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November 6, 2009

Dear Friends and Shareholders,

Financial results for Merchants Bancorp (Bancorp), the holding company for MBank, through the 3rd quarter of 2009 are attached. In the third quarter Bancorp reported a net loss of \$902.1 thousand or (\$0.21) per share compared to net income of \$301.0 thousand or \$0.07 per share for the same quarter a year ago. The loss is directly related to loan write-offs, additional provision for loan losses and other real estate charges.

In response to the current economic environment your board of directors and management has implemented several strategic initiatives:

- **Increase Liquidity** – Cash and available for sale securities (liquid assets) are approximately \$76.1 million at September 30, 2009 compared to \$31.9 million at September 30, 2008.
- **Ease Capital Pressures** – To ease pressure on capital requirements, total assets have strategically been decreased to \$277.4 million at September 30, 2009, compared to September 30, 2008 assets of \$304.1 million. MBank capital levels continue to exceed “well capitalized” per regulatory thresholds.
- **Build Loan Reserves** – MBank continues to conservatively build its reserves for loan losses to \$7.0 million or 4.00% of loans at September 30, 2009 compared to \$4.7 million or 1.85% at this time one year ago.
- **Decrease Non-Performing Assets** – Consistent with the entire financial industry we have seen growth in levels of non-performing assets year over year. However as of October 31, 2009 non-performing assets decreased by over \$9.7 million from stabilizing levels at the end of the 3rd quarter.
- **Reduce Overhead** – MBank has aggressively reduced controllable non-interest expense by over 15% despite increased costs associated with other real estate charges and collection related efforts.
- **Grow Deposits** – While total deposits have decreased due to planned national market brokered deposit runoff, non-brokered deposits have increased by \$23.9 million year over year.

The entire financial sector continues to face tremendous pressures in 2009 both regionally as well as nationally. Unemployment rates remain high, real estate prices continue to be depressed and many companies continue to struggle. While we see the direct impact of this negative economic environment on our borrowers and customers, we remain cautiously optimistic as certain economic trends appear to stabilize. Through it all MBank, the only Gresham-based community bank, remains focused on the safety and security of our customers’ FDIC insured deposits as well as being a preferred lender in our communities. Through these challenges your MBank team remains a truly dedicated group of professionals focused on our customers and providing superior service. That is the spirit of MBanking. We continue to appreciate your trust and support of MBank, your bank.

Sincerely,

H. Rex Brittle
President/CEO

Stanley C. Morris
Chairman of the Board

Balance Sheet (Unaudited)**September 30, 2009 September 30, 2008**

Assets

Cash and due from banks	\$51,969,024	\$10,312,315
Available-for-sale securities, at est. fair value	24,135,773	21,550,267
Federal Home Loan Bank stock	2,041,500	2,041,500
Loans, net of allowance for loan losses and unearned income	167,021,335	250,804,281
Bank premises and equipment, net depreciation and amortization	7,565,509	8,192,168
Other real estate owned	11,045,851	540,735
Goodwill	1,159,019	1,159,019
Cash surrender value of bank-owned life ins.	6,007,079	6,057,781
Accrued interest and other assets	<u>6,427,092</u>	<u>3,417,810</u>
TOTAL ASSETS	<u>\$277,372,182</u>	<u>\$304,075,876</u>

Liabilities and Stockholders' Equity

Demand deposit and NOW accounts	\$34,783,974	\$40,618,283
Money market and savings accounts	36,554,757	44,353,455
Time deposits	<u>150,855,997</u>	<u>147,816,318</u>
Total deposits	222,194,728	232,788,056
Repurchase agreements	4,145,629	4,997,964
Federal Home Loan Bank borrowings	27,000,000	35,000,000
Junior subordinated debentures	5,155,000	5,155,000
Accrued interest payable and other liabilities	<u>1,178,762</u>	<u>1,252,103</u>
Total liabilities	259,674,119	279,193,123
Minority Interest in Fenton, Wangler Financial	48,857	34,158
Stockholders' Equity		
Common stock (4,380,032 shares at 09/30/09)	4,380,032	4,380,032
Additional paid-in capital	18,831,167	18,802,505
Retained (deficit) earnings	(5,908,276)	1,644,507
Accumulated other comprehensive income	<u>346,283</u>	<u>21,551</u>
Total stockholders' equity	<u>17,649,206</u>	<u>24,848,595</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$277,372,182</u>	<u>\$304,075,876</u>