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August 31, 2009

Dear Friends and Shareholders,

Attached are the financial results for Merchants Bancorp, the financial holding company for MBank, for the second quarter ending June 30, 2009. These results are reflective of a continued adverse economy facing our communities and customers. We have recognized the losses directly correlated with valuation adjustments and write-downs on real estate loan collateral.

MBank has implemented several strategies to address our challenges, the same challenges that many banks in the Northwest are currently facing. Specifically, MBank is strategically deleveraging, or shrinking, its loan portfolio. This will reduce certain real estate loan concentrations as well as help improve capital ratios. MBank's loan portfolio at June 30, 2009 was \$212.8 million, net of an allowance for loan losses of \$6.7 million or 3.02% of gross loans. Comparatively, the loan portfolio at June 30, 2008 was \$256.2 million, net of an allowance for loan losses of \$4.6 million or 1.74% of gross loans.

A coordinated reduction in asset size also benefits MBank by maintaining an adequate level of liquidity, or cash, that is prudent business in this economic downturn. Correspondingly, we also recognize the continued importance of MBank's focus on deposits. Communicating through statement stuffers, mailings and most recently, a bank wide customer calling effort, we continue to reach out to all our valued customers to provide education and assurance about the safety of deposits. We have worked diligently in an effort to ensure all of our customers' deposits are adequately insured. Total deposits have increased from \$229.2 million at June 30, 2008 to \$231.0 million at June 30, 2009.

Recognizing general economic recovery happens gradually, we have implemented numerous difficult, yet successful, measures focused on controlling expenses. Those decisions included a significant reduction in staffing, the elimination of all bonuses and incentives as well as salary and wage freezes for all personnel. Still, through these challenges, we have an amazing and dedicated team that continues to focus on the MBank tradition of great customer service.

We would like to take this opportunity to advise you that Tom Perrick, president since 2006, has voluntarily resigned from the bank and the Board of Directors. Tom has chosen to pursue a regional opportunity at another financial institution that aligns well with his strengths and background. We thank Tom for his dedicated service and wish him the very best, now and in the future.

We recognize these are challenging economic times for many of our customers and understand our responsibilities to work closely with our borrowers while addressing any deterioration. We are also mindful of our regulatory responsibilities and are working closely with regulators towards a common goal of maintaining safety and soundness. Our ongoing outreach to our valued customers continues to differentiate MBank and demonstrates the spirit of MBanking. We are a community bank and we continue to believe we are making a difference in our communities. Thank you for your continued trust, support and opportunity to serve you.

Sincerely,

Stanley C Morris  
Chairman of the Board

H Rex Brittle  
President/CEO

<b>Balance Sheet (Unaudited)</b>	<b>06/30/2009</b>	<b>06/30/2008</b>
<b>Assets</b>		
Cash and due from banks	\$32,272,758	\$5,929,095
Available-for-sale securities, at est. fair value	16,616,125	20,064,318
Federal Home Loan Bank stock	2,041,500	2,041,500
Loans, net of allowance for loan losses and unearned income	212,848,890	256,238,709
Bank premises and equipment, net depreciation and amortization	7,731,380	8,370,161
Other real estate owned	5,245,311	393,000
Goodwill	1,159,019	1,159,019
Cash surrender value of bank-owned life ins.	5,933,315	6,000,508
Accrued interest and other assets	<u>7,467,860</u>	<u>3,578,813</u>
<b>TOTAL ASSETS</b>	<b><u>\$291,316,158</u></b>	<b><u>\$303,775,123</u></b>
<b>Liabilities and Stockholders' Equity</b>		
Demand deposit and NOW accounts	\$34,598,911	\$44,773,100
Money market and savings accounts	40,218,702	51,266,917
Time deposits	<u>156,231,030</u>	<u>133,152,340</u>
Total deposits	231,048,643	229,192,357
Repurchase agreements	4,826,256	6,265,194
Federal Home Loan Bank borrowings	30,500,000	38,000,000
Junior subordinated debentures	5,155,000	5,155,000
Accrued interest payable and other liabilities	<u>1,310,982</u>	<u>571,308</u>
Total liabilities	272,840,881	279,183,859
Minority Interest in Fenton, Wangler Financial	34,775	28,928
<b>Stockholders' Equity</b>		
Common stock (4,380,032 shares at 06/30/09)	4,380,032	4,380,032
Additional paid-in capital	18,825,734	18,794,677
Retained (deficit) earnings	(5,006,144)	1,343,370
Accumulated other comprehensive income	<u>240,880</u>	<u>44,257</u>
Total stockholders' equity	<u>18,440,502</u>	<u>24,562,336</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b><u>\$291,316,158</u></b>	<b><u>\$303,775,123</u></b>