Merchants & Marine Bancorp, Inc. Announces Second Quarter Financial Results

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PASCAGOULA, Miss.--(BUSINESS WIRE)--Merchants & Marine Bancorp, Inc. (OTCQX: MNMB), the parent company of Merchants & Marine Bank, reported net income through the second quarter of 2023 of $1.87 million, or $1.41 per share, compared with earnings of $396 thousand, or $0.30 per share, for the same period in the prior year. In quarter-only terms, second quarter income totaled $709 thousand, or $0.53 per share, an increase of 197.89% from the same period in 2022. Second quarter gross income increased 20.67% to $9.5 million from $7.87 million for the same period in 2022. Second quarter income was materially affected by a large one-time non-interest expense related to the Company's application for a grant available through the United States Treasury Department's Community Development Financial Institution (CDFI) program. Total deposits decreased by 16.31% from the same period in the prior year, from $630 million to $527 million at the end of the second quarter 2023. The majority of the decrease in deposits – $57 million – was due to the planned exit of high-cost public funds. This planned reduction has served to materially decrease the Company's cost of funds.

Selected financial highlights:

- Second quarter income was materially impacted by a $370 thousand one-time expense associated with the application for an Equitable Recovery Program (ERP) grant from the U.S. Treasury's Community Development Financial Institutions (CDFI) Fund. The Company has been awarded an ERP grant of approximately $3.70 million, and receipt of funds is expected in the second half of 2023.
- Total interest income for the second quarter increased to $7.65 million from $5.67 million in the second quarter of 2022, a lift of 34.98%. The increase is primarily due to increased interest income on loans, which increased to $6.247 million in the second quarter from $4,632 million in the second quarter of 2022.
- Interest expense decreased to $352 thousand in the second quarter from $523 thousand in the same period in 2022, a decline of 32.72%. This significant decline is due primarily to the planned exit of high-cost public funds and adherence to the Company's deposit pricing strategy.
- Loan growth remained strong during the second quarter, with net loans increasing by 13.46% on a net basis from the same period in 2022 to $413.91 million at the end of the second quarter 2023.
- Credit quality remained strong during the second quarter. The ratio of loans past due 30-89 days remained flat at 1.07% of total loans at the end of the second quarter compared to 1.04% at the end of linked quarter. The ratio of non-accrual loans increased to 1.42% of total loans during the second quarter from 1.20% of total loans in the first quarter of 2023. This increase was primarily due to administrative issues related to a single loan that have since been addressed.
- The bank adopted the Financial Accounting Standard Board's Current Expected Credit Losses (CECL) methodology effective January 2023. The one-time impact on capital exceeded $4.4 million and increased the allowance for loan and lease losses (ALLL) to gross loans ratio to over 2% at that time. The ALLL remains robust at 1.97% of gross loans at the end of the second quarter.

- Accumulated Other Comprehensive Income (AOCI) mark-to-market losses in the securities portfolio worsened slightly to ($9.51 million) at the end the second quarter from ($8.88 million) at the end of the linked quarter. Tangible capital at the Company remains very robust at 17.85% of assets even when considering this relatively small AOCI impairment.
- Liquidity levels remain very healthy. Cash and cash equivalents remain elevated at $43.47 million, or 6.60% of total assets at the end of the second quarter. In addition to these large cash balances, the bank's $145 million investment portfolio remains liquid, with a significant portion able to be liquidated with no material loss.
- In addition to the sizeable on-balance sheet liquidity position, the bank has more than $250 million in borrowing capacity available through lines with both the Federal Home Loan Bank and the Federal Reserve. It is important to note that the company currently has zero borrowed funds in its liability mix.

"Our long-term financial strategy continues to prove out through the second quarter of 2023," said the company's Chief Financial Officer, Casey Hill. "As we planned, and publicly shared those plans over the prior two years, our balance sheet continues to contract while our relative profitability continues to increase. Our conservative approach in deploying cash produced by post-COVID government stimulus has allowed us to exit higher-cost, non-core deposits as industry deposit betas have drastically accelerated. This approach has produced a peer-leading 23 basis point cost of funds. Combined with our careful redeployment of cash reserves into higher-yielding loans and investments over the prior 12 months, we're pleased to now have a top-decile net interest margin of almost five percent. We are now positioning our balance sheet for flattening yields, and the possibility of rate decreases over the next several years."

The company saw the realization of planned balance sheet contraction over the past twelve months to the tune of 13.86%, with total assets declining to $658.52 million at the end of the second quarter of 2023 from $764.46 million at the end of the same period last year. The composition of the balance sheet also saw a high degree of positive change. The loan portfolio grew $53.02 million, or 14.36% on a gross basis, during the prior 12 months. Deposits decreased 16.31% from the same period last year, over half of which was the planned exit of high-cost public funds deposits. The resulting deposit portfolio mix is much more advantageous, as evidenced in the bank's continued low cost of funds.

"Our cost of funds has increased only 4 basis points over the linked quarter, and now stands at just 0.23%, a level that is several standard deviations lower than that of our industry," continued Hill. "Our strategy, while contrary to most of our peers in its initial deployment, has positioned us for a very strong future. While we're still somewhat heavy on overhead due to the launch of several new business lines and building of operational capacity, we're proud of the capability that the company has built over the past year and look forward to deploying this operational ability to support acquisitional growth in the near future. With this growth, our efficiency ratio should right-size, and without the headaches caused by playing operational 'catch-up.'"

"At a time when many banks are struggling with increased funding costs, reduced margins and strained liquidity, our Company's 'Battle Ready Balance Sheet' and increased operational capacity has allowed us to execute strategic plans that have steadily improved our core earnings," remarked Clayton Legear, the company's Chief Executive Officer. "Importantly, our improved earnings are inclusive of significant investments into new business lines like mortgage and government guaranteed lending that diversify our revenue and should help provide a buffer against eventual declines in market rates. In addition to our core earnings, we look forward to announcing a series of investments and grants made possible by our pending receipt of CDFI ERP funds in the days ahead that will help further strengthen our communities. Being able to leverage CDFI grant programs like ERP to support our ongoing efforts, and our communities, is a true win-

win. Above all, we remain focused on leveraging all resources to build a best-in-class community banking franchise that drives strong value for our shareholders, our clients, our team members, and the communities we call home."

Merchants & Marine Bancorp, Inc. (OTCQX: MNMB) is the parent company of Merchants & Marine Bank, a Mississippi chartered community bank serving the Gulf South region. Originally founded in 1899, Merchants & Marine Bank was reborn in 1932 during the middle of the worst economic disaster in the history of the United States: The Great Depression. More than eight decades later, Merchants & Marine Bank has grown from $25,000 to nearly $700 million in assets, and from 2 offices to 16 offices serving the Mississippi & Alabama Gulf Coast region, as well as the Mississippi Pine Belt. The bank offers mortgage financing through its Canvas Mortgage division, medical cannabis banking through its CannaFirst Financial division, and access to government-guaranteed credit through Voyager Lending. For more information on Merchants & Marine Bancorp, Inc., visit https://mandmbank.com/investor-relations.

MERCHANTS & MARINE BANCORP, INC.
CONSOLIDATED FINANCIALS (UNAUDITED)
BALANCE SHEET

ASSETS	*June 30, 2023*	*June 30, 2022*
TOTAL CASH & DUE FROM	**43,471,583.41**	**149,190,544.55**
TOTAL SECURITIES	**145,094,229.38**	**198,268,611.53**
TOTAL FEDERAL FUNDS SOLD	**199,563.45**	**-**
TOTAL LOANS	**422,226,713.78**	**369,209,458.23**
Begin Year Reserve for Loss	(3,566,893.00)	(4,455,469.00)
Recoveries on Charge Off	(189,056.20)	(186,007.94)
Charge Offs Current Year	387,559.91	446,176.08
Allowance-Current Year	(4,945,682.71)	(217,168.14)
RESERVE FOR LOSSES ON LOANS	**(8,314,072.00)**	**(4,412,469.00)**
NET LOANS	**413,912,641.78**	**364,796,989.23**
NET FIXED ASSETS	**25,458,102.98**	**23,601,382.88**
Other Real Estate	27,000.00	458,000.10
Other Assets	30,355,581.79	28,146,119.58
TOTAL OTHER ASSETS	**30,382,581.79**	**28,604,119.68**
TOTAL ASSETS	**$ 658,518,702.79**	**764,461,647.87**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Demand Deposits	$ 361,025,898.80	379,485,673.48
Public Funds	18,821,588.29	76,010,771.07
TOTAL DEMAND DEPOSITS	**379,847,487.09**	**455,496,444.55**
Savings	95,629,788.93	99,920,209.68
C D's	41,012,210.52	57,075,767.75
I R A's	8,304,380.75	9,693,105.17
CDARS	2,452,228.58	7,797,252.72
TOTAL TIME & SAVINGS DEPOSITS	**147,398,608.78**	**174,486,335.32**
TOTAL DEPOSITS	**527,246,095.87**	**629,982,779.87**
SECURITIES SOLD UNDER REPO & BORROWINGS	**3,362,542.82**	**5,174,794.91**
DIVIDENDS PAYABLE	**798,202.80**	**798,202.80**
TOTAL OTHER LIABILITIES	**9,573,008.57**	**5,633,030.32**
Stockholders' Equity		
Preferred Stock	$ 50,595,000.00	$ 50,595,000.00
Common Stock	3,325,845.00	3,325,845.00
Earned Surplus	14,500,000.00	14,500,000.00
Undivided Profits	61,332,410.71	63,715,439.73
Current Profits	1,870,543.97	396,122.23
Total Unrealized Gain/Loss AFS	(9,505,333.95)	(8,518,049.44)
Defined Benefit Pension FASB 158	(4,579,613.00)	(2,723,832.00)
TOTAL CAPITAL	**117,538,852.73**	**122,872,839.97**
TOTAL LIABILITIES & CAPITAL	**$ 658,518,702.79**	**$ 764,461,647.87**

MERCHANTS & MARINE BANCORP, INC.
CONSOLIDATED FINANCIALS (UNAUDITED)
INCOME STATEMENT

ACCOUNT NAME	SIX MONTHS ENDED JUNE 30, 2023	Q2 2023	SIX MONTHS ENDED JUNE 30, 2022	Q2 2022
Interest & Fees on Loans	$ 12,064,896.09	$ 6,247,352.77	$ 8,982,866.76	$ 4,631,842.76
Interest on Securities Portfolio	2,394,390.89	1,242,552.44	1,439,679.39	908,857.31
Interest on Fed Funds & EBA	414,137.91	162,581.14	187,668.66	128,834.23
TOTAL INTEREST INCOME	**14,873,424.89**	**7,652,486.35**	**10,610,214.81**	**5,669,534.30**
Total Service Charges	1,413,344.60	700,439.52	1,363,987.13	677,113.75
Total Miscellaneous Income	2,069,246.32	1,120,488.87	2,886,447.28	1,535,753.15
TOTAL NON INT INCOME	**3,482,590.92**	**1,820,928.39**	**4,250,434.41**	**2,212,866.90**
Gains/(Losses) on Secs	-	-	-	-
Gains/(Losses) on Sales REO	27,000.00	27,000.00	(9,280.18)	(9,280.18)
Gains/(Losses) on Sale of Loans	-	-	-	(260.00)
TOTAL INCOME	**18,383,015.81**	**9,500,414.74**	**14,851,369.04**	**7,872,861.02**
TOTAL INT ON DEPOSITS	**653,909.88**	**350,807.19**	**888,135.84**	**521,452.81**
Int Fed Funds Purchased/Sec Sold Repo	2,467.52	1,153.28	3,035.84	1,684.82
TOTAL INT EXPENSE	**656,377.40**	**351,960.47**	**891,171.68**	**523,137.63**
PROVISION-LOAN LOSS	**(1,230.14)**	**38,930.96**	**217,168.14**	**3,572.48**
Salary & Employee Benefits	8,177,902.00	4,159,739.24	7,184,750.90	3,616,138.12
Total Premises Expense	3,114,019.58	1,751,852.21	2,759,125.62	1,396,114.93
FDIC, Sales and Franchise	201,214.70	107,935.55	159,215.62	82,408.34
Professional Fees	1,129,837.10	819,859.00	676,467.58	449,327.57
Miscellaneous Office Expense	384,094.25	205,930.88	399,871.79	201,243.83
Dues, Donations and Advertising	449,975.28	198,607.70	432,380.29	252,282.96
Checking, ATM/Debit Card Expenses	912,678.15	509,945.32	975,530.44	598,389.57
ORE Expenses	4,200.00	2,100.00	43,753.72	23,218.72
Total Miscellaneous Expense	1,166,651.14	525,944.48	927,157.03	497,630.32
TOTAL OTHER OPERATING	**15,540,572.20**	**8,281,914.38**	**13,558,252.99**	**7,116,754.36**
FEDERAL & STATE INCOME TAXES	316,752.38	118,500.00	(211,346.00)	(8,647.29)
TOTAL EXPENSES	16,512,471.84	8,791,305.81	14,455,246.81	7,634,817.18
NET INCOME	**$ 1,870,543.97**	**$ 709,108.93**	**$ 396,122.23**	**$ 238,043.84**
EPS	***$ 1.41***	***$ 0.53***	***$ 0.30***	***$ 0.18***