

April 30, 2025

Dear Shareholder,

I am pleased to announce strong first quarter earnings for Merchants Financial Group, Inc. (MFGI) with year-to-date net income of \$6.48 million. This is \$772,521 above our 2025 plan and ahead of 2024 first quarter earnings by \$1.03 million. The continued strength of Merchants and our strong first quarter results allowed your Board of Directors to approve with confidence an increase in our semi-annual dividend to \$.38/share. The cash dividend will be paid on June 20 to Shareholders of record as of May 23.

As I shared in my 2024 Annual Report letter to Shareholders, the work our team accomplished to transform our balance sheet last year positioned the Company for a forecast that projects a healthy earnings rebound in the year ahead. Our Q1 earnings are indicative of that, as improved net interest margin and liquidity are meeting forecast expectations. With many strategic initiatives already in flight and a relentless focus on our mission to help our customers realize financial hopes and dreams, it's gratifying that our performance is also tracking as we expected.

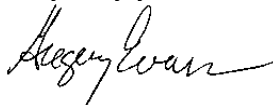
First quarter performance highlights include:

- Continued deposit growth -- total deposits were \$2.45 billion, a positive variance to plan of \$39.8 million and growth of \$220.4 million compared to Q1 2024 (a 9.9% increase).
- Soft loan activity -- total net loans were \$2.05 billion, a negative variance to plan of \$55.6 million and a decline of \$111.4 million from a year ago. Given economic uncertainty and geopolitical volatility, we will proceed with caution in evaluating new commercial loan opportunities, but modest loan growth remains our expectation for 2025 and will be necessary if we are to achieve our earnings targets.
- The current composition of the balance sheet provides us with improving net interest margin and favors us with tremendous flexibility to navigate in an uncertain environment. Interest income on both loans and investments exceeded our forecast in the first quarter, and funding costs have stabilized because of the strong and healthy diversification of our deposit franchise.

It was wonderful to see so many Shareholders at our Annual Meeting last week as we reviewed our 2024 performance and acknowledged our upcoming anniversary on July 17, 2025, celebrating 150 years of uninterrupted service. Not many community banks reach this milestone, and we do not take our rich history lightly. We have many special anniversary celebration initiatives planned and would be delighted to see you at our 150th anniversary celebrations planned throughout our community footprint this summer as we highlight our track record as a community leader and driver of economic vitality in this region.

One of the core reasons we are able to celebrate this extraordinary milestone is the commitment of our local Shareholders. Without the loyalty of our Shareholders over the last 150 years, we would not be the company we are today. Thank you for your continued trust and investment – you truly make our work as community bankers possible.

Very truly yours,



Gregory M. Evans
President and CEO

Merchants Financial Consolidated

Consolidated Statements of Financial Condition

Unaudited

(\$ in thousands, except share data)

March 31, 2025

December 31, 2024

ASSETS

Cash and cash equivalents	237,348	177,566
Federal funds sold	344	228
Available-for-sale securities	291,621	283,149
Held-to-maturity securities	37,826	36,057
Loans held for sale	8,240	1,049
Loans and direct financing leases, net	2,042,947	2,086,285
Operating lease assets	15,656	16,896
Premises and equipment	24,502	24,835
Investment in restricted stock	5,278	5,397
Other real estate and other personal property owned	5,638	6,457
Accrued interest receivable and other assets	32,414	32,933
Cash value of life insurance	60,796	60,735
Mortgage servicing rights, net	14,513	14,801
Goodwill	35,665	35,665
Intangibles	23	54
Deferred tax assets	-	-
Total assets	<u>2,812,811</u>	<u>2,782,107</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Liabilities

Deposits		
Noninterest-bearing	476,318	463,169
Interest-bearing	<u>1,970,616</u>	<u>1,960,589</u>
Total deposits	2,446,934	2,423,758
Federal funds purchased	-	-
Repurchase agreements	15,058	15,060
Notes payable	6,900	11,900
Subordinated debentures	28,351	28,351
Deferred tax liability	3,651	1,865
Accrued interest payable and other liabilities	<u>25,110</u>	<u>25,453</u>
Total liabilities	2,526,004	2,506,387

Stockholders' Equity

Common stock, par value \$.025 per share	68	68
Additional paid-in-capital	10,242	10,242
Retained earnings	292,495	286,011
Accumulated other comprehensive gain	(8,051)	(12,655)
Unearned ESOP shares	<u>(7,946)</u>	<u>(7,946)</u>
Total stockholders' equity	<u>286,807</u>	<u>275,720</u>
Total liabilities and stockholders' equity	<u>2,812,811</u>	<u>2,782,107</u>

Merchants Financial Consolidated

Consolidated Statements of Income

Unaudited

(\$ in thousands, except share data)

	<u>March 31, 2025</u>	<u>March 31, 2024</u>
<u>INTEREST INCOME:</u>		
Loan interest	27,616	27,203
Loan fees	812	891
Securities	3,274	1,630
Direct financing leases	376	407
Other income	<u>2,486</u>	<u>504</u>
Total interest income	34,564	30,635
<u>INTEREST EXPENSE:</u>		
Deposits	12,150	10,331
Notes payable, federal funds purchased and repurchase agreement:	312	1,057
Subordinated debentures	<u>394</u>	<u>496</u>
Total interest expense	<u>12,856</u>	<u>11,885</u>
Net interest income	21,708	18,751
Provision for loan and lease losses	<u>358</u>	<u>355</u>
Net interest income after provision for loan and lease losses	21,349	18,395
<u>NON-INTEREST INCOME:</u>		
Trust department	704	650
Service charges and other fees	1,567	1,621
Loan servicing fees	1,685	1,719
Net gain on sale of available-for sale securities	114	(1,175)
Net gain on sale of loans	568	304
Net gain(loss) on sale of other real estate & other personal prop.	(215)	(63)
Operating lease income	1,505	1,571
Other income	<u>1,358</u>	<u>2,911</u>
Total Non-interest income	7,286	7,538
<u>NON-INTEREST EXPENSE:</u>		
Salaries and employee benefits	10,588	10,105
Occupancy	3,517	3,313
Depreciation expense on operating leases	1,166	1,310
Net loss on disposal of premises and equipment	-	-
Mortgage servicing rights	711	455
Other expense	<u>4,100</u>	<u>3,405</u>
Total non-interest expense	<u>20,082</u>	<u>18,588</u>
Income before income taxes	8,553	7,345
Provision for income taxes	<u>2,069</u>	<u>1,881</u>
Net income	<u>6,484</u>	<u>5,464</u>

Merchants Financial Consolidated
Consolidated Financial Highlights
First Quarter 2025
Unaudited

	Quarterly					Year to Date	
(\$ in thousands, except share data)	1st Qtr 2025	4th Qtr 2024	3rd Qtr 2024	2nd Qtr 2024	1st Qtr 2024	March 31, 2025	March 31, 2024
\$ Earnings							
Net Interest Income	21,708	21,953	20,549	20,138	18,751	21,708	18,751
Provision (Reversal) for loan loss	\$ 358	3,712	4,845	1,188	355	358	355
Other non-interest income	7,172	8,164	7,936	7,413	6,991	7,172	6,991
Security gains/losses	\$ 114	-	-	-	532	114	532
Other non-interest expense	20,082	20,764	18,480	20,080	18,588	20,082	18,588
Pre-tax income	\$ 8,553	5,640	5,160	6,282	7,330	8,553	7,330
Taxes	\$ 2,069	1,362	1,133	1,497	1,881	2,069	1,881
Net Income	\$ 6,484	4,278	4,027	4,785	5,449	6,484	5,449
Pre-tax, pre-provision earnings	\$ 8,911	9,352	10,005	7,470	7,686	8,911	7,686
Earnings per share	\$ 0.79	0.52	0.49	0.58	0.67	0.79	0.67
Performance Ratios							
Return on average assets	0.93%	0.62%	0.60%	0.73%	0.84%	0.93%	0.84%
Return on average equity	9.48%	6.19%	5.91%	7.14%	8.27%	9.48%	8.27%
Return on average tangible common equity	10.92%	7.18%	6.88%	8.34%	9.68%	10.92%	9.68%
Yield on earning assets	5.27%	5.50%	5.53%	5.52%	5.28%	5.27%	5.28%
Cost of funds (inc non-int bearing deposits)	2.07%	2.10%	2.18%	2.12%	2.07%	2.07%	2.07%
Net interest margin	3.33%	3.27%	3.22%	3.24%	3.05%	3.33%	3.05%
Loan to Deposit Ratio	84.67%	87.94%	93.50%	98.48%	98.59%	84.67%	98.59%
Efficiency ratio	68.56%	68.64%	63.35%	72.18%	70.32%	68.56%	70.32%
Net overhead ratio	2.80%	2.96%	2.59%	2.88%	2.56%	2.80%	2.56%
Capital							
Tier 1 leverage capital ratio	10.62%	10.92%	11.13%	11.21%	11.20%	10.62%	11.20%
Common equity risk-based capital ratio	11.08%	10.61%	11.11%	10.78%	10.56%	11.08%	10.56%
Tier 1 risk-based capital ratio	12.21%	11.73%	12.29%	11.93%	11.70%	12.21%	11.70%
Total risk-based capital ratio	13.40%	12.98%	13.54%	13.18%	12.95%	13.46%	12.95%
Tangible capital to tangible assets	9.04%	8.74%	9.10%	9.10%	9.14%	9.04%	9.14%
Book value per share	\$ 35.07	33.71	33.91	33.32	32.97	35.07	32.97
Tangible book value per share	\$ 30.70	29.34	29.54	28.94	28.58	30.70	28.58
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	\$ 128	7,892	3,511	595	366	128	277
Net charge-offs (recoveries) to average loans	0.01%	0.37%	0.16%	0.03%	0.02%	0.01%	0.01%
Allowance for loan losses	28,751	28,490	29,210	26,996	25,644	28,751	25,644
Allowance to total loans	1.39%	1.34%	1.34%	1.22%	1.17%	1.39%	1.17%
Nonperforming loans (Nonaccrual & 90 days Past Due)	\$ 7,406	7,004	17,131	12,338	13,889	7,406	13,889
Other real estate owned	\$ 5,638	6,457	959	959	1,336	5,638	1,336
Nonperforming loans to total loans	0.36%	0.33%	0.79%	0.56%	0.63%	0.36%	0.63%
Nonperforming assets to total assets	0.46%	0.48%	0.67%	0.50%	0.59%	0.46%	0.59%
End of Period Balances							
Assets	\$ 2,812,811	2,782,107	2,690,456	2,636,537	2,594,133	2,812,811	2,594,133
Tangible Assets	\$ 2,777,124	2,746,388	2,654,692	2,600,714	2,558,237	2,777,124	2,558,237
Earning Assets	\$ 2,647,769	2,545,814	2,463,825	2,423,815	2,390,477	2,647,769	2,390,477
Total investments	\$ 412,262	400,019	322,646	302,119	288,772	412,262	288,772
Total loans	\$ 2,071,697	2,131,444	2,178,368	2,219,416	2,195,096	2,071,697	2,195,096
Intangible assets	\$ 35,687	35,719	35,764	35,823	35,896	35,687	35,896
Deposit	\$ 2,446,934	2,423,758	2,329,810	2,253,576	2,226,551	2,446,934	2,226,551
Customer repurchase agreements	\$ 15,058	15,060	15,060	15,063	15,057	15,058	15,057
Borrowings	\$ 6,900	11,900	17,280	17,280	6,780	6,900	6,780
Tangible Common Equity	\$ 251,120	240,001	241,610	236,715	233,738	251,120	233,738
Shareholders' Equity	\$ 286,807	275,720	277,375	272,538	269,633	286,807	269,633
Average Balances							
Assets	\$ 2,819,935	2,748,285	2,660,564	2,618,862	2,596,202	2,819,935	2,596,202
Tangible Assets	\$ 2,784,232	2,712,543	2,624,769	2,583,002	2,560,262	2,784,232	2,560,262
Earning Assets	\$ 2,690,684	2,674,602	2,587,516	2,543,818	2,519,719	2,690,684	2,519,719
Total investments	\$ 415,711	366,083	308,377	285,506	292,043	415,711	292,043
Total loans	\$ 2,101,361	2,137,121	2,191,253	2,202,839	2,173,215	2,101,361	2,173,215
Intangible assets	\$ 35,704	35,742	35,795	35,861	35,939	35,704	35,939
Deposit	\$ 2,459,692	2,390,964	2,302,998	2,246,055	2,201,175	2,459,692	2,201,175
Customer repurchase agreements	\$ 15,006	15,003	15,004	14,997	13,843	15,006	13,843
Borrowings	\$ 11,233	16,624	17,280	6,851	6,785	11,233	6,785
Tangible Common Equity	\$ 241,749	239,081	235,497	233,585	229,161	241,749	229,161
Shareholders' Equity	\$ 277,453	274,823	271,292	269,446	265,100	277,453	265,100
Stock Valuation							
Closing Market Price (OTCPink)	\$ 23.75	25.25	25.50	23.70	23.75	23.75	23.75
Multiple of Tangible Book Value	0.77	0.86	0.86	0.82	0.83	0.77	0.83
Price/EPS	9.92	11.14	10.05	8.74	11.17	29.96	35.65

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