Interest Margin is inflated due to Mortgage Fees being included in calculation				