



Post Office Box 504
Gresham, Oregon 97030
www.mbankonline.com

P [503] 661-8688
F [503] 467-4487
TF [877] 700-8688

January 31, 2010

Dear Friends and Shareholders,

The financial results for Merchants Bancorp (Bancorp), the holding company for MBank, through the 4th quarter of 2009 are attached. In the fourth quarter Bancorp reported a net loss of \$9.1 million or \$2.07 per share compared to a net loss of \$2.8 million or \$0.65 per share for the same quarter last year. The loss this past quarter is directly related to \$4.6 million in continued write offs in loan and real estate and \$4.7 million in non-cash write downs related to goodwill and deferred taxes.

We have made positive headway in the reduction of our non-accrual loans and the liquidation of real estate related to foreclosed loans (see attached graph). Because of the depressed real estate market, as with all the banks, we have had to discount sales prices in order to facilitate the movement of these properties which of course created additional losses.

MBank objectives established by the board and management last year were to:

- Maintain healthy liquidity reserves
- Aggressively reduce non performing assets
- Significantly reduce residential and commercial real estate exposure
- Build a loan loss reserve in excess of 4%
- Reduce a reliance on brokered deposits
- Ensure all deposits are collateralized or fully FDIC insured
- Reduce our total asset size to maximize our existing capital
- Aggressively reduce costs through expense reductions (approximately 50% in personnel)

The board, management and all employees have worked diligently to achieve these objectives and have largely met all of these goals. Profitability targets were not met due to real estate related write offs.

MBank has clearly felt the impact of declining real estate values that have affected financial institutions both regionally and nationally. The fall in real estate prices appears to have reversed its negative trend. This impact is directly correlated with the struggles experienced by many of our borrowers and customers in the communities we serve. Despite these challenges, we are encouraged by positive economic signs and the improving trends at MBank.

Much like the attitude of many of our loyal customers, we remain optimistic that hard work and perseverance by our board, management and dedicated employees will allow MBank to continue to weather these unprecedented economic times. That is the spirit of MBanking. We appreciate your trust and continued support of "your community bank".

Sincerely,

H. Rex Brittle
President & CEO

Stanley C. Morris
Chairman of the Board

PS: As a community bank, we grow stronger and healthier by the use of core deposits. Those are deposits that come from you and our community. You can support MBank through these tough times by depositing your dollars with MBank. At MBank we are making sure that we fully protect every dollar that is deposited with FDIC Insurance. If you wish to help, call us at any of our locations.

Balance Sheet (Unaudited)**December 31, 2009****December 31, 2008****Assets**

Cash and due from banks	\$19,904,202	\$10,892,220
Available-for-sale securities, at est. fair value	44,892,045	27,802,311
Federal Home Loan Bank stock	2,041,500	\$2,041,500
Loans, net of allowance for loan losses and unearned income	159,544,320	238,741,547
Bank premises and equipment, net depreciation and amortization	7,408,648	8,048,211
Other real estate owned	8,219,655	\$167,622
Goodwill	0	1,159,019
Cash surrender value of bank-owned life ins.	6,061,812	7,315,508
Accrued interest and other assets	<u>4,143,618</u>	<u>5,909,817</u>
TOTAL ASSETS	<u>\$252,215,800</u>	<u>\$302,077,755</u>

Liabilities and Stockholders' Equity

Demand deposit and NOW accounts	\$30,862,260	\$37,190,780
Money market and savings accounts	31,789,035	37,621,309
Time deposits	<u>143,257,377</u>	<u>161,838,253</u>
Total deposits	205,908,672	236,650,342
Repurchase agreements	4,115,770	4,862,403
Federal Home Loan Bank borrowings	27,000,000	31,500,000
Junior subordinated debentures	5,155,000	5,155,000
Accrued interest payable and other liabilities	<u>1,525,331</u>	<u>1,483,118</u>
Total liabilities	243,704,773	279,650,863
Minority Interest in Fenton, Wangler Financial	27,679	34,188
Stockholders' Equity		
Common stock (4,380,032 shares at 12/31/09)	4,380,032	4,380,032
Additional paid-in capital	18,837,349	18,810,334
Retained deficit	<u>(14,984,099)</u>	<u>(1,105,914)</u>
Accumulated other comprehensive income	<u>250,066</u>	<u>308,252</u>
Total stockholders' equity	<u>8,483,348</u>	<u>22,392,704</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$252,215,800</u>	<u>\$302,077,755</u>