

October 23, 2023

Dear Shareholder,

As we enter the final quarter of 2023, I am pleased to announce continued steady earnings performance for Merchants Financial Group, Inc. Year-to-date net income of \$20.1 million allowed your Board of Directors to declare with confidence an increase in the semi-annual dividend to \$0.36/share (a 9% increase from the mid-year dividend payment). The dividend will be paid on December 22, based on shareholders of record as of November 17.

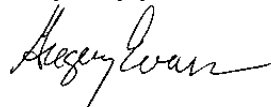
Our earnings performance through three quarters was \$426,215 ahead of our plan for the year, but is now \$2 million below the earnings level for the same period in 2022. At the end of the third quarter, we did add \$182,000 to Expected Credit Loss provision, primarily to accommodate continued modest loan growth as previously-booked construction projects have funded up. Interest margin pressure continues in the current environment as the rise in interest rates has contributed to softening new commercial loan demand and higher yield expectations with our loyal deposit customer base.

Despite the pressure on margins in the current rate environment, our balance sheet remains positioned better than many peer banks and I'm confident about a strong finish to the year. Key performance and balance sheet highlights include:

- We experienced modest loan growth this quarter with total net loans increasing slightly to \$2.06 billion. This is \$58.1 million above plan and a year-over-year increase of 16.27%.
- Our core deposit franchise remains strong and stable; total deposits at quarter-end were at \$2.15 billion, which is a slight increase of 2.4% for the quarter.
- The diversification of our business lines continues to bolster performance; of specific note, our equipment finance division -- Merchants Bank Equipment Finance (MBEF) -- has been a significant contributor to earnings results. Equipment Finance origination activity was more than \$53 million during the third quarter alone, driving yield and diversification value to our consolidated portfolio.

As we focus intensely on navigating in an ever-changing environment, please know that the pursuit of our mission to contribute to the achievement of the hopes and dreams of our customers and communities remains uncompromised. I'd like to wish you and your family a wonderful holiday season on behalf of the entire Merchants team. We look forward to sharing our 2023 results with you early next year. Thank you for your continued loyalty and support.

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>September 30, 2023</u>	<u>December 31, 2022</u>
<u>ASSETS</u>		
Cash and cash equivalents	40,451	225,701
Federal funds sold	450	277
Available-for-sale securities	190,040	276,621
Held-to-maturity securities	38,843	37,070
Loans held for sale	5,195	6,202
Loans and direct financing leases, net	2,056,664	1,852,035
Operating lease assets	21,060	21,558
Premises and equipment	26,061	26,388
Investment in restricted stock	7,760	7,163
Other real estate and other personal property owned	780	806
Accrued interest receivable and other assets	23,016	13,976
Cash value of life insurance	59,369	58,197
Mortgage servicing rights, net	15,843	16,641
Goodwill	35,665	35,665
Intangibles	416	797
Deferred tax assets	-	1,275
Total assets	<u>2,521,613</u>	<u>2,580,373</u>
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
<u>Liabilities</u>		
<u>Deposits</u>		
Noninterest-bearing	537,038	635,853
Interest-bearing	1,612,941	1,621,448
Total deposits	<u>2,149,979</u>	<u>2,257,301</u>
Federal funds purchased	27,000	-
Repurchase agreements	15,029	12,019
Notes payable	7,160	12,120
Subordinated debentures	41,254	41,254
Deferred tax liability	2,516	3,233
Accrued interest payable and other liabilities	22,039	13,286
Total liabilities	<u>2,264,978</u>	<u>2,339,213</u>
<u>Stockholders' Equity</u>		
Common stock, par value \$.025 per share	68	68
Additional paid-in-capital	10,255	10,255
Retained earnings	270,525	254,087
Accumulated other comprehensive gain	(15,861)	(14,899)
Unearned ESOP shares	(8,352)	(8,352)
Total stockholders' equity	<u>256,635</u>	<u>241,159</u>
Total liabilities and stockholders' equity	<u>2,521,613</u>	<u>2,580,373</u>

Merchants Financial Consolidated

Consolidated Statements of Income

Unaudited

(\$ in thousands, except share data)

	<u>September 30, 2023</u>	<u>September 30, 2022</u>
<u>INTEREST INCOME:</u>		
Loan interest	68,953	51,135
Loan fees	5,805	7,505
Securities	5,344	3,424
Direct financing leases	1,252	1,773
Other income	4,290	5,001
Total interest income	<u>85,644</u>	<u>68,838</u>
<u>INTEREST EXPENSE:</u>		
Deposits	17,942	3,522
Notes payable, federal funds purchased and repurchase agreements	587	230
Subordinated debentures	2,084	1,301
Total interest expense	<u>20,614</u>	<u>5,053</u>
Net interest income	65,030	63,785
Provision for loan and lease losses	<u>1,531</u>	<u>(1,886)</u>
Net interest income after provision for loan and lease losses	63,499	65,671
<u>NON-INTEREST INCOME:</u>		
Trust department	1,723	1,531
Service charges and other fees	4,888	4,249
Loan servicing fees	5,270	5,428
Net gain on sale of available-for sale securities	(134)	-
Net gain on sale of loans	1,231	1,998
Net gain (loss) on sale, incl. writedowns, of other real estate & other personal prop.	(8)	(159)
Other income	6,185	5,418
Total Non-interest income	<u>19,155</u>	<u>18,464</u>
<u>NON-INTEREST EXPENSE:</u>		
Salaries and employee benefits	29,933	30,101
Occupancy	13,460	11,912
Net loss on disposal of premises and equipment	-	15
Mortgage servicing rights	2,055	2,604
Other expense	10,197	9,361
Total non-interest expense	<u>55,645</u>	<u>53,993</u>
Income before income taxes	27,008	30,142
Provision for income taxes	<u>6,905</u>	<u>8,028</u>
Net income	<u>20,103</u>	<u>22,114</u>

Merchants Financial Consolidated

Consolidated Financial Highlights

Third Quarter 2023

Unaudited

(\$ in thousands, except share data)	Quarterly					Year to Date	
	3rd Qtr 2023	2nd Qtr 2023	1st Qtr 2023	4th Qtr 2022	3rd Qtr 2022	September 30, 2023	September 30, 2022
\$ Earnings							
Net Interest Income	\$ 21,220	21,313	22,497	24,889	23,451	65,030	63,785
Provision (Reversal) for loan loss	\$ 1,044	(489)	977	(390)	(496)	1,531	(1,886)
Other non-interest income	\$ 6,970	6,380	5,939	6,802	6,218	19,155	18,459
Security gains/losses	\$ -	114	(248)	-	-	(134)	-
Other non-interest expense	\$ 18,702	19,518	17,426	21,228	18,872	55,646	53,987
Pre-tax income	\$ 8,444	8,778	9,786	10,852	11,294	27,008	30,142
Taxes	\$ 2,005	2,298	2,602	2,542	2,994	6,905	8,028
Net Income	\$ 6,439	6,480	7,184	8,310	8,300	20,103	22,114
Pre-tax, pre-provision earnings	\$ 9,488	8,289	10,763	10,462	10,798	28,539	28,256
Earnings per share	\$ 0.79	0.79	0.88	1.02	1.01	2.46	2.70
Performance Ratios							
Return on average assets	1.02%	1.05%	1.14%	1.26%	1.27%	1.07%	1.09%
Return on average equity	10.18%	10.49%	11.97%	14.14%	14.93%	10.86%	13.01%
Yield on earning assets	5.47%	5.37%	5.04%	4.63%	4.20%	5.29%	3.67%
Cost of funds (inc non-int bearing deposits)	1.98%	1.73%	1.20%	0.76%	0.39%	1.64%	0.37%
Net interest margin	3.99%	4.09%	4.17%	3.75%	3.61%	4.09%	3.14%
Loan to Deposit Ratio	95.90%	95.24%	88.55%	82.32%	77.05%	95.90%	77.05%
Efficiency ratio	65.54%	69.41%	60.89%	66.16%	62.77%	65.26%	64.59%
Net overhead ratio	2.85%	3.05%	2.65%	3.09%	2.78%	2.85%	2.54%
Capital							
Tier 1 leverage capital ratio	11.76%	11.47%	10.99%	10.11%	9.80%	11.76%	9.80%
Common equity risk-based capital ratio	10.24%	10.14%	10.28%	10.21%	10.25%	10.24%	10.25%
Tier 1 risk-based capital ratio	11.90%	11.83%	12.02%	11.99%	12.09%	11.90%	12.09%
Total risk-based capital ratio	12.93%	13.08%	13.27%	13.24%	13.34%	13.15%	13.34%
Tangible capital to tangible assets	8.82%	8.76%	8.47%	7.98%	7.60%	8.82%	7.60%
Book value per share	\$ 31.38	30.64	30.32	29.49	28.61	31.38	28.61
Tangible book value per share	\$ 25.03	24.29	23.91	22.99	22.08	25.03	22.08
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	\$ 333	211	277	264	164	333	164
Net charge-offs (recoveries) to average loans	0.02%	0.01%	0.01%	0.01%	0.01%	0.02%	0.01%
Allowance for loan losses	(25,402)	(24,321)	(24,562)	(26,638)	(26,928)	(25,402)	(26,928)
Allowance to total loans	-1.22%	-1.20%	-1.25%	-1.41%	-1.50%	-1.22%	-1.50%
Nonperforming loans (Non-accrual & 90 days Past D)	\$ 5,383	6,442	7,712	8,523	10,735	5,383	10,735
Other real estate owned	\$ 780	787	866	806	803	780	803
Nonperforming loans to total loans	0.26%	0.32%	0.39%	0.45%	0.60%	0.26%	0.60%
Nonperforming assets to total assets	0.24%	0.29%	0.34%	0.36%	0.44%	0.24%	0.44%
End of Period Balances							
Assets	\$ 2,521,613	2,469,913	2,519,186	2,580,373	2,610,794	2,521,613	2,610,794
Earning Assets	\$ 2,295,928	2,244,271	2,304,601	2,364,994	2,397,498	2,295,928	2,397,498
Total investments	\$ 297,284	308,702	323,459	379,396	349,991	297,284	349,991
Total loans	\$ 2,086,595	2,022,958	1,957,515	1,884,384	1,799,929	2,086,595	1,799,929
Paycheck Protection Program loans	\$ -	575	980	3,307	10,112	-	10,112
Intangible assets	\$ 51,924	51,913	52,470	53,103	53,480	51,924	53,480
Deposit	\$ 2,149,979	2,099,026	2,183,447	2,257,301	2,301,431	2,149,979	2,301,431
Customer repurchase agreements	\$ 15,029	12,147	15,020	12,019	6,450	15,029	6,450
Borrowings	\$ 7,160	7,160	11,660	12,120	12,040	7,160	12,040
Shareholders' Equity	\$ 256,635	250,607	248,011	241,159	234,028	256,635	234,028
Average Balances							
Assets	\$ 2,509,050	2,473,264	2,562,819	2,623,438	2,594,556	2,514,848	2,716,610
Earning Assets	\$ 2,289,640	2,257,853	2,349,953	2,408,189	2,389,460	2,298,928	2,513,927
Total investments	\$ 300,959	311,096	373,068	368,803	336,860	328,110	309,776
Total loans	\$ 2,048,773	1,967,521	1,910,670	1,825,894	1,680,303	1,976,161	1,654,094
Paycheck Protection Program loans	\$ 287	778	2,144	6,710	15,299	287	15,299
Intangible assets	\$ 51,727	52,123	52,756	53,231	53,507	52,198	53,481
Deposit	\$ 2,157,232	2,137,709	2,237,256	2,308,114	2,355,357	2,177,106	2,429,158
Customer repurchase agreements	\$ 12,148	12,359	11,470	12,197	11,173	11,995	9,641
Borrowings	\$ 7,160	10,720	11,668	12,043	12,040	9,833	13,606
Shareholders' Equity	\$ 250,827	247,898	243,384	233,103	220,500	247,397	227,321
Stock Valuation							
Closing Market Price (OTCPink)	\$ 24.93	26.00	27.90	29.10	27.00	24.93	27.00
Multiple of Tangible Book Value	1.00	1.07	1.17	1.27	1.22	1.00	1.22
Price/EPS	7.18	7.02	5.20	4.05	4.37		

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