Annual Report 2021

info.mandmbank.com/shareholder2021

Merchants & Marine Bancorp, Inc.

Investing for the Future.

Technology & Security Enhancements

We are enhancing our business solutions by offering modern technology to protect the security of our customers.

Merchants & Marine Bank Rebranding

Our new brand reflects our coastal roots, our core values, and our commitment to forward thinking that will make a difference for our clients and our communities.

Canvas Mortgage Launch

Less than one year after launch, our residential mortgage banking division is operating ahead of budget as it provides extraordinary service to our customers as they begin their next great story!

Hattiesburg Opening

Our Hattiesburg team overcame a competitive market and challenging lending environment to make significant contributions to the bank's overall loan growth.

Key Personnel

At Merchants & Marine Bank we are building the best community bank experience possible, starting from the inside out. In 2021, we grew our internal team aligning key staff with our strategic growth plans.

New Growth in Mobile

We look forward to the opening of our downtown Mobile location, expanding our operations in this major market.

Preparing for Growth.

To RSVP to this year's shareholder meeting, visit:
info.mandmbank.com/shareholder2021.

TABLE OF CONTENTS

Merchants & Marine Bancorp, Inc.

March 31, 2022

Dear Fellow Shareholder,

It is our great pleasure to share an overview of your Bank's performance during 2021. While we were thankful to see many facets of our lives – and operations – return to "normal" during 2021, we were forced to continue addressing many that did not. In addition to combating successive waves of COVID-19, our team also addressed ongoing impacts from a new inflationary environment, sustained labor force participation challenges, ongoing market volatility, and increased geopolitical tensions.

These challenges impacted not only your Bank, but our clients and the communities we call home. However, we are proud to report that, despite the challenges, our team of talented Bankers were able to execute an aggressive program of work and capitalize on opportunities presented throughout the year to continue moving your Bank forward. In the narrative that follows, we seek to provide context and commentary around some of the big themes of the prior year to aid you in reviewing the Company's 2021 financial report.

2021 Financial Performance

As you'll see in the attached 2021 financial report, your Bank remains in a very strong financial position and is incredibly well positioned for continued growth in both profitability and assets. Net Income totaled $2,185M, or $1.64 per share for 2021, compared with $4,017M, or $3.02 per share during 2020. During the same period, total Shareholders' Equity grew from $80,425M, or $61.50 per share to $80,721M, or $61.72 per share while your dividends remained unchanged at $1.45 per share.

It is very important to keep in mind that our 2021 financial performance was significantly impacted by the execution of a targeted, aggressive, strategy of reinvestment into the Bank. We have detailed some of the most significant investments made during 2021 below and we will review these in more detail during our 2022 Annual Meeting.

Overview of Key Investments

As referenced in each of our quarterly earnings releases over the prior year, your Bank undertook a targeted program of significant operational and tactical reinvestment into the Company during

2021. The combined cost of these critically important investments was significant and materially increased our noninterest expense during 2021. As opposed to spacing these investments out across multiple years, we judged it to be economically prudent to execute them all in a single year as a sort of "rebuilding year." It is important to know that each of these investments were carefully selected and approved by your Board and management to improve long-term core earnings, support consistent organic growth, enhance client service levels, and improve the Bank's operational resilience and capacity.

The following are three of the largest investments undertaken by our team during 2021 that we believe will produce long-term value for our shareholders:

Canvas Mortgage: We believe secondary market mortgage services are an essential offering for any growing Community Bank, as they both enhance noninterest income and help develop and deepen many key client relationships. Furthermore, the normally countercyclical nature of mortgage earnings is also an attractive feature that will help diversify our income streams during both good economies and bad.

After careful analysis and planning throughout the latter months of 2020, our team began the process of building our new residential mortgage division, Canvas Mortgage, from the ground up in January 2021. Our efforts were led by industry veterans Jonathan Shows and Sharon Rice, who joined our team at the outset of 2021 as President of Mortgage Production and President of Mortgage Operations, respectively. Our strategy was to first establish a strong operational framework for this new division, and to then add accomplished mortgage producers to drive revenue.

Importantly, Canvas Mortgage has been built on a sustainable revenue model with a target of 75% of revenue to be derived from purchase money transactions and only 25% from refinancing transactions. While this may mean that results during peak refinancing booms may not be as strong as companies with different models, it also means that there will be activity and revenue flowing through Canvas Mortgage even when refinances slow during rising rate environments. We believe this approach is a sound, long term, path to lasting success in the mortgage industry.

As with any new line of business, startup costs for Canvas Mortgage were significant and resulted in an overall increase in our noninterest expenses and a corresponding reduction in net income. However, we believe that, over time, Canvas Mortgage will be a significant contributor to the Bank's noninterest income. We are pleased to report that our Canvas Mortgage leadership team ended 2021 more than 10% ahead of their divisional budget due to both prudent expense management and accelerating revenues.

Branding & Marketing Overhaul: Our world has grown increasingly complex and "noisy" over the last several years. Across almost every platform, companies and individuals are vying for your attention and your trust. This new normal in terms of digital engagement has added complexity and difficulty for those looking to differentiate themselves from the crowd to drive results. Nowhere is this more true than in the banking and financial services arena.

We have long found that the legacy and values of Merchants & Marine Bank are attractive to clients and team members throughout the Gulf Coast. However, when evaluating our effectiveness in connecting with these groups in today's increasingly competitive environment, we found that we had fallen behind. As such, we undertook a comprehensive refresh of our branding, marketing, and advertising during 2021.

This refresh included much more than a new logo and color scheme and website. It included a wholistic redesign of our marketing program, new marketing automation tools, new client relationship management technology for our client facing team members, and a greatly enhanced advertising program with ongoing content development. While the upfront cost of these efforts was significant, we have seen a strong increase in awareness among potential new clients and team members who are now discovering us thanks to these efforts. We believe that these investments will continue supporting continued client and team member acquisition for years to come, fueling even more growth and earnings.

<u>Non-Performing Asset Reduction:</u> We have expended significant time and resources in building a robust credit underwriting and credit risk management framework in recent years. This has allowed us to better analyze and decision credits, as well as implement broader portfolio level management tactics. However, our past due levels and non-performing asset levels (NPA's) have remained elevated, predominantly centered in older legacy credits. Throughout the 2021, significant focus was placed on addressing gaps in processes and systems that contributed to elevated NPA's. Key areas of focus included: lender training, enhanced reporting and monitoring, and improved team communications.

Our team made meaningful progress in reducing both NPA's and past due loans throughout the first few months of the year. However, along the way we found a significant amount of troubled loans that had few, if any, prospects for improved future performance. This pool of loans, which carried a dollar weighted vintage year of 2014, totaled nearly $4,500M and represented a significant drain on our team's time and lack of profits due to many of the loans being on nonaccrual status.

After carefully evaluating all options, we determined that it would be in the Bank's best interest to dispose of these problem loans through a sale to a buyer of distressed assets. We believed that, given the continued elevated liquidity levels in the market, that demand for these loans would be relatively strong. As such, we solicited bids from numerous firms, and disposed of the pool of loans to the highest bidder during the third quarter of 2021. The pool of loans was sold at a loss of almost $600M, all of which was offset by proceeds from grant funding received through the US Treasury Department's Community Development Financial Institution (CDFI) Rapid Response Program (RRP).

The sale of these troubled loans, along with continued diligence on the part of our talented bankers, led to strong improvement in our NPA and past due ratios during 2021. These improved to 0.82% and 0.48%, respectively, from 1.47% and 1.56% during the same period in 2020. At the same time, our team leveraged their newfound bandwidth to post strong organic loan growth of 18% (annualized) during the second half of 2021. Given the momentum that has been made and the new disciplines that have been instilled, we look forward to continued organic loan growth and continued reductions in NPA's throughout 2022.

While these three investments represent the majority of the increase in our operating expenses in 2021, it bears mentioning that our team expended significant efforts across a variety of other areas during 2021 to make your Bank even stronger. While the following is not a comprehensive list, we hope that it will nonetheless give you a feel for the discipline and rigor with which we are enhancing our bank's operational backbone: heavy investments in talent acquisition for both client facing and technical roles; improvements in regulatory compliance programs, procedures, and software; enhancements in audit and internal control frameworks; and, significant technology platform enhancements. Although these items aren't as flashy as loan growth or expansion, they are every bit as critical to our continued growth and success.

Additional Financial Commentary and Themes

<u>Sustained Excess Liquidity:</u> A key and overarching theme of 2021 was the sustained presence of elevated levels of on balance sheet liquidity. This additional liquidity, which has also impacted banks of all sizes throughout the nation, is the direct result of Federal fiscal stimulus intended to blunt the economic impacts of COVID-19. While we are appreciative of the positive impacts the stimulus had for our clients and the communities we serve, the presence of these additional funds has presented continued unique challenges for our Bank and our industry. Identifying prudent strategies to deploy these excess funds without taking on undue interest rate risk and battling the dilutive impacts of the excess funds on our key common size performance ratios, like Return on Average Assets (ROAA), have been particularly challenging.

We are encouraged, however, to share that our team leveraged these excess funds in 2021 to reengineer our deposit base to eliminate all reliance on time deposits and other non-core funding sources. This reengineering has allowed us to reduce our overall cost of funds while also reducing excess liquidity and total footings. We expect that the combined impact of these strategies will be greater stability and reduced price sensitivity in our deposit base. We will see further trimming of our balance sheet in mid-2022, as our final bid-term municipal deposits exit our balance sheet. The exit of these accounts, which were last bid in 2019, will both significantly reduce interest expense and help further reduce excess liquidity.

<u>Budding Inflation:</u> Another impact of the previously mentioned Federal fiscal stimulus during 2020 and 2021 was an unprecedented increase in the country's money supply. Beginning in 2020, our team began analysis of possible financial impacts resulting from a variety of possible economic scenarios, many of which included types of inflationary environments. While we are not in the business of making bets based on economic prognostication, we judged the strong likelihood of inflation to warrant initiating proactive measurers in 2020 and 2021 to limit risk to your Bank.

Measures enacted to reduce interest rate risk during 2021 include: maintaining larger than normal level of cash and near-cash balances; eliminating reliance on volatile non-core funding; adhering to a very disciplined approach in purchasing new investment securities; and, remaining centered in our loan pricing and structure decisions. Our discipline in these areas, and in particular our holding of large cash and near-cash balances, has no doubt resulted in the intentional sacrifice of some short-term earnings. However, we judge this to be more than offset by future benefits that will accrue as we begin deploying funds at much higher rates through loan growth and the purchase of investment securities in the months ahead.

Organic Loan Growth: We are very encouraged by our strong organic loan growth during the last two quarters of 2021, and also by the improvement in our loan yields – which ranked in the 80th percentile of our national peer group at year end. Excluding PPP and troubled loan sales, total loans grew by more than $21,000M, or over 6%, during 2022. In reviewing our underlying data, this loan growth has been linked directly to the targeted investments that have been made in talent acquisition, marketing, and technology. Loan demand remains strong as of this writing, and we expect our first quarter 2022 results will show a continuation of the strong loan growth posted in prior periods.

Non-Recurring Income: During 2021 the Bank received material nonrecurring income from two sources: Small Business Administration Paycheck Protection Program (PPP) Loans fees and a US Treasury Department Community Development Financial Institution (CDFI) Rapid Response Program (RRP) grant award. Combined, pre-tax income from these non-recurring sources of income totaled approximately $4,500M. Of this total, approximately $1,800M was received from the CDFI RRP grant and approximately $2,700M from fees earned from PPP Loans.

Given the nature of this income, and the ongoing program of work related to reinvestment back into the company, our team endeavored to pair this one-time income with one-time investments to drive future recurring revenue. As there were no restrictions on our use of proceeds from PPP Loan fees, we used those broadly to help cover the costs of investments throughout the year. Conversely, grant funds received through the CDFI RRP award were restricted to be used only for our allowance for loan and lease losses (ALLL) or to augment capital. As such, we leveraged funds from the CDFI RRP to help dispose of a pool of non-performing assets (NPA's) totaling nearly $4,500M. In both cases, we are confident that the one-time income was allocated in the best manner possible to help drive improvement in long term performance.

Lastly, it is important to note that we have seen steady and consistent improvement in our monthly core operating earnings throughout 2021 and into 2022. This improvement is a direct result of increased core revenues and enhanced operational efficiencies resulting from the many investments that were made during 2021. While it will take time for us to fully deploy our excess cash and cash equivalents in a way that prudently optimizes core earnings without presenting heightened interest rate risk, we are making very meaningful progress. We believe this progress will begin accelerating during the second half of 2022, and with it, our earnings.

Looking Ahead

Your Bank is carrying with it significant positive momentum into 2022. From steadily improving core operating earnings, to continued strong organic loan growth, to increased efficiencies and enhancements to our operational backbone and client facing systems: your Bank is moving forward. In addition to items discussed above, you should know that we expect to take possession of approximately $50,000M in capital through the US Treasury CDFI Emergency Capital Investment Program (ECIP) during the second quarter. These funds will serve as a backstop to support our continued strong organic growth in the communities we call home, as well as support our future strategic growth initiatives.

We remain committed to the community banking model, and the power it has to simultaneously build stronger communities and stronger value for shareholders. We believe the ongoing consolidation in our industry provides an incredible opportunity for Merchants & Marine Bank to continue to grow and thrive, and to help our clients and the communities we serve do the same. We look forward to continuing to optimize the investments made during 2021to drive continued improvement in core operating earnings, client service, and operational excellence.

We cordially invite you to join us for our 2022 Annual Shareholder's Meeting on May 5, 2022, at 10:00 a.m. This year's meeting will be held at the Hilton Garden Inn Pascagoula, located at 2703 Denny Avenue, Pascagoula, Mississippi. We are pleased to again offer a virtual attendance option for our Annual Meeting. Additional details concerning the virtual attendance option and registration instructions will be posted to our Investor Relations Website at www.mandmbank.com/investor-relations/.

Sincerely,

Clayton Legear
President & Chief Executive Officer

Royce Cumbest
Chairman of the Board

MERCHANTS & MARINE BANCORP, INC. AND SUBSIDIARY

FINANCIAL HIGHLIGHTS

(In Thousands, Except Per Share Data)

	As of December 31,				
	2021	2020	2019	2018	2017
PERIOD END BALANCE SHEET					
Total assets	$ 678,171	$646,061	$ 576,106	$ 558,043	$ 556,705
Loans, net	345,387	359,408	309,648	301,801	265,113
Securities	108,219	107,957	171,420	188,245	205,678
Deposits	585,647	550,669	484,047	474,043	471,762
Stockholders' equity	82,109	81,813	77,492	71,304	70,386
AVERAGE BALANCE SHEET					
Total assets	708,368	628,391	587,797	573,293	582,183
Loans, net	341,912	338,023	312,633	286,100	263,998
Securities	108,331	138,537	172,867	197,615	204,623
Deposits	609,768	535,243	496,355	489,502	489,921
Stockholders' equity	81,721	80,425	74,865	70,844	69,152
INCOME STATEMENT					
Interest income	22,128	20,090	21,213	19,269	17,982
Interest expense	2,166	3,113	3,374	2,384	1,854
Net interest income	19,962	16,977	17,939	16,885	16,128
Provision for loan losses	1,391	951	905	882	818
Net interest income after provision for loan losses	18,571	16,026	17,035	16,003	15,310
Non-interest income	7,562	8,269	6,095	5,851	6,454
Non-interest expense	23,538	19,334	18,235	16,969	16,133
Net income, after tax	2,185	4,017	4,150	4,272	3,522
Cash dividends declared	1,929	1,929	1,929	1,929	1,862
PER SHARE DATA					
Net income	1.64	3.02	3.12	3.21	2.65
Cash dividends	1.45	1.45	1.45	1.45	1.40
Book value	61.72	61.50	58.25	53.60	52.91
RATIOS					
Return on average equity	2.67	4.96	5.54	6.03	5.09
Return on average assets	0.31	0.64	0.71	0.75	0.61
Capital to assets	12.11	12.66	13.45	12.78	12.64
Dividends declared as percentage of income	88.30	48.02	46.48	45.15	52.88

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Merchants & Marine Bancorp, Inc.

Opinion

We have audited the accompanying consolidated financial statements of Merchants & Marine Bancorp, Inc. and Subsidiary (the Bancorp), which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for the years then ended, and the related notes to financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Merchants & Marine Bancorp, Inc. and Subsidiary as of December 31, 2021 and 2020, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of Merchants & Marine Bancorp, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements related to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Merchants & Marine Bancorp, Inc.'s ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

COLUMBUS
221 Seventh St. North
P. O. Box 471
Columbus, MS 39703-0471
Tel: 662.328.5387
Fax: 662.329.4993

STARKVILLE
106 B South Washington St.
P. O. Box 80282
Starkville, MS 39759-0282
Tel: 662.323.1234
Fax: 662.323.1284

TUSCALOOSA
6834 Hwy. 69 South
Tuscaloosa, AL 35405
Tel: 205.759.4195
Fax: 205.759.1018

www.telott.com

To the Board of Directors
Merchants & Marine Bancorp, Inc.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Merchants & Marine Bancorp, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about Merchants & Marine Bancorp, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Other Information Included in the Bancorp's Annual Report

Management is responsible for the other information included in the Bancorp's annual report. The other information comprises the Letter to Shareholders and the Financial Highlights but does not include the consolidated financial statements and our independent auditors' report thereon. Our opinion on the consolidated financial statements does not cover the other information, and we do not express an opinion or any form of assurance on it.

To the Board of Directors
Merchants & Marine Bancorp, Inc.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the consolidated financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an incorrected material misstatement of the other information exists, we are required to describe it in our report.

T. E. Lott & Company

Columbus, Mississippi
February 22, 2022

MERCHANTS & MARINE BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2021 AND 2020

ASSETS	2021	2020
Cash and due from banks	$ 170,320,552	$ 128,553,988
Federal funds sold	2,189	132
Total cash and cash equivalents	170,322,741	128,554,120
Time deposits due from banks	2,202,898	1,952,933
Debt securities:		
Available-for-sale, at fair value	106,969,453	106,705,845
Equity securities	1,249,251	1,251,383
Loans held for sale	1,799,724	-
Loans	348,997,391	363,569,174
Less allowance for loan losses	(3,609,892)	(4,161,031)
Loans, net	345,387,499	359,408,143
Property and equipment, net	23,045,713	20,632,563
Other real estate owned	245,338	186,838
Accrued income	1,632,422	2,116,215
Goodwill	4,543,151	4,543,151
Cash surrender value	17,101,017	16,645,589
Operating lease right-of-use asset	635,781	456,396
Other assets	3,036,257	3,607,478
Total Assets	$ 678,171,245	$ 646,060,654

LIABILITIES AND STOCKHOLDERS' EQUITY

LIABILITIES		
Deposits:		
Non-interest bearing demand	$ 161,647,465	$ 152,944,024
Interest bearing	423,999,550	397,724,589
Total deposits	585,647,015	550,668,613
Securities sold under agreements to repurchase	4,052,118	3,978,556
Operating lease liability	635,781	456,396
Accrued expenses and other liabilities	5,726,832	9,144,266
Total liabilities	596,061,746	564,247,831
STOCKHOLDERS' EQUITY		
Common stock- $2.50 par value per share, 5,000,000 shares authorized, 1,330,338 shares issued and outstanding	3,325,845	3,325,845
Surplus	14,500,000	14,500,000
Retained earnings	66,095,960	65,840,301
Accumulated other comprehensive loss	(1,812,306)	(1,853,323)
Total stockholders' equity	82,109,499	81,812,823
Total Liabilities and Stockholders' Equity	$ 678,171,245	$ 646,060,654

The accompanying notes are an integral part of these balance sheets.

MERCHANTS & MARINE BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
INTEREST INCOME		
Interest and fees on loans	$ 19,937,564	$ 17,202,717
Interest on investment securities:		
Taxable	806,116	1,388,314
Exempt	1,163,228	1,237,084
Interest on federal funds sold	209,159	244,740
Other interest income	12,008	17,429
Total interest income	22,128,075	20,090,284
INTEREST EXPENSE		
Interest on deposits	2,160,688	3,107,067
Interest on federal funds purchased and securities sold under agreements to repurchase	5,628	6,263
Total interest expense	2,166,316	3,113,330
Net interest income	19,961,759	16,976,954
Provision for loan losses	1,390,778	951,029
Net interest income after provision for loan losses	18,570,981	16,025,925
NON-INTEREST INCOME		
Service charges on deposit accounts	2,452,264	2,240,131
Other service charges, commissions and fees	2,419,223	1,943,757
Gain on sale of securities, net	74,484	3,100,182
Income from bank owned life insurance, net of premiums	391,261	378,739
CDFI Fund Award	1,826,265	202,898
Other	398,435	468,528
Total non-interest income	7,561,932	8,334,235

(Continued)

The accompanying notes are an integral part of these statements.

MERCHANTS & MARINE BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
NON-INTEREST EXPENSE		
Salaries and employee benefits	$ 11,207,387	$ 9,172,334
Occupancy expense	4,771,198	4,147,163
Regulatory assessments	232,638	124,401
Professional fees	1,936,007	1,224,306
Director and committee expenses	699,534	827,008
Loss on sale of other real estate owned	12,100	65,731
Loss on sale of loans, net	294,938	-
Other	4,384,231	3,838,979
Total non-interest expense	23,538,033	19,399,922
Income before income taxes	2,594,880	4,960,238
Income taxes	410,231	943,401
Net income	$ 2,184,649	$ 4,016,837
Net income per common share	$ 1.64	$ 3.02

The accompanying notes are an integral part of these statements.

MERCHANTS & MARINE BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
Net income	$ 2,184,649	$ 4,016,837
Other comprehensive income:		
Unrealized gains (losses) on securities:		
Unrealized holding gains (losses) arising during the period	(1,507,719)	5,772,807
Reclassification adjustment for gains included in net income	(74,484)	(3,100,182)
	(1,582,203)	2,672,625
Defined benefit pension plans:		
Net gain arising during the period	1,636,856	302,450
Income tax expense	(13,636)	(742,281)
Other comprehensive income	41,017	2,232,794
Comprehensive income	$ 2,225,666	$ 6,249,631

The accompanying notes are an integral part of these statements.

MERCHANTS & MARINE BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	Common Stock				Accumulated Other	
	Shares Issued	Amount	Surplus	Retained Earnings	Comprehensive Loss	Total
Balance, January 1, 2020	1,330,338	$3,325,845	$14,500,000	$63,752,454	$ (4,086,117)	$77,492,182
Net income	-	-	-	4,016,837	-	4,016,837
Cash dividends, $1.45 per share	-	-	-	(1,928,990)	-	(1,928,990)
Other comprehensive income	-	-	-	-	2,232,794	2,232,794
Balance, December 31, 2020	1,330,338	3,325,845	14,500,000	65,840,301	(1,853,323)	81,812,823
Net income	-	-	-	2,184,649	-	2,184,649
Cash dividends, $1.45 per share	-	-	-	(1,928,990)	-	(1,928,990)
Other comprehensive income	-	-	-	-	41,017	41,017
Balance, December 31, 2021	1,330,338	$3,325,845	$14,500,000	$66,095,960	$ (1,812,306)	$82,109,499

The accompanying notes are an integral part of these statements.

MERCHANTS & MARINE BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 2,184,649	$ 4,016,837
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,538,092	1,375,553
Provision for loan losses	1,390,778	951,029
FHLB stock dividend	(1,100)	(7,900)
Deferred income tax expense (benefit)	182,100	(174,000)
Increase in cash value of life insurance	(455,428)	(444,443)
Write-downs of real estate owned	800	21,600
Amortization of securities premium/discount	985,847	1,230,387
Amortization of operating lease right-of-use asset	73,611	51,534
Loss on sale of loans	294,938	-
Gain on sale of bank property	-	(320,127)
Loss on sale of other real estate	12,100	65,731
Gain on sale of securities available-for-sale	(74,484)	(3,100,182)
(Increase) decrease in fair value of equity securities	3,232	(47,293)
(Increase) decrease in accrued income	483,793	(130,140)
Increase (decrease) in accrued expenses and other liabilities	(1,440,734)	1,038,398
(Increase) decrease in other assets	375,485	(383,126)
Net decrease in accrued pension liability	(1,976,700)	(352,878)
Repayment of operating lease liabilities	(73,611)	(51,534)
Origination of loans held for sale	(14,851,143)	-
Proceeds from loans held for sale	13,051,419	-
Other, net	1,636,856	302,450
Net cash provided by operating activities	3,340,500	4,041,896
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of securities available-for-sale	17,052,826	145,702,634
Purchases of securities available-for-sale	(19,810,000)	(84,438,698)
Proceeds from sale and maturities of securities held-to-maturity	-	6,796,543
Proceeds from loans held for sale previously classified as portfolio loans	2,876,600	-
Net (increase) decrease in loans	9,373,428	(37,053,079)
Increase in time deposits due from banks	(249,965)	(202,797)
Proceeds from sale of bank property	-	420,336
Purchases of property and equipment	(3,951,242)	(2,586,941)
Proceeds from sale of other real estate	13,500	339,384
Cash received from acquisition, net	-	7,922,869
Net cash provided by investing activities	5,305,147	36,900,251

(Continued)

The accompanying notes are an integral part of these statements.

MERCHANTS & MARINE BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	$ 34,978,402	$ 41,810,791
Net increase (decrease) in securities sold under agreements to repurchase	73,562	(1,641,321)
Dividends paid	(1,928,990)	(1,928,990)
Net cash provided by financing activities	33,122,974	38,240,480
Net increase in cash and cash equivalents	41,768,621	79,182,627
Cash and cash equivalents, beginning of year	128,554,120	49,371,493
Cash and cash equivalents, end of year	$ 170,322,741	$ 128,554,120

Supplemental Disclosures of Cash Flow Information

	2021	2020
Cash paid during the year for:		
Interest	$ 2,234,823	$ 3,270,622
Income taxes	195,010	1,643,484
Non-cash activities:		
Transfer of loans to other real estate	84,900	40,240
Lease liabilities arising from obtaining right-of-use assets	252,996	-
Transfer of securities from held-to-maturity to available-for-sale	-	33,970,637

The accompanying notes are an integral part of these statements.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Merchants & Marine Bancorp, Inc. (the "Bancorp") and its wholly-owned subsidiary, Merchants & Marine Bank (the "Bank") follow accounting principles generally accepted in the United States of America and, where applicable, general practices within the banking industry.

1. Nature of Operations

The Bancorp is a bank holding company and its principal activity is the ownership and management of the Bank. The Bancorp is subject to regulation by the Federal Reserve Bank. The Bank generates commercial, mortgage and consumer loans and receives deposits from customers located in Jackson, George, Lamar and Forrest Counties in Mississippi and Baldwin and Mobile Counties in Alabama. The Bank operates under a state bank charter and provides full banking services. Canvas Mortgage, a division of the Bank, originates mortgage loans for sale into the secondary market. The Bank is subject to regulation by federal and state banking regulators.

The Bank's goal is to offer all the products and services of the larger banks and multi-bank holding corporations, while maintaining the personalized, local service of a community bank.

2. Basis of Consolidation

The consolidated financial statements include the accounts of the Bancorp, the Bank, and M & M Real Estate Bank Securities Corporation, a wholly-owned subsidiary of the Bank, after elimination of all material intercompany transactions and balances.

3. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The determination of the allowance for loan losses is a material estimate that is particularly subject to significant change in the economic environment and market conditions. In connection with the determination of the estimated losses on loans, management obtains independent appraisals for significant collateral.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Use of Estimates (Continued)

While management uses available information to recognize losses on loans, further reductions in the carrying amounts of loans may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the estimated losses on loans. Such agencies may require the Bank to recognize additional losses based on their judgments about information available to them at the time of their examination. Due to these factors, it is reasonably possible that the estimated losses on loans may change materially in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

4. Cash and Cash Equivalents

For the purpose of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, interest-earning balances with banks with an original maturity less than ninety days and federal funds sold.

5. Securities

Securities have been classified into one of three categories: trading, held-to-maturity or available-for-sale. Management determines the appropriate classification of debt and equity securities at the time of purchase and re-evaluates this classification periodically. Trading account securities are held for resale in anticipation of short-term market movements. Debt securities are classified as held-to-maturity when management has the positive intent and ability to hold the securities to maturity. Securities not classified as held-to-maturity or trading are classified as available-for-sale. The Bank had no trading securities during the periods ended December 31, 2021 and 2020. Held-to-maturity securities are stated at amortized cost. Debt securities available-for-sale are stated at fair value, with unrealized gains and losses, net of income taxes, reported in accumulated other comprehensive income (loss) as a separate component of stockholders' equity, until realized. Marketable equity securities are recorded at fair value, with unrealized gains and losses reported in net income.

The amortized cost of each debt security classified as held-to-maturity or available-for-sale is adjusted for amortization of premiums and accretion of discounts to maturity over the estimated life of the security. Amortization, accretion and accrued interest are included in interest on investment securities. Realized gains and losses and declines in fair value judged to be other-than-temporary are included in net security gains (losses). Gains and losses on the sale of securities available-for-sale are determined using the specific identification method.

The Bank also holds non-marketable securities. These securities are restricted and do not have readily determinable fair values. These securities are carried at their acquisition cost and are accounted for by the cost method.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

6. Loans Held for Sale

Canvas Mortgage originates fixed rate single family, residential first mortgage loans on a presold basis. Rate lock commitments are issued to customers and concurrently "lock in" with a secondary market investor under a best efforts delivery mechanism. Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or fair value, as determined by outstanding commitments from investors. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings.

Mortgage loans held for sale are generally sold without the servicing rights retained by the Bancorp. Gains and losses on sales of mortgage loans are based on the difference between the selling price and the carrying value of the related loan sold. The Bancorp recognizes certain origination fees and service release fees upon the sale.

7. Loans

Loans are stated at the amount of unpaid principal. Interest on commercial and real estate mortgage loans is accrued and credited to income based on the principal amount outstanding. Income on installment loans is credited to income based on a method that approximates the interest method. Generally, the accrual of interest on loans is discontinued once the loan reaches 90 days past due unless the credit is well secured and in the process of collection. Upon such discontinuance, all unpaid accrued interest is reversed and payments subsequently received are applied first to principal. Interest income is recorded after principal has been satisfied and as payments are received. Loans are returned to accrual status when all principal and interest contractually due are brought current and future amounts are reasonably assured.

Direct loan costs and related loan origination fees are recognized currently as period costs and income, respectively, and do not vary materially from the results that would be recorded using the deferral method prescribed by ASC Topic 310, *Receivables.*

8. Allowance for Loan Losses

The allowance for loan losses is maintained at a level which, in management's judgment, is adequate to absorb credit losses inherent in the loan portfolio. The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to expense. Loan losses are charged against the allowance when management believes the remaining loan balance will go uncollected. Subsequent recoveries, if any, are credited to the allowance.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

8. Allowance for Loan Losses (Continued)

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of two components, which are discussed in further detail at Note D.

9. Property and Equipment, Net

Property and equipment are stated at cost, less accumulated depreciation. The provision for depreciation is computed by the straight-line method over the estimated useful lives of the related assets. Leasehold improvements are amortized over the shorter of the term of the lease or the asset's useful life.

The Bancorp leases facilities in Fairhope, Alabama and Hattiesburg, Mississippi under operating leases. We also own certain properties which we lease to outside parties under operating lessor leases; however, such leases are not significant. In accordance with ASU 2016-02, *Leases*, for operating leases other than those considered to be short-term, we recognize lease right-of-use assets and related lease liabilities. We do not recognize short-term operating leases on our balance sheet. A short-term operating lease has an original term of 12 months or less and does not have a purchase option that is likely to be exercised.

In recognizing lease right-of-use assets and related lease liabilities, we account for lease and non-lease components (such as taxes, insurance, and common area maintenance costs) separately, as such amounts are generally readily determinable under our lease contracts. Lease payments over the expected term are discounted using our incremental borrowing rate referenced to the Federal Home Loan Bank Secure Connect advance rates for borrowings of similar term. We also consider renewal and termination options in the determination of the term of the lease. If it is reasonably certain that a renewal or termination option will be exercised, the effects of such options are included in the determination of the expected lease term. Generally, we cannot be reasonably certain about whether or not we will renew a lease until such time the lease is within the last two years of the existing lease term. However, renewal options are evaluated on a case-by-case basis, typically in advance of such time frame. When we are reasonably certain that a renewal option will be exercised, we measure/remeasure the right-of-use asset and related lease liability using the lease payments specified for the renewal period or, if such amounts are unspecified, we generally assume an increase (evaluated on a case-by-case basis in light of prevailing market conditions) in the lease payment over the final period of the existing lease term.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

10. Other Real Estate Owned

Real estate properties acquired through or in lieu of loan foreclosure are initially recorded at the lower of cost or fair value, less estimated selling costs, at the date of foreclosure. Fair value is based primarily on independent appraisals and other relevant factors. Any write-downs based on the asset's fair value at the date of acquisition are charged to the allowance for loan losses. After foreclosure, valuations are periodically performed by management and any subsequent write-downs are recorded as a charge to operations, if necessary, to reduce the carrying value of a property to the lower of its cost or fair value, less cost to sell. Costs of significant property improvements are capitalized, whereas costs relating to holding property are expensed and included in non-interest expense. The portion of interest costs relating to development of real estate is capitalized.

11. Goodwill

Goodwill represents costs in excess of the fair value of net assets acquired in connection with business combinations accounted for under the acquisition method. In accordance with ASC Topic 350, *Intangibles – Goodwill & Other,* the goodwill impairment test consists of a two-step process, if necessary. However, the Bank first assesses qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in ASC Topic 350. The more-likely-than-not threshold is defined as having a likelihood of more than 50 percent. If, after assessing the totality of events or circumstances, the Bank determines that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary and goodwill is considered to be unimpaired. However, if based on the qualitative assessment it is more likely than not that the fair value of a reporting unit is less than its carrying amount, the two-step process is performed. Based on the qualitative assessment as described above, no impairment charges were recognized.

12. Advertising Expense

The Bank expenses advertising costs as they are incurred. Advertising expenses amounted to $271,543 and $167,029 in 2021 and 2020, respectively.

13. Income Taxes

Provisions for income taxes are based on taxes payable or refundable for the current year (after exclusion of non-taxable income such as interest on state and municipal securities) and deferred taxes on temporary differences between the amount of taxable and pretax financial income and between the tax bases of assets and liabilities and their reported amounts in the financial statements. Deferred taxes on temporary differences are calculated at the currently enacted tax rates applicable to the period in which the deferred tax assets, liabilities, income or expense are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

14. Comprehensive Income

Comprehensive income includes net income and other comprehensive income (loss) items which include unrealized gains and losses on debt securities available-for-sale and the gains or losses and prior service cost or credits that arise during the period related to the defined benefit pension plan but are not recognized as components of net periodic benefit cost. All items of comprehensive income (loss) are stated net of tax.

15. Fair Value Measurements

The Bank records fair value measurements using a specified hierarchy of valuation techniques based upon whether the inputs to those valuation techniques reflect assumptions other market participants would use based upon market data obtained from independent sources (observable inputs). The following summarizes the fair value hierarchy:

Level 1: Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, volatilities, prepayment speeds, credit risks, etc.) or inputs that are derived principally from or corroborated by market data by correlation or other means.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The Bank uses observable market data, when available, in making fair value measurements. When inputs used to measure fair value fall within different levels of the hierarchy, the level within the fair value measurement is categorized based on the lowest level input that is significant to the fair value measurements. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

16. Bank Owned Life Insurance

The Bank invests in bank owned life insurance (BOLI). BOLI involves the purchasing of life insurance on a chosen number of directors and officers. The Bank is the owner of the policies, and the cash surrender value of the policies is included as an asset in the consolidated balance sheets.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

17. Off-Balance Sheet Financial Instruments

In the ordinary course of business, the Bank enters into off-balance sheet financial instruments consisting of commitments to extend credit, credit card lines, commercial letters of credit and standby letters of credit. Such financial instruments are recorded in the financial statements when they are exercised.

18. Revenue from Contracts with Customers

The Bank records revenue from contracts with customers in accordance with ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Under Topic 606, the Bank must identify the contract with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract, and recognize revenue when, or as, the Bank satisfies a performance obligation. Significant revenue has not been recognized in the current reporting period that results from performance obligations satisfied in previous periods.

The Bank's primary sources of revenue are derived from interest and dividends earned on loans, investment securities, and other financial instruments that are not within the scope of Topic 606. The Bank has evaluated the nature of its contracts with customers and determined that further disaggregation of revenue from contracts with customers into more granular categories beyond what is presented in the Consolidated Statements of Income was not necessary. The Bank generally fully satisfies its performance obligations on its contracts with customers as services are rendered and the transaction prices are fixed; the Bank has made no significant judgments in applying the revenue guidance prescribed in ASC 606 that affect the determination of the amount and timing of revenue from contracts with customers.

19. Recent Accounting Pronouncements

In January 2017, the FASB issued ASU 2017-04, *Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment.* This update amends existing guidance to simplify subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and recognizing an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value, not to exceed the total amount of goodwill allocated to that reporting unit. Also, an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. Additionally, in November 2019, the FASB issued ASU No. 2019-10, *Financial Instruments,* which extended the effective date of ASU 2017-04 for private companies to fiscal years beginning after December 15, 2022, including interim periods within the fiscal year. The adoption of this update is not expected to have a material impact on the Bancorp's consolidated financial statements.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

19. Recent Accounting Pronouncements (Continued)

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments,* which addresses timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The ASU requires institutions to measure all expected credit losses related to financial assets measured at amortized costs with an expected loss model based on historical experience, current conditions and reasonable and supportable forecasts relevant to affect the collectability of the financial assets, which is referred to as the current expected credit loss (CECL) model. The ASU requires enhanced disclosures, including qualitative and quantitative requirements, to help understand significant estimates and judgments used in estimating credit losses, as well as provide additional information about the amounts recorded in the financial statements. The amendment requires the use of the modified retrospective approach for adoption. In November 2019, the FASB issued ASU 2019-10 which deferred the effective date of ASU 2016-13 for smaller reporting entities to fiscal years beginning after December 15, 2022. The Bancorp is currently assessing the impact of the adoption of this standard on the Bancorp's consolidated financial position.

20. Adoption of New Accounting Standards

In March 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform (Topic 848)*, which provides temporary optional relief for contracts modified as a result of reference rate reform meeting certain modification criteria, generally allowing an entity to account for contract modifications occurring due to reference rate reform as an event that does not require contract remeasurement or reassessment of a previous accounting determination at the modification date. The guidance also includes temporary optional expedients intended to provide relief from various hedge effectiveness requirements for hedging relationships affected by reference rate reform, provided certain criteria are met, and allows a one-time election to sell or transfer to either available-for-sale or trading any held-to-maturity ("HTM") debt securities that refer to an interest rate affected by reference rate reform and were classified as HTM prior to January 1, 2020. Additionally, in January 2021, the FASB issued ASU No. 2021-01, *Reference Rate Reform (Topic 848): Scope*, which provided additional clarification that certain optional expedients and exceptions noted above apply to derivative instruments that use an interest rate for margining, discounting or contract price alignment that is modified as a result of reference rate reform. This guidance was effective upon issuance and can be applied prospectively, with certain exceptions, through December 31, 2022. The adoption of this ASU did not significantly impact the Bancorp's consolidated financial statements.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

20. Adoption of New Accounting Standards (Continued)

In December 2019, the FASB issued ASU No. 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes.* This ASU removes specific exceptions to the general principles in Topic 740 in GAAP. The amendments also improve consistent application of and simplify GAAP for other areas of Topic 740 by clarifying and amending existing guidance. The amendments in this update became effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years and did not have a material impact on the Bancorp's consolidated financial statements.

NOTE B - SECURITIES

The amortized cost, gross unrealized gains, gross unrealized losses and estimated fair value of available-for-sale and held-to-maturity securities are as follows (In thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2021				
Available-for-sale:				
Mortgage-backed securities	$ 50,436	$ 357	$ 794	$ 49,999
State, county and municipal securities	55,319	1,666	15	56,970
Total	$ 105,755	$ 2,023	$ 809	$ 106,969
December 31, 2020				
Available-for-sale:				
Mortgage-backed securities	$ 44,474	$ 1,042	$ 196	$ 45,320
State, county and municipal securities	59,435	1,955	4	61,386
Total	$ 103,909	$ 2,997	$ 200	$ 106,706

NOTE B - SECURITIES (Continued)

The amortized cost and estimated fair value of available-for-sale securities at December 31, 2021, by contractual maturity are as follows (In thousands):

	Available-For-Sale	
	Amortized Cost	Fair Value
Amounts maturing in:		
One year or less	$ 1,310	$ 1,314
After one year through five years	3,508	3,567
After five years through ten years	12,849	13,126
Greater than ten years	37,652	38,963
Mortgage-backed securities	50,436	49,999
Total	$ 105,755	$106,969

Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

Proceeds from sales and maturities of available-for-sale securities were $ 17,052,826 in 2021, including a realized gain of $74,484. Proceeds from sales of available-for-sale securities were $145,702,634 in 2020, including a realized gain of $3,100,182. The Bancorp reassessed classification of certain investments and effective June 1, 2020, the Bancorp transferred $33,970,637 of state, county and municipal securities from held-to-maturity to available-for-sale securities. The transfer occurred at amortized cost. The resulting unrealized gain of $1,123,941 was included in other comprehensive income. No gain or loss was recorded at the time of transfer. The held-to-maturity securities were transferred in 2020 based on an evaluation of each security's respective rate.

NOTE B - SECURITIES (Continued)

Securities with a carrying value of $20,561,090 and $12,633,437 were pledged at December 31, 2021 and 2020, respectively, to secure certain deposits. Information pertaining to securities with gross unrealized losses at December 31, 2021 and 2020, aggregated by investment category and length of time that individual securities have been in a continuous loss position follows (In thousands):

	Less Than 12 Months		12 Months Or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
December 31, 2021:						
Mortgage-backed securities	$ 22,189	$ 320	$ 7,323	$ 474	$ 29,512	$ 794
State, county and municipal securities	1,303	11	279	4	1,582	15
Total	$ 23,492	$ 331	$ 7,602	$ 478	$ 31,094	$ 809

	Less Than 12 Months		12 Months Or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
December 31, 2020:						
Mortgage-backed securities	$ 10,154	$ 196	$ -	$ -	$ 10,154	$ 196
State, county and municipal securities	1,177	4	-	-	1,177	4
Total	$ 11,331	$ 200	$ -	$ -	$ 11,331	$ 200

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and to the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer and (3) the intent and ability of the Bank to retain its investments in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

As of December 31, 2021, approximately 9.09% of the number of securities in the investment portfolio reflected an unrealized loss. Management is of the opinion the Bank has the ability to hold these securities until such time as the value recovers or the securities mature. Management also believes the deterioration in value is attributable to changes in market interest rates and not to the credit quality of the issuer.

NOTE B - SECURITIES (Continued)

At December 31, 2021, the fifteen debt securities with unrealized losses have declined 2.53% from the amortized cost basis. These unrealized losses relate principally to current interest rates for similar types of securities and not credit quality. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred and the results of reviews of the issuer's financial condition. As management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available-for-sale, no declines are deemed to be other-than-temporary.

The Bank holds equity securities, which include Federal Home Loan Bank stock, recorded at cost of $884,360 and $883,260 as of December 31, 2021 and 2020, respectively. Equity securities also include VISA Class B stock recorded at fair market value of $364,891 and $368,123 at December 31, 2021 and 2020, respectively, in accordance with ASU 2016-01.

Additionally, FNBB, Inc. equity investments of $932,400, were reclassified from Equity securities to other assets in 2021 in accordance with ASU 2016-01, which was adopted prospectively as allowed by the standard.

NOTE C - LOANS

The following table shows the composition of the loan portfolio by category:

	December 31, 2021		December 31, 2020	
	Amount	Percent of Total	Amount	Percent of Total
	(Dollars in thousands)		(Dollars in thousands)	
Loans secured by real estate:				
Construction	$ 43,962	12.60%	$ 41,863	11.51%
Farmland	5,269	1.51%	2,984	.82%
Revolving, open and secured 1-4	6,840	1.96%	8,247	2.27%
1-4 Family residential property	72,599	20.80%	81,929	22.53
Multifamily (5 or more) residential properties	2,766	.79%	3,655	1.01%
Nonfarm non-residential properties	144,631	41.44%	126,413	34.77%
Commercial and industrial loans	56,145	16.09%	74,314	20.44%
Loans to individuals for personal expenditures	13,660	3.91%	19,775	5.44%
Municipal and government	2,681	.77%	3,839	1.06%
Other	444	.13%	550	.15%
	348,997	100.00%	363,569	100.00%
Allowance for loan losses	(3,610)		(4,161)	
Net loans	$ 345,387		$ 359,408	

NOTE C – LOANS (Continued)

The Bank primarily grants commercial, residential and consumer loans to customers within its market area and immediate surrounding areas, all of which are affected by the general economic conditions of the area. Although the Bank regularly reviews the diversification of the loan portfolio to avoid concentrations of credit risk, the overall quality of the portfolio and the borrowers' ability to repay the loans are to an extent affected by the local economy.

NOTE D - ALLOWANCE FOR LOAN LOSSES

The Bank has developed policies and procedures for evaluating the overall quality of its credit portfolio and the timely identification of potential problem loans. Management's judgment as to the adequacy of the allowance is based upon a number of assumptions which it believes to be reasonable, but which may not prove to be accurate. Thus, there can be no assurance that charge-offs in future periods will not exceed the allowance for loan losses or that additional increases in the loan loss allowance will not be required.

The Bank's allowance consists of two components. The first component is determined in accordance with authoritative guidance regarding contingencies. The Bank's determination of this component of the allowance is based upon quantitative and qualitative factors. A loan loss history based upon the five year quarterly moving average is utilized in determining the appropriate allowance. These historical loss factors are applied to the loans by loan type to determine an indicated allowance. The historical loss factors may also be modified based upon other qualitative factors including, but not limited to, local and national economic conditions, trends of delinquent loans and management's knowledge of the loan portfolio. These factors require judgment upon the part of management and are based upon state and national economic reports received from various institutions and agencies including the Federal Reserve Bank, United States Bureau of Economic Analysis, Bureau of Labor Statistics, meetings with the Bank's loan officers and loan committee, and data and guidance received or obtained from the Bank's regulatory authorities.

The second component of the allowance is determined in accordance with authoritative guidance regarding loan impairment. Impaired loans are determined based upon a review by internal loan review and senior loan officers.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances

NOTE D - ALLOWANCE FOR LOAN LOSSES (Continued)

surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Impairment is measured on a loan by loan basis, and a specific allowance is assigned to each loan determined to be impaired. Impaired loans not deemed collateral dependent are analyzed according to the ultimate repayment source, whether that is cash flow from the borrower, guarantor or some other source of repayment. Impaired loans are deemed collateral dependent if, in the Bank's opinion, the ultimate source of repayment will be generated from the liquidation of collateral.

Risk characteristics applicable to each segment of the loan portfolio are described as follows:

Residential Real Estate: The residential real estate loan portfolio consists of residential loans for single and multifamily properties. Residential loans are generally secured by owner occupied 1-4 family residences. Repayment of these loans is primarily dependent on the personal income and credit rating of the borrowers. Credit risk in these loans can be impacted by economic conditions within the Bank's market areas that might impact either property values or a borrower's personal income. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

Nonresidential Real Estate: Nonresidential real estate loans typically involve larger principal amounts, and repayment of these loans is generally dependent on the successful operations of the property securing the loan or the business conducted on the property securing the loan. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Credit risk in these loans may be impacted by the creditworthiness of a borrower, property values and the local economies in the Bank's market areas.

Consumer: The consumer loan portfolio consists of various term and line-of-credit loans such as automobile loans and loans for other personal purposes. Repayment for these types of loans will come from a borrower's income sources that are typically independent of the loan purpose. Credit risk is driven by consumer economic factors (such as unemployment and general economic conditions in the Bank's market area) and the creditworthiness of a borrower.

Commercial and other: The commercial portfolio includes loans to commercial customers for use in financing working capital needs, equipment purchases and expansions. The loans in this category are repaid primarily from the cash flow of a borrower's principal business operation. Credit risk in these loans is driven by creditworthiness of a borrower and the economic conditions that impact the cash flow stability from business operations.

The sum of the two parts constitutes management's best estimate of an appropriate allowance for loan losses. When the estimated allowance is determined, it is presented to the Bank's board of directors for review and approval on a quarterly basis.

NOTE D - ALLOWANCE FOR LOAN LOSSES (Continued)

Activity in the allowance for loan losses for the years was as follows:

(In thousands)

	Beginning Balance	Charge offs	Recoveries	Provisions for Loan Losses	Ending Balance
Year Ended December 31, 2021					
Residential	$ 1,818	$ (1,196)	$ 24	$ 667	$ 1,313
Non-Residential	1,246	(425)	9	384	1,214
Consumer	252	(503)	256	168	173
Commercial	675	(161)	54	216	784
Other	170	-	-	(44)	126
	$ 4,161	$ (2,285)	$ 343	$ 1,391	$ 3,610
Year Ended December 31, 2020					
Residential	$ 1,187	$ (45)	$ 68	$ 608	$ 1,818
Non-Residential	1,158	-	-	88	1,246
Consumer	311	(336)	191	86	252
Commercial	421	(54)	35	273	675
Other	274	-	-	(104)	170
	$ 3,351	$ (435)	$ 294	$ 951	$ 4,161

NOTE D - ALLOWANCE FOR LOAN LOSSES (Continued)

The following table represents the Bank's impaired loans at December 31, 2021 and 2020. This table excludes performing troubled debt restructurings.

	December 31, 2021	December 31, 2020
	(In thousands)	
Impaired loans:		
Impaired loans without a valuation allowance	$ 3,062	$ 6,596
Impaired loans with a valuation allowance	1,535	2,068
Total impaired loans	4,597	8,664
Allowance for loan losses on impaired loans at period end	420	847
Total nonaccrual loans	5,597	9,510
Average investment in impaired loans	6,632	8,766

The gross interest income that would have been recorded in the year, if the nonaccrual loans at December 31, 2021 and 2020, had been current in accordance with their original terms and had been outstanding throughout the year or since origination, if held for part of the years ended for December 31, 2021 and 2020, was $94,335 and $395,126, respectively. The Bank had no loan commitments to borrowers in non-accrual status at December 31, 2021.

NOTE D - ALLOWANCE FOR LOAN LOSSES (Continued)

The following table provides the ending balances in the Bank's recorded investment in loans and allowance for loan losses, broken down by portfolio segment as of December 31, 2021 and 2020. The table also provides additional detail as to the amount of the Bank's loans and allowance that correspond to individual versus collective impairment evaluation. The impairment evaluation corresponds to the Bank's systematic methodology for estimating its allowance for loan losses.

	Residential	Non-Residential	Consumer	Commercial	Other	Total
			(In thousands)			
December 31, 2021						
Loans:						
Individually evaluated	$ 3,170	$ 721	$ 14	$ 692	$ -	$ 4,597
Collectively evaluated	122,997	149,179	13,646	58,134	444	344,400
Total	$ 126,167	$ 149,900	$ 13,660	$ 58,826	$ 444	$ 348,997
% of Total	36.15%	42.95%	3.91%	16.86%	.13%	100.00%
Allowance for Loan Losses:						
Individually evaluated	$ 55	$ 9	$ 2	$ 354	$ -	$ 420
Collectively evaluated	1,258	1,205	171	430	126	3,190
Total	$ 1,313	$ 1,214	$ 173	$ 784	$ 126	$ 3,610
% of Total	36.37%	33.63%	4.79%	21.72%	3.49%	100.00%

NOTE D - ALLOWANCE FOR LOAN LOSSES (Continued)

	Residential	Non-Residential	Consumer	Commercial	Other	Total
			(In thousands)			
December 31, 2020						
Loans:						
Individually evaluated	$ 5,107	$ 3,105	$ 8	$ 444	$ -	$ 8,664
Collectively evaluated	139,587	126,292	19,767	77,709	550	354,905
Total	$ 144,694	$ 129,397	$ 19,775	$ 78,153	$ 550	$ 363,569
% of Total	37.32%	35.59%	5.44%	21.50%	.15%	100.00%
Allowance for Loan Losses:						
Individually evaluated	$ 485	$ 28	$ 8	$ 326	$ -	$ 847
Collectively evaluated	1,333	1,218	244	349	170	3,314
Total	$ 1,818	$ 1,246	$ 252	$ 675	$ 170	$ 4,161
% of Total	43.69%	29.94%	6.06%	16.22%	4.09%	100.00%

NOTE D - ALLOWANCE FOR LOAN LOSSES (Continued)

The following table provides additional detail of impaired loans broken out according to class as of December 31, 2021 and 2020. The recorded investment included in the following tables represents customer balances, plus accrued interest, net of any partial charge-offs recognized on the loans, and net of any deferred fees and costs. The unpaid balance represents the recorded balance prior to any partial charge-offs.

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment YTD	Interest Income Recognized YTD
			(In thousands)		
December 31, 2021:					
Impaired loans with no related allowance:					
Residential real estate	$ 2,373	$ 2,368	$ -	$ 3,006	$ 103
Non-residential real estate	552	551	-	1,755	32
Consumer	10	10	-	5	1
Commercial	127	127	-	64	4
Total	3,062	3,056	-	4,830	140
Impaired loans with a related allowance:					
Residential real estate	797	797	55	1,133	19
Non-residential real estate	169	169	9	158	7
Consumer	4	4	2	6	-
Commercial	565	565	354	505	32
Total	1,535	1,535	420	1,802	58
Total impaired loans:					
Residential real estate	3,170	3,165	55	4,139	122
Non-residential real estate	721	720	9	1,913	39
Consumer	14	14	2	11	1
Commercial	692	692	354	569	36
Total impaired loans	$ 4,597	$ 4,591	$ 420	$ 6,632	$ 198

NOTE D - ALLOWANCE FOR LOAN LOSSES (Continued)

	Recorded Investment	Unpaid Balance	Related Allowance	Average Recorded Investment YTD	Interest Income Recognized YTD
			(In thousands)		
December 31, 2020:					
Impaired loans with no related allowance:					
Residential real estate	$ 3,638	$ 3,633	$ -	$ 4,298	$ 163
Non-residential real estate	2,958	2,950	-	2,819	120
Consumer	-	-	-	-	-
Commercial	-	-	-	94	-
Total	6,596	6,583	-	7,211	283
Impaired loans with a related allowance:					
Residential real estate	1,469	2,409	485	955	23
Non-residential real estate	147	147	28	267	7
Consumer	8	8	8	4	1
Commercial	444	444	326	329	26
Total	2,068	3,008	847	1,555	57
Total impaired loans:					
Residential real estate	5,107	6,042	485	5,253	186
Non-residential real estate	3,105	3,097	28	3,086	127
Consumer	8	8	8	4	1
Commercial	444	444	326	423	26
Total impaired loans	$ 8,664	$ 9,591	$ 847	$ 8,766	$ 340

NOTE D - ALLOWANCE FOR LOAN LOSSES (Continued)

The restructuring of a loan is considered a "troubled debt restructuring" (TDR) if both (1) the borrower is experiencing financial difficulties and (2) the creditor has granted a concession. Concessions may include interest rate reductions below market interest rates compared to debt with similar characteristics, principal forgiveness, restructuring amortization of the debt and other actions to minimize potential losses.

The following tables set forth the amounts and past due status for the Bank's troubled debt restructurings (TDRs) at December 31, 2021 and 2020 (In thousands):

	Current Loans	Past Due 30 - 89	Past Due 90 Days and Still Accruing	Non-Accrual	Total
December 31, 2021					
Residential real estate loans	$ 123	$ -	$ -	$ 109	$ 232
Non-residential	-	-	-	-	-
Commercial	-	-	-	-	-
Consumer loans	10	-	-	-	10
Total	$ 133	$ -	$ -	$ 109	$ 242
Allowance for loan losses	$ 39	$ -	$ -	$ -	$ 39
December 31, 2020					
Residential real estate loans	$ 195	$ -	$ -	$ 765	$ 960
Non-residential	-	-	-	537	537
Commercial	-	-	-	75	75
Consumer loans	12	-	-	24	36
Total	$ 207	$ -	$ -	$ 1,401	$ 1,609
Allowance for loan losses	$ -	$ -	$ -	$ 290	$ 290

The Bank has not committed to lend additional amounts to customers with outstanding loans that are classified as troubled debt restructurings.

During the years ended December 31, 2021 and 2020, the Bank had no loans modified as troubled debt restructurings.

NOTE D - ALLOWANCE FOR LOAN LOSSES (Continued)

Guidance on Non-TDR Loan Modifications due to COVID-19

On March 22, 2020, a statement was issued by our banking regulators and titled the "Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus" (the "Interagency Statement") that encourages financial institutions to work prudently with borrowers who are or may be unable to meet their contractual payment obligations due to the effects of COVID-19. Additionally, Section 4013 of the CARES Act that passed on March 27, 2020, further provides that a qualified loan modification is exempt by law from classification as a TDR as defined by GAAP, from the period beginning March 1, 2020 until the earlier of December 31, 2020, or the date that is 60 days after the date on which the national emergency concerning the COVID-19 outbreak declared by the President of the United States under the National Emergencies Act terminates. Section 541 of the Consolidated Appropriation Act of 2021 extends this relief to the earlier of January 1, 2022 or 60 days after the national emergency termination date. The Interagency Statement was subsequently revised in April 2020 to clarify the interaction of the original guidance with Section 4013 of the CARES Act, as well as setting forth the banking regulators' views on consumer protection considerations. In accordance with such guidance, the Bancorp is offering short-term modifications made in response to COVID-19 to borrowers who are current and otherwise not past due. These include short-term, 180 days or less, modifications in the form of payment deferrals, fee waivers, extensions of repayment terms, or other delays in payment that are insignificant. As of December 31, 2021, all loans previously under the Bancorp's payment deferral program had resumed making regular payments.

During the year ended December 31, 2020, the Bancorp modified approximately $83,685,000 in loans for borrowers impacted by the COVID-19 pandemic. These modifications primarily consisted of payment deferrals to assist customers. As these modifications related to the COVID-19 pandemic and qualify under the provisions of either Section 4013 of the CARES act or Interagency Guidance, they are not considered troubled debt restructurings. The following table summarizes the amortized cost of loans with payments currently in deferral at December 31, 2020:

(In thousands)

Year Ended December 31, 2020	Total Loans	Balance of Loans Currently in Deferral	Percentage of Portfolio
Residential	$ 135,694	$ 14,318	10.55%
Non-Residential	129,397	55,449	42.85%
Consumer	19,775	2,355	11.91%
Commercial	78,153	6,138	7.85%
Other	550	-	0.00%
	$ 363,569	$ 78,260	21.53%

NOTE D - ALLOWANCE FOR LOAN LOSSES (Continued)

The following table summarizes by class the Bank's loans classified as past due in excess of 30 days or more in addition to those loans classified as non-accrual:

	30 - 89 Days Past Due	90 or More Days Past Due - Still Accruing	Non-Accrual	Total Past Due	Current	Total Loans
			(In thousands)			
December 31, 2021:						
Residential real estate	$ 998	$ -	$ 3,889	$ 4,887	$121,280	$ 126,167
Non-residential real estate	156	-	680	836	149,064	149,900
Commercial	298	-	793	1,091	57,735	58,826
Consumer	297	-	235	532	13,128	13,660
Other	-	-	-	-	444	444
Total	$ 1,749	$ -	$ 5,597	$ 7,346	$341,651	$ 348,997

	30 - 89 Days Past Due	90 or More Days Past Due - Still Accruing	90 or More Days Past Due - Non-Accrual	Total Past Due	Current	Total Loans
			(In thousands)			
December 31, 2020:						
Residential real estate	$ 3,566	$ -	$ 5,442	$ 9,008	$126,686	$ 135,694
Non-residential real estate	4,643	-	2,522	7,165	122,232	129,397
Commercial	197	26	1,013	1,236	76,917	78,153
Consumer	587	-	533	1,120	18,655	19,775
Other	-	-	-	-	550	550
Total	$ 8,993	$ 26	$ 9,510	$ 18,529	$345,040	$ 363,569

The Bank categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt, such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Bank uses the following definitions for risk ratings, which are consistent with the definitions used in supervisory guidance:

Special Supervision. Loans classified as special supervision are credits that show a sign of weakness in either sources of repayment or collateral but have mitigating factors that minimize the risk of loss.

NOTE D - ALLOWANCE FOR LOAN LOSSES (Continued)

Special Mention. Loans classified as special mention are credits that show a defined weakness in the primary repayment and/ or collateral but are not to the point of substandard classification.

Substandard. Loans classified as substandard are credits that are inadequately protected by the worth and repayment capacity of the borrower or the collateral. The Bank has a distinct possibility of loss if weaknesses are not corrected.

Doubtful. Loans classified as doubtful are credits that meet characteristics of substandard with further weaknesses that make a collection of the full debt highly questionable and improbable.

Loss. Loans classified as loss are credits that are considered uncollectible and it is not practical to defer writing off. This classification does not mean that there is absolutely no possibility of recovery but that recovery is not practical enough to defer writing off as a worthless asset.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans.

As of December 31, 2021 and 2020, and based on the most recent analysis performed, the risk category of loans was as follows (In thousands):

	Pass	Special Supervision	Special Mention	Sub-standard	Doubtful	Loss	Total
December 31, 2021							
Residential real estate	$ 113,346	$ 7,163	$ 1,829	$ 2,780	$ 1,049	$ -	$ 126,167
Non-residential real estate	141,574	5,691	1,729	724	182	-	149,900
Commercial	55,541	2,275	169	825	16	-	58,826
Consumer	13,021	281	123	85	150	-	13,660
Other	444	-	-	-	-	-	444
Total	$ 323,926	$ 15,410	$ 3,850	$ 4,414	$ 1,397	$ -	$ 348,997
December 31, 2020							
Residential real estate	$ 126,114	$ 1,837	$ 1,438	$ 2,332	$ 3,973	$ -	$ 135,694
Non-residential real estate	115,926	7,208	3,317	2,657	289	-	129,397
Commercial	75,310	886	988	576	389	4	78,153
Consumer	18,672	356	197	197	352	1	19,775
Other	550	-	-	-	-	-	550
Total	$ 336,572	$ 10,287	$ 5,940	$ 5,762	$ 5,003	$ 5	$ 363,569

NOTE E - PROPERTY AND EQUIPMENT, NET

Property and equipment as of December 31, 2021 and 2020, are stated at cost less accumulated depreciation as follows (In thousands):

	2021	2020
Land and buildings	$ 27,460	$ 26,923
Furniture and equipment	10,058	9,164
Leasehold improvements	522	509
	38,040	36,596
Accumulated depreciation	(19,252)	(17,823)
	18,788	18,773
Construction in process	4,258	1,860
Net property and equipment	$ 23,046	$ 20,633

Depreciation expense for the years ended December 31, 2021 and 2020 amounted to $1,538,092 and $1,375,553.

NOTE F - INCOME TAXES

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the deferred tax assets and liabilities included in other assets as of December 31, 2021 and 2020, were as follows (In thousands):

	2021	2020
Deferred tax assets:		
Allowance for loan losses	$ 934	$ 1,077
Deferred compensation	1,000	1,098
Loan origination costs	397	315
Loan impairment	3	6
Interest on nonaccrual loans	221	276
Tax credit carry forward	24	-
Other	34	34
Losses on defined benefit plan assets	906	1,314
Gross deferred tax asset	3,519	4,120
Deferred tax liabilities:		
Property and equipment	(1,326)	(1,192)
Core deposit intangible	(78)	(58)
Prepaid pension obligation	(1,142)	(1,066)
Prepaid expenses	(134)	(173)
Unrealized gain on equity securities	(73)	(74)
Unrealized gain on securities available-for-sale	(303)	(698)
Other	(11)	(15)
Gross deferred tax liability	(3,067)	(3,276)
Net deferred tax asset	$ 452	$ 844

The Bank has evaluated the need for a valuation allowance and, based on the weight of the available evidence, has determined that it is more likely than not that all deferred tax assets will be realized.

Income taxes consisted of the following components for the years ended December 31, 2021 and 2020 (In thousands):

	2021	2020
Currently payable	$ 31	$ 1,117
Deferred	379	(174)
Total income taxes	$ 410	$ 943

NOTE F - INCOME TAXES (Continued)

Income taxes were computed by applying the U.S. Federal income tax rate of 21% to income before taxes for the years ended December 21, 2021 and 2020. The reasons for the differences for the years ended December 31, 2021 and 2020, are as follows (Dollars in thousands):

	2021		2020	
	Amount	Percent	Amount	Percent
Taxes computed at statutory rate	$ 545	21.0	$ 1,042	21.0
Decrease in taxes resulting from:				
Tax-exempt life insurance income (net of expense)	(80)	(3.1)	(77)	(1.6)
Tax-exempt interest income	(237)	(9.1)	(248)	(5.0)
State income tax expense	76	2.9	114	2.3
Other, net	106	4.1	112	2.3
Total	$ 410	15.8	$ 943	19.0

ASC Topic 740, *Income Taxes,* provides guidance on financial statement recognition and measurement of tax positions taken, or expected to be taken, in tax returns. ASC Topic 740 requires an evaluation of tax positions to determine if the tax positions will more likely than not be sustainable upon examination by the appropriate tax authorities. The Bancorp, at December 31, 2021 and 2020, had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

The Bancorp files income tax returns in the U.S. Federal jurisdiction and various states. The Bancorp's consolidated federal and state income tax returns for the years prior to 2018 are no longer subject to examination by tax authorities.

NOTE G - DEPOSITS

Deposit account balances at December 31, 2021 and 2020, are summarized as follows (In thousands):

	2021	2020
Non-interest bearing demand	$ 161,647	$ 152,944
Interest bearing demand	250,971	229,026
Savings	93,452	78,199
Certificates of deposit	79,577	90,500
Total deposits	$ 585,647	$ 550,669

NOTE G - DEPOSITS (Continued)

Certificates of deposit by contractual maturity as of December 31, 2021, were as follows (In thousands):

2022	$ 64,658
2023	7,275
2024	4,332
2025	944
2026	525
Thereafter	1,843
Total	$ 79,577

Certificates of deposit in excess of $250,000 aggregated approximately $17,371,000 and $21,589,000 at December 31, 2021 and 2020, respectively.

Overdrawn demand deposits, reclassified as loans, totaled approximately $444,000 and $550,000 at December 31, 2021 and 2020, respectively.

NOTE H - BORROWINGS

The Bank has established various lines of credit with financial institutions, allowing for maximum borrowings of $62,185,185 at rates determined by the lender when borrowed. At December 31, 2021 and 2020, the Bancorp had an undisbursed direct standby letter of credit with the Federal Home Loan Bank in the amount of $130,000,000. At December 31, 2021 and 2020, there were no federal funds purchased, which would consist of short-term borrowings from other financial institutions.

Repurchase agreements are treated as collateralized financing obligations and are reflected as a liability in the consolidated financial statements. Securities underlying the repurchase agreements remain under the control of the Bank.

NOTE I - EMPLOYEE BENEFIT PLANS

The Bank has a non-contributory defined benefit pension plan covering all employees who qualify under length of service and other requirements. The plan calls for benefits to be paid to eligible employees at retirement based primarily upon years of service and average earnings for the five consecutive plan years which produce the highest average. The pension plan was frozen effective January 1, 2013. Data relative to the pension plan as of December 31, 2021 and 2020, follows (In thousands):

	2021	2020
Reconciliation of benefit obligation:		
Projected benefit obligation at beginning of period	$ 19,594	$ 18,216
Interest cost	478	568
Actuarial (gain) loss	(291)	1,759
Distributions	(942)	(926)
Curtailments, settlement acquisition	(70)	(23)
Projected benefit obligation at end of period	18,769	19,594
Reconciliation of plan assets:		
Fair value of plan assets at beginning of period	18,594	16,863
Actual return on plan assets	2,164	2,680
Benefit payments	(942)	(926)
Settlements	(70)	(23)
Fair value of plan assets at end of period	19,746	18,594
Funded status, included in other liabilities	$ 977	$ (1,000)
Net periodic pension expense:		
Interest cost	$ 478	$ 568
Return on plan assets	(1,258)	(1,139)
Amortization of loss	440	521
Net periodic pension credit	$ (340)	$ (50)

NOTE I - EMPLOYEE BENEFIT PLANS (Continued)

The accumulated benefit obligation for the defined benefit plan was $18,769,979 and $19,594,559 at December 31, 2021 and 2020, respectively.

	2021	2020
Rate assumptions:		
Discount rate	2.52%	3.22%
Long-term rate of investment return	7.00%	7.00%
Rate of compensation increase	N/A	N/A
Amortization period	7.51	7.19

The investment portfolio objective is to seek a balance of investment risk and return by investing in fixed income and equities using tactical asset allocation. In addition, the portfolio seeks to meet current beneficiary liabilities while at the same time grow the principal of the portfolio through price appreciation, dividend income and interest income. The Pension Plan Investment Committee, in establishing these objectives, acknowledges that any investment, other than cash, entails a risk of loss of principal value, but expects the evaluation of the risk to the potential return to be a significant factor in the selection of the investment assets. The Pension Plan's asset allocation targets are 80% fixed income and 20% equity, with no more than 10% of the total equity investment concentrated in international investments.

The fair values of the pension plan assets at December 31, 2021 and 2020, by asset category were as follows (In thousands):

	Total	Level 1	Level 2	Level 3
December 31, 2021:				
Asset category:				
Cash and cash equivalents	$ 1,936	$ 1,936	$ -	$ -
Mutual funds:				
Collective fund – U.S. equity	414	-	414	-
Other equity	3,615	3,615	-	-
Fixed income	13,781	13,781	-	-
Total pension plan assets	$ 19,746	$ 19,332	$ 414	$ -

NOTE I - EMPLOYEE BENEFIT PLANS (Continued)

	Total	Level 1	Level 2	Level 3
December 31, 2020:				
Asset category:				
Cash and cash equivalents	$ 204	$ 204	$ -	$ -
Mutual funds:				
Collective fund – U.S. equity	1,376	-	1,376	-
Other equity	11,476	11,476	-	-
Fixed income	5,539	5,539	-	-
Total pension plan assets	$ 18,595	$ 17,219	$ 1,376	$ -

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

2022	$ 1,257,363
2023	1,259,414
2024	1,238,543
2025	1,209,403
2026	1,175,720
2027 - 2031	5,745,737

The Bank also has a 401(k) retirement plan, which covers all employees who have completed one year of service of 1,000 hours or more and have attained the age of 21. The employees may voluntarily contribute up to one hundred percent (100%) of their wages to the plan on a tax-deferred basis subject to IRS limitations. The Bank's contributions to the plan were $205,232 and $198,408, for the years ended December 31, 2021 and 2020, respectively. The plan was amended in January 2014, to provide a 3% safe harbor contribution by the Bank for the benefit of eligible employees. Also, the plan was amended to allow for separate classifications of participants in the event of discretionary contributions to the plan by the Bank.

The Bank has entered into certain deferred compensation agreements with certain directors. Expenses related to these deferred compensation plans amounted to approximately $252,000 and $407,000 for the years ended December 31, 2021 and 2020, respectively.

NOTE J - REGULATORY CAPITAL

The Bancorp and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bancorp's financial statements. Under the regulatory capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines involving quantitative measures of the Bank's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Bancorp's and the Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

The prompt corrective action regulations define specific capital categories based on an institution's capital ratios. The capital categories, in declining order, are "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized" and "criticality undercapitalized."

As of December 31, 2021 and 2020, the most recent notification from the Bancorp's and the Bank's regulator categorized the Bancorp and the Bank as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized," the Bancorp and the Bank must maintain minimum Common Equity Tier 1 risk-based, total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the table below. There are no conditions or events since that notification that management believes have changed the institution's regulatory designation as "well-capitalized" under the regulatory framework for prompt corrective action.

Quantitative measures established by regulation to ensure capital adequacy require the Bancorp and the Bank to maintain minimum amounts and ratios as set forth in the table below. At December 31, 2021 and 2020, the Bancorp's and the Bank's ratios exceeded the regulatory requirements. Management believes that the Bancorp and the Bank met all capital adequacy requirements to which they were subject as of December 31, 2021 and 2020. The Bancorp's and the Bank's regulatory capital ratios are set forth below.

NOTE J - REGULATORY CAPITAL (Continued)

The Bank's actual and required capital amounts and ratios as of December 31, 2021 and 2020, are as follows (Dollars in thousands):

	Actual		Minimum Capital Requirement		Minimum To Be Well-Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2021						
Common Equity Tier 1 Capital:						
Consolidated	$ 79,378	18.50%	$ 19,313	4.50%	N/A	N/A
Merchants & Marine Bank	76,848	17.91%	19,313	4.50%	$ 27,897	6.50%
Total Capital to Risk Weighted Assets:						
Consolidated	83,143	19.37%	34,335	8.00%	N/A	N/A
Merchants & Marine Bank	80,613	18.78%	34,335	8.00%	42,919	10.00%
Tier 1 Capital to Risk Weighted Assets:						
Consolidated	79,378	18.50%	25,751	6.00%	N/A	N/A
Merchants & Marine Bank	76,848	17.91%	25,751	6.00%	34,335	8.00%
Tier 1 Capital to Average Assets:						
Consolidated	79,378	11.48%	27,664	4.00%	N/A	N/A
Merchants & Marine Bank	76,848	11.11%	27.664	4.00%	34,579	5.00%
December 31, 2020						
Common Equity Tier 1 Capital:						
Consolidated	$ 79,123	19.43%	$ 18,329	4.50%	N/A	N/A
Merchants & Marine Bank	76,799	18.85%	18,329	4.50%	$ 26,475	6.50%
Total Capital to Risk Weighted Assets:						
Consolidated	83,284	20.45%	32,585	8.00%	N/A	N/A
Merchants & Marine Bank	80,960	19.88%	32,585	8.00%	40,731	10.00%
Tier 1 Capital to Risk Weighted Assets:						
Consolidated	79,123	19.43%	24,439	6.00%	N/A	N/A
Merchants & Marine Bank	76,799	18.85%	24,439	6.00%	32,585	8.00%
Tier 1 Capital to Average Assets:						
Consolidated	79,123	12.28%	25,782	4.00%	N/A	N/A
Merchants & Marine Bank	76,799	11.92%	25,782	4.00%	32,227	5.00%

NOTE K - RELATED PARTIES

The Bank has entered into transactions with its officers, Bancorp's directors and significant stockholders and their affiliates. Such transactions were made in the ordinary course of business on substantially the same terms and conditions, including interest rates and collateral, as those prevailing at the same time for comparable transactions with other customers, and did not, in the opinion of management, involve more than normal credit risk or present other unfavorable features. Such loans amounted to approximately $904,000 and $890,000 at December 31, 2021 and 2020, respectively. In addition to these loans, the Bank has commitments to extend credit to these related parties, which amounted to approximately $4,104,000 and $2,630,000 at December 31, 20201 and 2020, respectively. The following is a summary of activity in related party loans:

	2021	2020
Balance, beginning of year	$ 890,307	$1,218,601
Advances	907,877	945,242
Effect of changes in composition of related parties	-	(607,912)
Repayments	(894,292)	(665,624)
Ending balance	$ 903,892	$ 890,307

Deposits from related parties held by the Bank at December 31, 2021 and 2020, totaled approximately $17,703,000 and $14,387,000, respectively.

During the ordinary course of business, the Bank may purchase goods and services from companies that have a relationship with individuals who are considered related parties to the Bank. Significant transactions of this type include the purchase of legal services, consulting services and outsourced internal auditing services.

During the years ended December 31, 2021 and 2020, the Bank paid $180,027 and $256,500, respectively, in fees to a law firm of which one of the partners is a member of the Bank's Board of Directors.

NOTE L - DISCLOSURES ABOUT FAIR VALUE OF ASSETS AND LIABILITIES

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities.

NOTE L - DISCLOSURES ABOUT FAIR VALUE OF ASSETS AND LIABILITIES (Continued)

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities.

Recurring Measurements

The following table presents the fair value measurement of assets recognized in the accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2021 and 2020 (In thousands):

	Total	Level 1	Level 2	Level 3
Assets at December 31, 2021:				
Securities available-for-sale:				
Mortgage-backed securities	$ 49,999	$ -	$ 49,999	$ -
State, county and municipal securities	56,970	-	56,970	-
	$ 106,969	$ -	$ 106,969	$ -

	Total	Level 1	Level 2	Level 3
Assets at December 31, 2020:				
Securities available-for-sale:				
Mortgage-backed securities	$ 45,320	$ -	$ 45,320	$ -
State, county and municipal securities	61,386	-	61,386	-
	$ 106,706	$ -	$ 106,706	$ -

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during 2021 or 2020.

Available-for-sale Securities

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 securities include the entirety of the Bank's available-for-sale securities. For these securities the Bank obtains fair value measurements from an independent pricing service that considers observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels,

NOTE L - DISCLOSURES ABOUT FAIR VALUE OF ASSETS AND LIABILITIES (Continued)

trade execution data, market consensus prepayment speeds, valuation matrices, credit information and the bond's terms and conditions. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. There were no Level 3 securities.

Nonrecurring Measurements

The following table presents the fair value measurements of assets recognized in the accompanying consolidated balance sheets measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2021 and 2020 (In thousands):

	Total	Level 1	Level 2	Level 3
Assets at December 31, 2021:				
Impaired loans	$ 4,597	$ -	$ 4,597	$ -
Other real estate owned	245	-	245	-
Assets at December 31, 2020:				
Impaired loans	$ 8,664	$ -	$ 8,664	$ -
Other real estate owned	187	-	187	-

Following is a description of valuation methodologies and inputs used for assets measured at fair value on a nonrecurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during 2021 or 2020.

Impaired Loans

The estimated fair value of impaired loans is based on the appraised fair value of the collateral, less estimated cost to sell. Impaired loans are classified within Level 2 of the fair value hierarchy.

Other Real Estate Owned

Other real estate owned is carried at the lower of fair value at acquisition date or current estimated fair value, less estimated cost to sell when the real estate is acquired. Estimated fair value is determined on the basis of appraisals and evaluations. The Bank's other real estate owned are classified within Level 2 of the fair value hierarchy. The Bank considers the appraisal or evaluation as the starting point for determining fair value and then considers other factors and events in the environment that may affect the fair value. Appraisals are obtained when the real estate is acquired and subsequently as deemed necessary by management. Appraisers are selected from the list of approved appraisers maintained by management. Another unobservable input used in the fair value measurement of collateral for impaired loans and other real estate owned relates to the discounting criteria used to consider lack of marketability and estimated costs to sell. These discounts and estimates are developed by management by comparison to historical results.

NOTE L - DISCLOSURES ABOUT FAIR VALUE OF ASSETS AND LIABILITIES (Continued)

Fair Value of Financial Instruments

The following table presents carrying amounts and estimated fair values of financial instruments not carried at fair value at December 31, 2021 and 2020 (In thousands):

	December 31, 2021		December 31, 2020	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Level 2 Inputs:				
Cash and due from banks	$ 170,321	$ 170,321	$ 128,554	$ 128,554
Time deposits due from banks	2,203	2,203	1,953	1,953
Accrued income	1,632	1,632	2,116	2,116
FHLB stock	884	884	883	883
Loans, net	347,187	354,497	359,408	371,419
Financial liabilities				
Level 2 Inputs:				
Deposits	585,647	568,649	550,669	544,060
Interest payable	73	73	141	141

FASB ASC Topic 825 requires disclosure of the fair value of financial assets and financial liabilities, including those financial assets and financial liabilities that are not measured and reported at fair value on either a recurring basis or non-recurring basis. In cases where quoted market prices are not available, fair values are generally based on estimates using present value techniques. The Bank's premise in present value techniques is to represent the fair values on a basis of replacement value of the existing instrument given observed market rates on the measurement date. These techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates for those assets or liabilities cannot be necessarily substantiated by comparison to independent markets and, in many cases, may not be realizable in immediate settlement of the instruments. The estimated fair value of financial instruments with immediate and shorter-term maturities (generally 90 days or less) is assumed to be the same as the recorded book value. All nonfinancial instruments, by definition, have been excluded from these disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Bank. The methodology and significant assumptions used in estimating the fair values presented above are as follows:

NOTE L - DISCLOSURES ABOUT FAIR VALUE OF ASSETS AND LIABILITIES (Continued)

Cash and due from banks, time deposits due from banks, accrued income, FHLB stock, and interest payable

The carrying amount approximates fair value.

Loans

The fair value of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. The market rates used are based on current rates the Bank would impose for similar loans and reflect a market participant assumption about risks associated with nonperformance, illiquidity and the structure and term of the loans along with local economic and market conditions. Loans with similar characteristics were aggregated for purposes of the calculations.

Deposits

Deposits include demand deposits, money market, NOW and savings accounts. The carrying amount of these deposits approximates fair value. The fair value of fixed-maturity certificates of deposit is estimated using a discounted cash flow calculation that applies the rates currently offered for deposits of similar remaining maturities.

NOTE M - CONCENTRATIONS OF CREDIT

All of the Bank's loans, commitments, commercial and standby letters of credit have been granted to customers in the Bank's market area. The concentrations of credit by type of loan are set forth in Note C. Commercial and standby letters of credit were granted primarily to commercial borrowers. Regulations limit the amount of credit that can be extended to any single borrower or group of related borrowers.

The Bank had due from bank balances in excess of the $250,000 federal insurance limit as of December 31, 2021, of approximately $1,184,000.

NOTE N - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit, which are not reflected in the accompanying financial statements until they are funded or related fees, are incurred or received.

NOTE N - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (Continued)

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of these instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments and may require collateral or other credit support for financial instruments with credit risk. These obligations are summarized below as of December 31, 2021 and 2020 (In thousands):

	2021	2020
Commitments to extend credit	$ 67,842	$ 54,121
Standby letters of credit	3,505	2,554

Commitments to extend credit are agreements to lend to a customer as long as conditions established in the agreement have been satisfied. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since commitments often expire without being fully drawn, the total commitment amounts do not necessarily represent future cash requirements. The Bank continually evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if it is deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the counterparty. Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending a loan.

NOTE O - COMMITMENTS AND CONTINGENCIES

The Bank is a defendant in legal actions arising from its normal business activities. Management, on advice from counsel, believes that those actions are without merit or that the ultimate liability resulting from them, if any, will not materially affect the Bank's financial position.

The full impact of COVID-19 is unknown and continues to evolve rapidly. It has caused disruption in international and domestic economies, markets and employment. The pandemic has had and may continue to have a significant adverse impact on certain industries the Bancorp serves. Many of these industries continue to be constrained by ongoing supply chain disruptions and labor shortages. Because of the significant uncertainties related to the ultimate duration of the COVID-19 pandemic and its potential effects on clients and prospects, and on the global, national and local economy as a whole, there can be no assurances as to how the crisis may ultimately affect the Bancorp's loan portfolio.

NOTE P – OPERATING LEASES

On January 1, 2019, The Bancorp adopted Accounting Standards Update ("ASU") 2016-02 *Leases* which required the recognition of certain operating leases on the balance sheet as lease right-of-use assets and related lease liabilities. See Note 1 - Summary of Significant Accounting Policies. Rent expense totaled $139,547 and $96,939 in 2021 and 2020, respectively. Rent expense includes amounts related to items that are not included in the determination of lease right-of-use assets including expenses related to short-term leases totaling $5,777 and $17,516 in 2021 and 2020, respectively.

The Bancorp's leases have remaining terms ranging from one to five years, one of which includes three options to extend the lease for five years, per option. It is reasonably certain that the first option will be exercised. Lease payments per the agreement are $5,000 per month, and beginning in January 2019, the annual rent increases by 3% per year.

Lease payments under operating leases that were applied to our operating lease liability totaled $85,254 and $51,534 during 2021 and 2020, respectively. The following table reconciles future undiscounted lease payments due under non-cancelable operating leases (those amounts subject to recognition) to the aggregate operating lessee lease liability as of December 31, 2021.

A maturity analysis of the operating lease liability and reconciliation of the undiscounted cash flows to the total operating lease liability is as follows:

2022	$ 119,851
2023	121,876
2024	123,963
2025	126,112
2026	106,526
Thereafter	78,286
Total undiscounted cash flows	676,614
Discount on cash flows	(40,833)
Total operating lease liability included in the accompanying balance sheet	$ 635,781
Weighted-average remaining lease term in years	5.5
Weighted-average discount rate	2.03%

NOTE Q – REVENUE FROM CONTRACTS WITH CUSTOMERS

Substantially all of the Bancorp's revenue from contracts with customers within the scope of FASB ASC 606 is included in the core banking segment and is recognized within noninterest income. The following table presents the Bancorp's sources of noninterest income for the years ended December 31, 2021 and 2020 (In Thousands):

	Year Ended December 31,	
	2021	2020
Service charges on deposit accounts	$ 2,452	$ 2,240
Other service charges, commissions and fees	2,419	1,944
Other	55	54
Revenue from contracts with customers	4,927	4,238
Gain on sale of securities, net	74	3,100
Income from bank owned life insurance, net of premiums	391	379
CDFI Fund Award	1,826	203
Income from mortgage company	343	-
Other	-	414
Other noninterest income	2,635	4,096
Total noninterest income	$ 7,562	$ 8,334

A description of the Bancorp's revenue streams accounted for under FASB ASC 606 follows:

Service Charges on Deposit Accounts: The Bancorp earns fees from its deposit customers for transaction-based, account maintenance, and overdraft services. Transaction-based fees, which include services such as wire fees, stop payment charges, statement rendering, ATM fees, and ACH fees, are recognized at the time the transaction in executed as that is the point in time the Bancorp fulfills the customer's request. Account maintenance fees, which relate primarily to monthly maintenance, are earned of the course of a month, representing the period over which the Bancorp satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs.

Other Service Charges, commissions and Fees: The Bancorp earns interchange fees from debit cardholder transactions conducted through a payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder.

Other Income: Other income from contracts with customers include safe deposit fees and instant issue debit card fees. This revenue is recognized at the time the transaction is executed or over the period the Bancorp satisfies the performance obligation.

NOTE R - BUSINESS COMBINATION

On October 23, 2020, the Bancorp completed the purchase of one (1) branch located in Mobile, Alabama from Bank OZK. As part of the agreement, the Bancorp purchased loans of $13,698,832 and assumed deposit liabilities of $24,810,357, and purchased the related fixed assets and cash of the branch. The Bancorp operates the acquired bank branch under the name Merchants and Marine Bank. The acquisition allowed the Bancorp to expand its presence in South Alabama. The Bancorp's consolidated statements of income include the results of operations of the acquired branch from the closing date of the acquisition.

In connection with the acquisition, the Bancorp recorded $1,719,597 of goodwill and $167,000 of core deposit intangible. The core deposit intangible of $167,000 will be expensed over 10 years. The amounts of the acquired identifiable assets and liabilities as of the acquisition date were as follows:

Purchase Consideration	$ 1,425,643
Identifiable assets:	
Cash	9,348,512
Loans	13,698,832
Property and equipment	1,289,064
Core deposit intangible	167,000
Other assets	32,764
	24,536,172
Liabilities	
Deposits	24,810,357
Other liabilities	19,769
	24,830,126
Net assets (liabilities) acquired	(293,954)
Goodwill resulting from acquisition	1,719,597

NOTE S - SUBSEQUENT EVENTS

Management of the Bancorp and the Bank has evaluated subsequent events through February 22, 2022, the date the financial statements were available to be issued. No material subsequent events have occurred since December 31, 2021, that required recognition or disclosure in the financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (In Thousands)

The Company is reporting Net Income of $2,185, or $1.64 per share, for the 12 months ended December 31, 2021 compared to $4,017, or $3.02 per share, for the 12 months ended December 31, 2020. Return on average assets totaled 0.31% and 0.64% for the years ended December 31, 2021, and December 31, 2020, respectively. Return on average equity for the 12 months ended December 31, 2021 and December 31, 2020, totaled 2.67% and 4.96%, respectively.

The Company's net interest margin is a prime indicator of its profitability. The net interest margin (tax equivalent basis) reflects the spread between interest-earning asset yields and interest-bearing liability costs, and the percentage of interest-earning assets funded by interest-bearing liabilities. The Company's net interest margin (tax equivalent) improved to 3.18% at December 31, 2021, from 3.09% in the same period in 2020.

Average loan yield was 5.59% during 2021, an increase of 59 basis points from 2020. Average yield on securities (tax equivalent basis) was largely flat, seeing a slight decrease of 3 basis points 2021. The securities portfolio (tax equivalent basis) saw an average yield of 2.25% in 2021, down from 2.28% in 2020. Increased supply of the dollar, along with deposit bloat and enhanced pricing strategies implemented by management, served to decrease average cost of deposits to 0.37% in 2021 to 0.56% in 2020.

In addition to the significant income derived from the sale and forgiveness of PPP loans in 2021, the company also received a Rapid Response Program (RRP) award through the U. S. Treasury's Community Development Financial Institution (CDFI) Fund. The award totaled $1,826 and was a material contribution to the company's income. The award was used to fund loan loss reserves and to augment capital, as stipulated in the RRP guidelines. That increase in loan loss reserves allowed management to eliminate more than $4 million in non-performing loans by selling those assets at a discount to a third party. It was the goal of management to utilize nonrecurring income to fund nonrecurring expenses to better position the bank for subsequent periods.

Average assets totaled $708,368 for the year ended December 31, 2021, an increase of $79,977, or 12.73%, from $628,391 through the year ended December 31, 2020. Average net loans totaled $341,912 during 2021, an increase of $3,889, or 1.15%, from 2020. Average total deposits also grew, by $38,888, or 7.83%, averaging $535,243 during 2020. It should be noted that, in the loan averages, that the bank sold more than $4 million worth of nonperforming loans during 2021, and all PPP loans that were carried on the balance sheet as of year-end 2020 were paid off prior to the end of the second quarter of 2021.

Total non-performing assets, including non-accrual loans, accruing loans past due over 90 days, and other real estate owned, totaled $5,842 and $9,697 in 2021 and 2020, respectively, representing a significant improvement in asset quality year-over-year. Non-performing loans, as a percentage of total loans, were 1.46% as of December 31, 2021 and 2.61% as of December 31, 2020.

The Company places a great emphasis on maintaining its strong capital base. The Company's management and Board of Directors continually evaluate business decisions that may have an impact on the level of stockholders' equity. It is their goal that the bank maintains a "well-capitalized" equity position. The bank's regulator defines a "well-capitalized" institution as one that has at least a 10% total risk-based capital ratio, a 6.5% common equity Tier 1 capital ratio, an 8% Tier 1 risk-based capital ratio, and a 5% leverage ratio. The Company's capital ratios for 2021 were 19.37%, 18.50%, 18.50% and 11.48% compared to 20.45%, 19.43%, 19.43% and 12.28% for 2020. The Company's solid capital base is reflected in the margin by which its regulatory capital ratios exceed the "well-capitalized" standards. This strong capital base not only protects the bank against risks presented by the industry and the economy, but also positions the company to take advantage of growth and expansion opportunities as they arise.

Stockholders' equity to total assets for 2021 and 2020 was 12.11% and 12.66%, respectively.

OTHER INFORMATION

Information Relating to Common Stock

At December 31, 2021, the Company's authorized capital stock consisted of 5,000,000 shares of common stock, par value $2.50 per share, of which 1,330,338 were issued and outstanding. The Company joined the OTCQX Market Place on January 19, 2018 trading under the new ticker symbol MNMB. The common stock was not traded on an exchange prior to this date, nor was there a known active trading market. As of December 31, 2021, the common stock of the Company was held of record by 908 stockholders. Based solely on information made available to the Company from limited numbers of buyers and sellers, the Company believes that the following table sets forth the quarterly range of sales prices for the Company's stock during the years 2021 and 2020.

Stock Prices

2021	High	Low
1st Quarter	$39.00	$36.00
2nd Quarter	40.00	37.10
3rd Quarter	46.00	37.34
4th Quarter	41.50	39.50

2020	High	Low
1st Quarter	$41.50	$32.75
2nd Quarter	37.00	28.00
3rd Quarter	40.00	32.05
4th Quarter	37.24	34.00

During each quarter of 2021 and 2020, cash dividends on common stock were paid as follows:

	2021	2020
1st Quarter	$0.55	$0.55
2nd Quarter	0.30	0.30
3rd Quarter	0.30	0.30
4th Quarter	0.30	0.30
Total	$1.45	$1.45

Although no assurances can be given, the Company anticipates that cash dividends on shares of the Company's common stock will continue to be paid during 2022, subject to the discretion of the Board of Directors.

MERCHANTS & MARINE BANCORP, INC.
AND
MERCHANTS & MARINE BANK

BOARD OF DIRECTORS

William Russell Buster, IV
Owner
C-Sharpe Co, LLC

Royce Cumbest
Chairman of the Board
Merchants & Marine Bancorp, Inc. and
Merchants & Marine Bank

Frank J. Hammond, III
Attorney
Watkins & Eager, PLLC

Abe L. Harper, Jr.
President
Harper Technologies, LLC

Paul H. (Hal) Moore, Jr., M.D.
Retired Radiologist
Singing River Radiology Group

Diann M. Payne
Retired Executive Director
Jackson County Civic Action Committee

Amy L. St. Pé
Attorney
Amy Lassitter St. Pé, P.A.

Alan K. Sudduth
Corporate Affairs Manager
Chevron Pascagoula Refinery

Henry G. (Hank) Torjusen, Jr.
Co-owner
Fletcher Construction Company

Thomas B. Van Antwerp
Trustee
The Hearin-Chandler Foundation

Julius A. (Jay) Willis, Jr., DMD
Owner
Willis & Associates, LLC

SENIOR ADVISORY DIRECTOR

Jerry St. Pé
President
St. Pé & Associates

ADVISORY DIRECTOR

T. Bragg Van Antwerp, Jr.
Managing Director
Mitchell McLeod Pugh & Williams Investment Advisors

DIRECTORS EMERITUS

Lynda J. Gautier
Retired Certified Public Accountant

John F. Grafe
Retired Businessman

Jerry L. Lee
Retired President and Chief Executive Officer
Jerry Lee's Grocery, Inc.

Paul H. Moore, Sr., M.D.
Retired Radiologist
Singing River Radiology Group

MERCHANTS & MARINE BANCORP, INC.
<u>Officers as of December 31, 2021</u>

Clayton Legear*
President and Chief Executive Officer

Casey Hill*
Executive Vice President/Chief Financial Officer

Greg Hodges*
Executive Vice President/Chief Banking Officer

Jeffrey Trammell*
Executive Vice President/Chief Risk and Strategy Officer

Jackie Skelton
Assistant Vice President/Secretary to the Board

MERCHANTS & MARINE BANK
<u>Officers as of December 31, 2021</u>

Royce Cumbest*
Chairman of the Board

Clayton Legear*
President and Chief Executive Officer

Jimmy Conyers*
Executive Vice President/Alabama Market President

Casey Hill*
Executive Vice President/Chief Financial Officer

Greg Hodges*
Executive Vice President/Chief Banking Officer

Kristi Maxwell*
Executive Vice President/Chief Administrative Officer

Mack Rushing*
Executive Vice President/Coastal Mississippi Market President

Herman E. Smith*
Executive Vice President/Relationship Manager

Jeffrey Trammell*
Executive Vice President/Chief Risk and Strategy Officer

Lisa Adams
Credit and Loan Portfolio Administration Officer

Allie Applewhite
Credit Analyst

Rita Bailey
Assistant Vice President/Controller/Cashier

Michelle Baldwin
Vice President/Credit Analyst Manager

Lyndsay Baronet
Retail Bank Manager

Meghan Battles
Community Banker/Retail Bank Manager

Bradley Bell
Vice President/Technology & Integration

Stephanie Blocker
Community Banker/Retail Bank Manager

Shelly Bolden
Retail Bank Manager

Dixie Brewer
Retail Bank Manager

Shelley Butler
Retail Bank Manager

Lauren Carpenter
Cash Management Manager

Richard Cauley
Facilities and Contracts Officer

Luke Chapman
Assistant Vice President/Business Banker

Paricia Coleman
Assistant Vice President/Retail Operations Officer

Brad Cornett
Vice President/Business Banker

Michael Daniel
Vice President/Business Banker

Riece Fleming
Assistant Vice President/Security and Fraud Officer

Mary Graham
Assistant Vice President/Community Banker

***Officers as of December 31,* 2021 (continued)**

Kelly Green
Assistant Vice President/Deposit Operations Manager

Caretta Hall
Assistant Vice President/Community Banker

Jonathan Jones
Vice President/Senior Business Banker

Lisa Jones
Assistant Vice President/Director of Lending Services

Brooke Jordan
Loan Officer/TRID Lender

Jodi Keating
Vice President/Community Banker/TRID Lender

Kia Mallety
Internal Auditor

Stacey McElroy
Assistant Vice President/Network Systems Administrator

Tom Peresich
Assistant Vice President/Bank Secrecy Act Officer

Clayton Rush
Business Banker

Jackie Skelton
Assistant Vice President/Secretary to the Board

Anna Spencer
Community Banker

Stephanie Spring
Vice President/Compliance Manager

Parrish Tatum
Vice President/Business Banker

David Thomas
Vice President/Retail Banking

Brenda Tingle
Vice President/Community Banker

Chad Wade
Vice President/Business Banker

Glenda Walker
Assistant Vice President/Collections

Sheryl Wolfe
Vice President/Human Resources Director

Lester Wright
Retail Bank Manager

**Executive Officers*

CANVAS MORTGAGE

A division of Merchants & Marine Bank

Officers as of December 31, 2021

Sharon Rice
President Mortgage Operations

Jonathan Shows
President Mortgage Production

(This page intentionally left blank)

Proudly Serving Our Communities.

DAPHNE
27765 US 98
Daphne, AL 36526

ESCATAWPA
7616 Highway 613
Moss Point, MS 39563

FAIRHOPE
325 Fairhope Avenue
Fairhope, AL 36532

GAUTIER
1200 Highway 90 West
Gautier, MS 39553

GULF SHORES
1820 Gulf Shores Parkway
Gulf Shores, AL 39547

HATTIESBURG
Loan Production Office
140 Mayfair Road, Suite 100
Hattiesburg, MS 39402

HURLEY
21536 Highway 613
Moss Point, MS 39562

LUCEDALE
11283 Highway 63 South
Lucedale, MS 39452

MOBILE
6161 Airport Boulevard
Mobile, AL 36608

MOSS POINT
4619 Main Street
Moss Point, MS 39563

OCEAN SPRINGS
2802 Bienville Boulevard
Ocean Springs, MS 39564

PASCAGOULA
3118 Pascagoula Street
Pascagoula, MS 39567

1807 Market Street
Pascagoula, MS 39567

ST. MARTIN
6416 Washington Avenue
Ocean Springs, MS 39564

WADE
16831 Highway 63
Moss Point, MS 39563

Merchants & Marine Bancorp, Inc.

mandmbank.com

Customer Service: 1.866.223.9512

24-Hour Access: 1.866.229.9415