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January 30, 2008

Dear Shareholders and Friends of MBank,

Merchants Bancorp, the financial holding company for MBank, reported 2007 net income of \$2.1 million, or \$0.44 per diluted share, compared to \$3.4 million, or \$0.73 per diluted share for the year ending December 31, 2006. Earnings per share have been retroactively adjusted for subsequent stock dividends. In addition to MBank's significant investment in expansion in 2007, the Federal Reserve's actions to reduce short-term rates resulted in lower net income.

Despite the slowing of construction and real estate activity, particularly in the fourth quarter of 2007, MBank's net loan portfolio grew to \$243.2 million at December 31, 2007, an increase of 4.9% when compared to our net loan portfolio of \$231.8 million at December 31, 2006. Continuing our focus on credit quality and working closely with our customers resulted in insignificant write-offs in 2007. Nonperforming loans at year end totaled \$560 thousand, or 0.23% of gross loans, which compared favorably to our peer group. The reserve for potential loan losses increased to 1.09% of gross loans at year end, compared to 1.01% a year earlier. Management believes reserves are at an appropriate level based upon its current evaluation of our credit portfolio. We are pleased to report that the bank's investment portfolio holds no subprime mortgage-backed securities, and even though the recent subprime issues have impacted the overall economic environment, management believes the bank has no direct exposure from the defaults of subprime mortgage loans.

Core deposits continue to be a major focus for MBank. Our marketplace continues to aggressively price deposits. Total deposits increased 12.9% to \$222.9 million at December 31, 2007, compared to deposits of \$197.5 million at the same time last year. Given the volatility in short-term market rates and a competitive environment causing a lag in deposit rate reductions compared to a decline in loan yields, net interest margin decreased to 4.85% compared to 5.51% one year ago. This net interest margin compression is also closely linked to declines in construction lending.

Total assets increased 7.2% at December 31, 2007 to \$298.0 million, as compared to \$278.2 million in 2006. Shareholders' equity increased 5.6% at year end 2007 to \$27.1 million, compared to \$25.7 million at the end of the same period last year. Book value per share of common stock at December 31, 2007 increased 7.6% to \$5.93, versus \$5.51 at December 31, 2006 (adjusted for the 2007 stock dividend). As of December 31, 2007 there were 4,574,032 shares of Merchants Bancorp common stock outstanding. In the second half of 2007 the board of directors authorized the repurchase of up to 500,000 shares of Merchants Bancorp stock, to be effected at the discretion of management as market conditions warrant. The Board believes that the repurchase of shares will provide liquidity to our shareholders, as well as a stronger return on equity through decreasing the number of shares outstanding. At year end the bank's stock repurchase program had acquired 86,434 shares (or about 17% of the shares approved for possible repurchase) at an average price of \$9.75 per share. Please contact investor relations, Jef Baker, at 503-674-3401 for additional information related to the stock repurchase program.

We hold fast to our uncompromising tradition of putting quality underwriting at the forefront of the bank's decision making knowing that in this challenging economic environment safety and soundness are the keys to the future success of MBank. The dedication of our valued employees striving to provide exemplary customer service to our loyal customers continues to differentiate MBank and demonstrates the spirit of MBanking. Thank you for your continued trust and support.

Sincerely,

Thomas A. Perrick
President & CEO

H. Rex Brittle
Chairman of the Board

Balance Sheet (Unaudited)**December 31, 2007****December 31, 2006****Assets**

Cash and due from banks	\$10,711,163	\$7,522,254
Available-for-sale securities, at est. fair value	23,192,663	18,581,979
Federal Home Loan Bank stock	2,041,500	2,041,500
Loans held for sale	0	528,900
Loans, net of allowance for loan losses and unearned income	243,241,173	231,844,158
Bank premises and equipment, net depreciation and amortization	8,710,162	7,580,348
Other real estate owned	403,000	425,049
Goodwill	1,159,019	1,159,019
Cash surrender value of bank-owned life ins.	5,885,961	5,604,338
Accrued interest and other assets	<u>2,971,044</u>	<u>2,930,868</u>
TOTAL ASSETS	<u>\$298,315,685</u>	<u>\$278,218,413</u>

Liabilities and Stockholders' Equity

Demand deposit and NOW accounts	\$40,036,423	\$42,219,030
Money market and savings accounts	50,974,691	38,094,050
Time deposits	<u>131,935,442</u>	<u>117,143,457</u>
Total deposits	222,946,556	197,456,537
Repurchase agreements	7,864,924	9,762,074
Federal Home Loan Bank borrowings	34,000,000	38,000,000
Junior subordinated debentures	5,155,000	5,155,000
Accrued interest payable and other liabilities	<u>1,207,487</u>	<u>2,122,387</u>
Total liabilities	271,173,967	252,495,998
Minority Interest in Fenton, Wangler Financial	27,368	39,908
Stockholders' Equity		
Common stock (4,380,032 shares at 12/31/09)	4,574,032	4,234,987
Additional paid-in capital	20,315,915	18,043,565
Retained deficit	2,067,734	3,410,185
Accumulated other comprehensive income	<u>156,669</u>	<u>(6,230)</u>
Total stockholders' equity	27,114,350	25,682,507
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$298,315,685</u>	<u>\$278,218,413</u>

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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.