

July 20, 2018

Dear Shareholder,

I am pleased to report a tremendous second quarter for Merchants Financial Group, Inc. (MFGI), with strong earnings and progress on a number of strategic initiatives. Every one of our Bank Regions and our Merchants Bank Equipment Finance division exceeded its respective income plan for the first half of the year, contributing to consolidated net income at mid-year of \$9,152,505. This performance is \$2.1 million ahead of plan and an increase of 53.51% compared to 2017 second quarter earnings.

Some of the biggest contributors to our success through two quarters include:

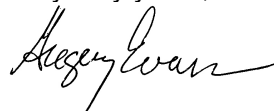
- Generation of new commercial loans exceeding \$145 million; fee income on commercial loan activity exceeded \$1 million, virtually double what we had forecast
- Residential mortgage lending of \$170 million; that volume put us at 95% of our mid-year goal, but strong pricing management has driven mortgage income that is \$550,000 over plan
- Continued prudent focus on credit quality; Classified and Criticized loans at mid-year were 8.60% of total loans (within our benchmark target of 10%); non-performing loans remain elevated at 1.89% (our target is 1%), primarily driven by continued stress in the ag economy; Past due loans are at negligible at .25% of loans and net charge-offs are at just .05%
- Intense monitoring and mitigation of the risk in the consolidated loan portfolio, which has included some restructuring associated with problem credits and utilization of loan guarantee programs; this allowed us to reverse some Allowance for Loan/Lease Loss Reserves (ALLR) again at the second quarter -- total Reserves remain healthy at 1.54% of all loans, but through the first six months of 2018, Reserves contribution has been \$2.7 million less than our 2017 contribution at mid-year

Our new loan activity has basically replaced run-off and year-over-year deposit growth has been \$25 million. We continue to be intensely focused on liquidity management and are especially focused on core deposit growth in order to meet future demand for new loans and allow us to meet our profitable growth objectives.

To facilitate deposit growth, we will be offering two Certificate of Deposit specials effective August 1, but wanted to make you aware of them ahead of time. Enclosed you will find detailed information about these offerings. We value your loyalty as a Shareholder, and appreciate your banking business as well. Please take advantage of these special rates, and pass the information along to your friends and family members.

As always, the most significant driver of our success is the commitment we make to delivering a differentiated service experience to our clients. As the competition in the banking industry continues to grow even more intense, I want you to know how grateful we are for your support. I'm looking forward to continuing the momentum we've had in the beginning of 2018 through the remainder of the year.

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

Balance Sheet Highlights

| Period-end | June 30, 2018 | June 30, 2017 | Variance | December 31, 2017 | Variance |
|---------------------------------|---------------|---------------|----------|-------------------|----------|
| Assets | | | | | |
| Cash & Fed Funds | \$ 41,760,256 | \$ 44,392,327 | -5.93% | \$ 32,461,926 | 28.64% |
| Investments | 189,727,644 | 190,562,651 | -0.44% | 192,216,845 | -1.29% |
| Net Loans | 1,378,691,387 | 1,366,462,228 | 0.89% | 1,350,877,068 | 2.06% |
| Intangible assets | 24,358,148 | 24,342,338 | 0.06% | 23,572,050 | 3.33% |
| Other assets | 59,717,521 | 50,432,431 | 18.41% | 59,656,927 | 0.10% |
| Total Assets | 1,694,254,956 | 1,676,191,975 | 1.08% | 1,658,784,816 | 2.14% |
| Liabilities & Equity | | | | | |
| Deposits | 1,381,697,019 | 1,356,247,971 | 1.88% | 1,399,752,266 | -1.29% |
| Trust Preferred Securities | 41,254,000 | 41,254,000 | 0.00% | 41,254,000 | 0.00% |
| Other Liabilities | 102,364,616 | 126,040,787 | -18.78% | 51,553,834 | 98.56% |
| Equity | 168,939,321 | 152,649,217 | 10.67% | 166,224,716 | 1.63% |
| Total Liabilities & Equity | 1,694,254,956 | 1,676,191,975 | 1.08% | 1,658,784,816 | 2.14% |

Income Statement Highlights

| | Six months ended | | | Year Ended | |
|--------------------------|-------------------------|-------------------------|----------|-----------------------------|-----------------|
| | June 30, 2018 Actual | June 30, 2017 Actual | Variance | December 31, 2018 Actual | 6 Mo % of YE |
| Income | | | | | |
| Investments & Funds Sold | \$ 2,688,495 | \$ 2,616,331 | 2.76% | \$ 5,197,603 | 51.73% |
| Loan Interest & Fees | 32,732,068 | 29,910,054 | 9.43% | 62,216,960 | 52.61% |
| Total Interest Income | 35,420,563 | 32,526,385 | 8.90% | 67,414,563 | 52.54% |
| Interest Expense | (3,915,964) | (3,010,043) | 30.10% | (6,350,325) | 61.67% |
| Net Interest Income | 31,504,599 | 29,516,342 | 6.74% | 61,064,238 | 51.59% |
| Non-interest Income | 8,906,973 | 8,497,742 | 4.82% | 17,418,201 | 51.14% |
| Non-interest expense | (27,938,589) | (25,740,857) | 8.54% | (52,371,142) | 53.35% |
| Provision expense | (103,478) | (2,839,196) | -96.36% | (3,554,192) | 2.91% |
| Pretax Income | 12,369,505 | 9,434,031 | 31.12% | 22,557,105 | 54.84% |
| Taxes | (3,217,000) | (3,464,000) | -7.13% | (1,678,640) | 191.64% |
| Net Income | 9,152,505 | 5,970,031 | 53.31% | 20,878,465 | 43.84% |

Key Ratios

| Period-end | June 30, 2018 | June 30, 2017 | December 31, 2017 |
|------------------------------|---------------|---------------|-------------------|
| Internal Ratios | | | |
| Return on Average Assets | 1.09% | 0.72% | 1.25% |
| Return on Ending Equity | 10.69% | 7.85% | 12.53% |
| Efficiency Ratio | 69.14% | 67.71% | 66.73% |
| Net Interest Margin | 4.02% | 3.79% | 3.96% |
| Common Equity Tier 1 | 9.89% | 9.01% | 9.76% |
| Tier 1 Capital Ratio | 12.42% | 11.63% | 12.34% |
| Total Capital Ratio | 13.59% | 12.85% | 13.54% |
| Tier 1 Leverage Ratio | 11.68% | 10.76% | 11.65% |
| Investor Ratios | | | |
| Number of Shares Outstanding | 2,726,247 | 2,730,601 | 2,726,247 |
| YTD Earnings Per Share | 3.36 | 2.19 | 7.66 |
| Book Value Per Share | 61.97 | 55.90 | 60.97 |
| Tangible Book Value (TBV) | 53.03 | 46.99 | 52.04 |
| Share price | 74.85 | 62.40 | 65.00 |
| Price to TBV | 141.15% | 132.79% | 124.90% |