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April 12, 2010

Dear Shareholders and Friends,

Financial results for Merchants Bancorp (Bancorp), the holding company for MBank, for the 1st quarter of 2010 are attached. In the first quarter Bancorp reported a net loss of \$1.2 million or (\$0.27) per share compared to net income of \$157 thousand or \$0.04 per share for the year ago quarter. This loss relates to the ongoing workout of real estate loans and foreclosed properties that had deteriorated in 2008 and 2009.

As in previous quarters, levels of nonperforming assets peaked in 2009, decreased significantly towards the end of the year, and are continuing those stabilizing trends through the 1st quarter of 2010. For the 1st time in over a year, it was not necessary to recognize expense for any loan losses in March, at the same time maintaining an allowance for loan losses of 4.2%.

MBank had a high concentration in non-owner commercial real estate loans and construction/land development loans and looking at the balance sheet comparisons we have substantially reduced these assets during the past year by over \$80 million. These strategic reductions substantially improved overall concentrations and related risk.

On the funding side of the balance sheet there have been significant reductions in brokered deposits and higher costs borrowings. These reductions have lowered interest costs at MBank and improve the bottom line.

Management's primary objective continues to be an aggressive focus on reducing nonperforming assets and reinvesting those funds into interest earning assets, which significantly increases the bank's income, profitability and capital levels.

Along with our focus on improving the balance sheet of MBank, the board and management have implemented several other changes to improve the bank's performance. These changes include maintaining conservative liquidity reserves, reducing asset size to maximize capital ratios, aggressively reducing overhead costs wherever possible, significantly reducing residential and commercial real estate exposure, increasing and maintaining a reserve for loan losses in excess of 4%, and maintaining compliance with the terms of our regulatory agreement (with the exception of capital) – including exploring various options to raise additional capital.

In addition we have made the commitment to make sure that all deposits at MBank are fully collateralized or FDIC insured. We check this regularly assuring our customers that their deposits at MBank are completely safe.

MBank, its borrowers, and customers have all experienced the negative impacts of this tough economic environment however we are encouraged by the positive economic signs and trends. MBank's management is focused on making all necessary changes to improve the bank's financial health and your MBank employees are working extremely hard on delivering the best customer service available (that is MBanking).

We appreciate your continued trust and support of MBank, your local community bank.

Sincerely,

H. Rex Brittle  
President/CEO

Stanley C. Morris  
Chairman of the Board

**Balance Sheet (Unaudited)**

		As of March 31, 2010	As of March 31, 2009
<b>Assets</b>			
Cash and due from banks	Available-	\$20,541,077	\$46,388,053
for-sale securities, at est. fair value		37,569,605	17,367,141
Federal Home Loan Bank stock		2,041,500	2,041,500
Loans, net of allowance for loan losses and unearned income		152,866,195	232,457,965
Bank premises and equipment, net depreciation and amortization		7,254,480	7,893,614
Other real estate owned		7,039,141	1,383,229
Cash surrender value of bank-owned life ins.		6,103,003	5,961,838
Accrued interest and other assets		<u>4,310,485</u>	<u>7,150,507</u>
<b>TOTAL ASSETS</b>		<b><u>\$237,725,486</u></b>	<b><u>\$320,643,847</u></b>
<b>Liabilities and Stockholders' Equity</b>			
Demand deposit and NOW accounts		\$37,799,337	\$36,816,396
Money market and savings accounts		32,331,088	38,899,989
Time deposits		<u>130,735,798</u>	<u>179,528,225</u>
Total deposits		200,866,223	255,244,610
Repurchase agreements		1,616,932	4,740,309
Federal Home Loan Bank borrowings		21,500,000	31,500,000
Junior subordinated debentures		5,155,000	5,155,000
Accrued interest payable and other liabilities		<u>1,950,860</u>	<u>1,444,751</u>
Total liabilities		231,089,015	298,084,670
Minority Interest in Fenton, Wangler Financial		31,940	30,276
<b>Stockholders' Equity</b>			
Common stock (4,380,032 shares at 03/31/10)		4,380,032	4,380,032
Additional paid-in capital		18,843,076	18,817,992
Retained deficit earnings		(17,085,703)	(949,370)
Accumulated other comprehensive income		<u>467,125</u>	<u>280,247</u>
Total stockholders' equity		<u>6,604,530</u>	<u>22,528,901</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>		<b><u>\$237,725,486</u></b>	<b><u>\$320,643,847</u></b>

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This report includes forward-looking statements within the meaning of the "Safe Harbor" provisions of the Private Securities Litigation Reform Act of 1995, which management believes are a benefit to shareholders. These statements are not necessarily subject to risk and uncertainty, and actual results could differ materially due to certain risk factors, including those set forth from time to time in the company's filings. You should not place undue reliance on forward-looking statements, and we undertake no obligation to update such statements.