



New headquarters opened in early 2008

Interim Results

(\$000's, except per share)	Three Months Ended 12/31/07	Year Ended Dec. 31	
		2007	2006
Income Data			
Net interest income	\$11,133	\$42,482	\$37,736
Total non-interest income	\$ 3,814	\$13,959	\$13,930
Net income per share*	\$.29	\$ 1.15	\$ 1.18
Balance Sheet Data			
	12/31/07	12/31/06	
Total assets	\$1,639,145	\$1,422,827	
Deposits	\$1,319,459	\$1,166,814	
Stockholders' equity	\$ 108,282	\$ 100,658	
Book value per share	\$ 12.43	\$ 11.50	

*adj. for split

Executive Summary

With a dynamic strategy for earnings and asset growth, Mercantile Bancorp, Inc. is well-positioned to generate earnings growth and shareholder value. In addition to building earnings through share-price growth, the company's policy is to pay shareholders an attractive cash dividend.

Mercantile employs a three-pronged growth and operational strategy designed to fuel long-term earnings growth. The three prongs are:

1. Maximizing returns and earnings by efficiently managing a core group of community banks;

Snapshot

AMEX
MBR

Recent Price (4-23-08)
\$17.15

52-Week Range
\$14.13 - \$18.65*

Total Assets
\$1.6 billion

EPS (ttm)
\$1.15

Price/Earnings
14.6

Book Value/Share
\$12.43

Price/Book
1.38X

Annual Dividend Yield (ttm)
1.32%

Shares Outstanding (basic)
8.71 million

Estimated Float
4.68 million

Market Capitalization
\$158 million

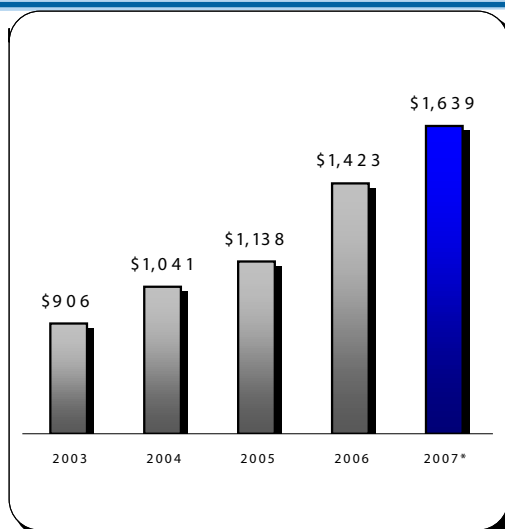
*Split Adjusted

Executive Summary (Continued)

2. Sparking earnings growth by acquiring well-run community banking operations in rapidly expanding markets that have promising long-term demographic and income profiles; and

3. Generating returns that exceed those available from core banking operations by making investments in startup banks located in fast-growing communities underserved by existing community banks.

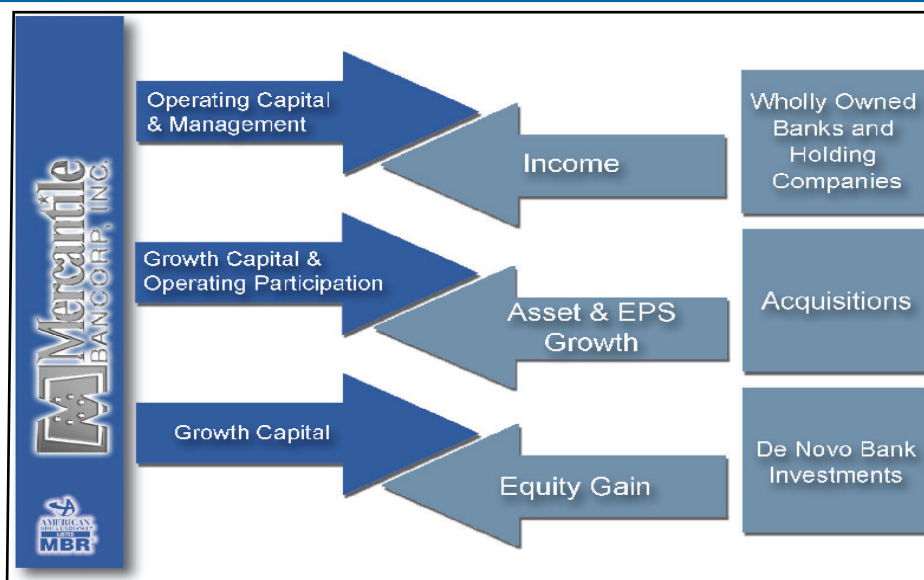
Mercantile is able to utilize its access to the public markets to obtain capital to acquire growing banks (usually privately held) serving expanding markets. The company is also able to use its cash to finance startup banks by providing working and expansion capital. MBR makes these investments in startup (de novo) community banks with the goal of realizing an attractive gain when it monetizes the investment.



Total Asset Growth 2003 - 2007
(shown in million dollars)

Investment Appeals

- **Accelerated asset and earnings growth by acquisition of community banks serving growing markets and through organic growth (new facility opened in 2008 in Carmel, Indiana)**
- **No subprime lending**
- **Significant equity appreciation potential from investments in start-up banks.**
- **A 1.32% cash dividend yield.**
- **Operating efficiencies resulting from centralized back office operations.**
- **Stable returns with quality loan portfolio and core deposit growth from existing family of wholly owned banks.**
- **Initiatives intended to grow non-interest income through expansion of fee-based products.**



The combination of the strategy's design is to collectively drive asset and earnings growth, while providing additional revenue opportunities.

The company's main performance drivers are deposit and loan portfolio growth, whether from established banks or recent acquisitions. Investments in startup banks, which generally comprise no more than 10% of the company's total capital, provide potential double-digit annualized returns when these

investments are monetized. In 2006 and 2007, MBR realized gains from several startup bank investments, as the banks in which the investments were made were acquired by larger entities. In 2006 pretax gains were \$4.3 million, compared with \$2.7 million in 2007.

Core Bank Operations

MBR maintains a community bank focus and service culture. With that approach, the company can:

- **Serve stable, quality markets.**
- **Build a high quality loan portfolio by attracting customers not comfortable with the impersonal service provided by larger banks.**
- **Leverage operating efficiencies.**
- **Offer fee-based services, including asset management and brokerage services.**
- **Maintain local management expertise.**

Most of the company's banks serve established communities that are expected to grow at the same rate as the overall economy. However, two banks serve areas with fast growing populations. The core banks in more mature areas provide sound returns and modest growth, but the growth rates of their served markets limit upside opportunities. To maximize returns from established banks in mature markets, MBR focuses on efficient operations, increasing noninterest income and modest market share growth. The company believes the keys to maximizing returns and building market share in modest-growth markets are:

- Minimizing non interest expenses with back-office operating efficiencies.
- Providing personal "community bank" style service to retain customers.
- Keeping in step with "big bank" product offerings and providing efficient Web-based banking services.
- Closely monitoring loan quality



with the goal of zero bad debt.

- Judiciously managing investment portfolios to maximize interest margin.
- Minimizing interest rate risk exposure to both asset and liability portfolios, particularly in changing rate environments.

Mercantile recognizes that although exceptional personal service can drive a community bank's loan portfolio and core deposit growth, customers also want the convenience of transacting routine business through Internet channels. Many community banks have lost customers because, despite high personal service levels, they do not provide functional, convenient electronic banking options.

Mercantile makes a significant ongoing financial and personnel commitment to the latest technology, creating a "big bank" look and ease of use through its various Web-based banking channels. The goal is to make its technology attractive and useful in order to retain customers, but offer prompt personal attention when customers choose that option.

With its established core banks, MBR's aim is to increase market

share whenever there is a positive cost-benefit. Marketing, including special promotions and visibility-generating advertising, is designed to take advantage of specific market or economic opportunities to maintain or increase market share. Company management also encourages its individual bank managers to adjust product mix, service mix, advertising and promotions for area economies, demographics and market preferences.

Operational efficiency is also a key to delivering satisfactory earnings from established banks in mature markets. The organization of multiple banks within the MBR family contributes to cost savings, and also makes it possible to employ senior investment managers to oversee each bank's portfolios. In 2006, MBR consolidated its Illinois banks, reducing the number of charters from five to two. This move is substantially reducing its administrative, regulatory and compliance costs. Further, the use of state-of-the-art technology allows the company to centralize operations even at the subsidiary banks located in distant markets.

Acquisitions

Mercantile strives for growth from all of its established bank holdings, but maintains realistic growth expectations for banks serving established communities. Even fast growing banks in booming markets will eventually stabilize as the markets themselves stabilize. To minimize the impact on earnings of changes in the interest rate environment, MBR strives to diversify, as much as possible, its revenue stream. It has recently stepped up efforts to increase its penetration of the asset management and trust markets, focusing on customers at a level below those which large banks have an interest in serving.

To drive a higher rate of earnings expansion, Mercantile's management team is continually looking to acquire

banks with significant growth opportunities. This is the second prong of MBR's growth and income strategy.

Mercantile identifies banks that will be an optimal fit with MBR's corporate culture and operating philosophies. It looks only at banks in markets that it understands, primarily institutions in communities which serve as regional hubs for an extended metro area. MBR will not divert management energy or attention by trying to understand or analyze markets, such as large cities, with unfamiliar banking and economic dynamics. To growing community banks, Mercantile is an attractive acquirer by providing access to lower-cost capital, "big bank" technology, operations and marketing, and skilled asset management services.

Another reason MBR is an acquirer of choice is the company's philosophy that the management team and employees are an integral part of the value of an acquisition. It seeks out institutions with compatible operating and service philosophies. The banks it acquires maintain their own identities. Mercantile's goal is to retain the character, the management and the employees of the banks it acquires.

Mercantile seeks out well-managed, growing banks that can benefit from access to its operational capabilities (cost savings) and that need more capital to reach their expansion potential. This strategy is not constrained by geography: by focusing on banks with compatible operations, MBR has the freedom to acquire banks in any market. MBR doesn't buy banks that need to be "fixed," nor does it consider banks because management wants to make radical changes.

The rationale of acquiring banks to supplement the company's overall growth was evident with its 2005 acquisition of Mid-America Bancorp, Inc. (parent of Heartland Bank in Leawood, KS). The acquisition, which was immediately accretive to earnings, accounted for a significant portion of Mercantile's asset and deposit growth over the past two years. Heartland Bank is located in a prospering market at the southern edge of the Kansas City metro area. With additional branch offices recently opened in Prairie Village, KS and Kansas City, MO, it has been effectively capitalizing on the area's expansion for several years and is expected to continue to do so for the foreseeable future.

MBR has a clear idea of what it takes for a community bank to prosper. The management team believes by acquiring banks that fit its template, Mercantile dramatically increases the odds of each acquisition being a successful one. MBR's acquisition goals are to:

- **Acquire individual institutions that will be accretive to earnings.**
- **Seek out banks with a low risk profile.**
- **Find banks with a management, operational and market profile parallel to what MBR already manages.**

De Novo Bank Investments

The Royal Palm Bank of Florida, a five-year-old full-service community bank serving fast-growing southwest Florida in Naples, Marco Island and Ft. Myers, was a major factor in asset, loan, and deposit growth in 2006. Royal Palm already established a significant footprint in this booming and affluent market, where growth has recently been a nation-leading 27% per year and population is expected to reach 400,000 residents by 2010. Royal Palm added approximately \$191 million of assets, \$119 million in loans, and \$142 million in deposits to the company's balance sheet in 2006. Mercantile's investments in de novo banks are designed to provide longer-term noninterest income as gains are realized. Because the company has a five-year time horizon on these investments, the timing of their contributions to financial results is sporadic, occurring primarily when they are monetized through the sale of MBR's position. The most likely scenario is that these banks will be acquired by another financial institution, or by MBR itself.

From 2000 through 2007, Mercantile invested approximately \$18 million in eleven

de novo banks. The company anticipates that de novo bank investments will comprise no more than 10% of its total capital.

In two instances in 2006, banks in which MBR has invested were acquired by other institutions. These transactions resulted in aggregate pre-tax gains of \$4.3 million from cash distributions and tax-exempt exchanges of shares from the acquiring institutions. Because Mercantile's investments in de novo banks usually take several years to mature, the company's return on equity is lower than it would be otherwise. However, the long-term contribution to non-interest income more than compensates for this. In the two instances described above, the company realized an annualized return of nearly 12% from one investment and 28% from the other investment. Even with its investments locking up capital for several years, MBR has maintained a healthy

return on equity.

In addition to the two sales in 2006, the company reached an agreement in May of 2007 to sell its interest in another de novo investment. This sale closed in the third quarter 2007 and generated a pre-tax gain of \$2.1 million.

Mercantile management notes that taking these modest equity positions requires no active management involvement. However, MBR carefully monitors the operational, asset management and income performance of these banks on a quarterly basis. Over time, management and the MBR board can entertain options to maintain or increase its investment, to sell the equity investment, or capture a gain if an acquisition occurs.

**photo of Integrity Bank of
Jupiter, Florida, a de novo
holding of MBR**



***Startup banks: a little
investment goes a
long way***

Mercantile Bank was founded over 100 years ago. In 1983, the holding company, Mercantile Bancorp, Inc. was formed. The company began strategic investments in community banks in 1988. Following a decision to aggressively pursue its acquisition and investment strategy, the company listed its common stock on the American Stock Exchange early in 2005.

Mercantile gives each of its “core” owned banks the ability to customize services, product offerings and marketing for their customer base. However, the holding company structure gives these banks significant operational benefits by cost effectively providing centralized resources.

The company provides a full range of back-office processing, risk management oversight and asset management capabilities. In lending, individual banks have freedom to make loan decisions, but also have access to in-house syndication-like capabilities when a particular loan exceeds their maximum lending ceilings. Yet again, this gives these institutions a community bank profile, but with capabilities found in larger institutions.

MBR also has a sophisticated technology group to stay abreast of the latest developments. By serving a number of individual banks, MBR can cost effectively provide the best software, hardware and systems solutions for all of its core banks. This same technology allows the integration with, and consolidation of, operations of geographically distant company-owned banks.

Advertising and Marketing

In all its served markets, the company competes aggressively for market share using a variety of advertising and marketing vehicles. With supervision from the holding company, individual bank managers have the freedom to develop marketing, advertising, services and products customized for their markets.

For acquired banks, the company maintains a low-key corporate identity in various marketing efforts. However, management believes that a strength of an acquired bank is its brand recognition and reputation. By retaining the names and individual identities of its acquired banks, Mercantile has minimal costs related to re-branding and capitalizes on existing brand awareness. Mercantile’s marketing department at its holding company headquarters is available to assist with advertising and marketing efforts and to maintain some continuity with basic corporate branding guidelines.

All of MBR’s owned banks can access the capabilities of its centralized marketing department, much as franchise operations have access to more extensive corporate resources.

Management

The company’s philosophy is to allow the skilled executives managing each bank to operate with significant autonomy.

Senior management at the holding company brings decades of experience to the table. Dan S. Dugan, Chairman, has 40-plus years of banking experience,

including 31 years with Mercantile. Dugan sits on the boards of several of the company’s subsidiary banks, lending guidance and experience.

Ted T. Awerkamp, President and CEO, has 26 years in the banking industry, 24 of which have been with Mercantile or its subsidiaries. Awerkamp assumed the position of President and CEO of the holding company on March 1, 2007, upon Dugan’s retirement from those roles. Awerkamp is active in banking industry organizations and serves on the American Banker’s Assn. Community Banker’s Council. He is also a director of several of the company’s subsidiary banks.

Executive Vice President and Chief Financial Officer Michael P. McGrath has 31 years in the industry and has been with the company for 22 of those years. McGrath is an instrumental member of Mercantile’s acquisition team in addition to his day-to-day responsibilities for the accounting and finance functions.

Because of its strong commitment to prudent asset and investment management, Mercantile has Daniel J. Cook, Executive Vice President and Chief Investment Officer. With more than 30 years of experience in the banking, finance and investment industries, including 14 with Mercantile, Cook oversees the investment portfolios and asset/liability management of the individual banks and also monitors the performance of its de novo bank investments.

Financial Measurements

Mercantile's management strives for consistent performance and steady gains in its financial performance. MBR measures its quarterly performance against performance metrics including:

- **Assets**
- **Total Loans**
- **Deposits**
- **Net Interest Income**
- **Noninterest Income**
- **Efficiency Ratio**

The company achieved an efficiency ratio of 70% in 2007, which compares to 61% in 2006. The increase is mainly due to the integration of HNB in 2007 and the company expects to see an improvement in 2008. Efficiency ratio is a measure of how efficient the company's operations are in flowing revenue to the bottom line (non-interest expense divided by net interest income plus non-interest income). The lower the

efficiency ratio, the better. For an entity the size of Mercantile, management believes a ratio in the low 60s is a quality level of performance. As MBR continues to integrate recent acquisitions and maximize operating efficiency, management's goal is to attain an efficiency ratio consistently below 60%.

MBR maintains a balanced mix of commercial and retail loans throughout its operations. Commercial and industrial loans accounted for slightly more than 14% of the portfolio. Agricultural loans comprise just over 5% of its loan portfolio. Real estate loans of all types comprise approximately 70% of the portfolio: commercial (17%), residential (27%), construction (18%), farmland (8%). Installment loans to individuals account for approximately 11% of the portfolio.

Net interest income from de-

posit and loan growth contributes the bulk of profits to net income, but noninterest income is also an important measurement for MBR. Between 2004 and 2007, MBR's noninterest income sources have ranged between 12% and 15% of the total revenue generated. Recently, the company has heightened its focus on increasing noninterest income. MBR has expanded its brokerage operations and has identified an underserved area of trusts – the \$5 million or less segment – as a target market for asset management services.

Mercantile's primary sources of non-interest income are customer service fees, asset management fees from its Trust and Agri-business management areas, mortgage loan sale placement and servicing fees, and retail brokerage fees. High margin non-interest income is an excellent way for banks to increase earnings.

Outlook

In the coming months, management will be focused on equalizing the performance of every individual bank under holding company control. In some cases, neighboring banks can be combined under the same charter for more efficient management and operation. Following its 2006 combination of bank charters in Illinois, management has announced plans to take similar action in 2008 with a subsidiary in Missouri. While the company is generally satisfied with the performance of its subsidiary banks and those in which it has invested, management will

not hesitate to take corrective action, including divestiture, if performance over the long-term does not meet expectations.

Management will spend time and attention to ensure that Royal Palm receives all the support it needs to achieve the accelerated growth MBR's management and board of directors believes is possible. Management is considering the potential for establishing additional branches of the already-successful Royal Palm franchise. In addition, MBR will monitor the performance of its de novo bank investments and watch various markets for attractive acquisitions. One

benefit of the company's activity in both acquisitions and startup bank investments is that banks regularly seek out MBR, providing a steady flow of opportunities with a minimum of time invested in "hunting" for them. With an excellent capital structure and a proven track record of prudent investments, the company has numerous options for future capital raising, including both equity and debt.

The company's new loan production office which opened in Carmel, Indiana is expected to transition into a full service banking facility as soon as regulatory approval is granted.

Financial Highlights

Selected Balance Sheet Data

	At Dec. 31	At Dec. 31
(\$ in thousands except share data)	2007	2006
Total assets	1,639,145	1,422,827
Cash and cash equivalents	76,059	99,147
Securities	216,257	188,579
Loans held for sale	3,338	1,660
Loans, net of allowance for loan losses	1,188,757	1,021,043
Deposits	1,319,459	1,166,814
Stockholders' equity	108,282	100,658
*Book value per share	12.43	11.50

Asset Quality

Net charge-offs	1,914	3,108
Non-performing loans	23,003	6,394
Other non-performing assets	3,273	361

Selected Income Statement Data

(\$ in thousands except share data)

Total interest income	95,943	76,150
Total interest expense	53,461	38,414
Net interest income	42,482	37,736
Provision for loan losses	2,969	3,914
Net int. inc. after provision for loan losses	39,513	33,822
Total non-interest income	13,959	13,930
Total non-interest expense	39,408	31,616
Income before income taxes	13,442	15,344
Income taxes	3,441	5,025
Net income	10,001	10,319
*Weighted avg. shares outstanding	8,727,933	8,770,475
*Earnings per share	\$1.15	\$1.18
*Dividends per share	\$0.24	\$0.21

Performance Ratios

Return on average assets	.68%	.85%
Return on average equity	9.60%	10.84%
Net interest margin	3.18%	3.38%
Interest spread	2.86%	2.95%

*Split adjusted

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