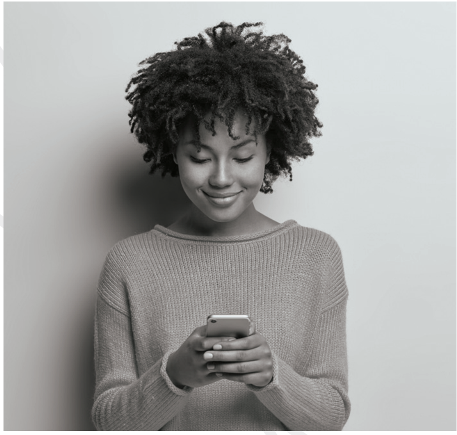
Looking Back.
Moving Forward.

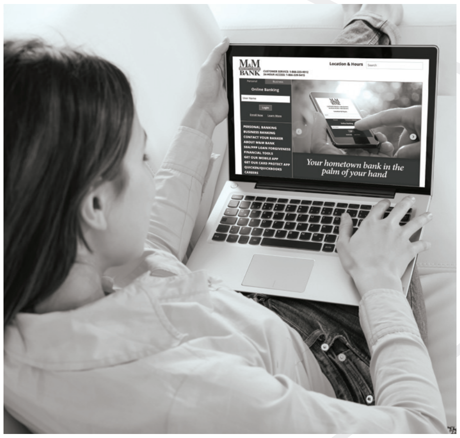
ANNUAL REPORT 2020

info.mandmbank.com/shareholder2020

M&M
MERCHANTS & MARINE
BANCORP, INC.



A Tradition of **Resilience**



To RSVP to this year's shareholder meeting, visit:
info.mandmbank.com/shareholder2020.

TABLE OF CONTENTS

(This page intentionally left blank)

PHONE 228 • 762 • 3311
3118 PASCAGOULA STREET
PASCAGOULA, MS 39567

M&M
MERCHANTS & MARINE
BANCORP, INC.

Fax 228 • 934 • 1346
P.O. BOX 729
PASCAGOULA, MS 39568 • 0729

March 2, 2021

Dear Fellow Shareholder,

We hope that this Annual Report finds you and your loved ones healthy and happy. There is no doubt that 2020 presented a far from normal year within which to operate a Bank, or any other company for that matter. However, it is our great pleasure to report that your Bank's Board, Executive Leadership, and talented bankers leveraged the unusual circumstances of 2020 for the betterment of our Bank, our clients, our shareholders and the communities we serve.

As you will see in the enclosed financial report, your Bank reported another year of solid financial performance for 2020 especially given the difficult operating environment resulting from the COVID-19 pandemic. Net income totaled $4,017M, or $3.02 per share, for 2020, compared with $4,150M and $3.12 in 2019. Shareholder's equity grew by 5.6% during 2020, to total $81,813M, or $61.50 per share, at year end 2020. In the narrative that follows, we seek to provide additional commentary on our 2020 financial performance, highlight some key accomplishments from the past year and share our thoughts for 2021 and beyond.

2020 Financial Performance

It would be hard to overstate the significant and sustained impacts of COVID-19, and the resulting economic turmoil, on our industry's performance during 2020. It seems that virtually every aspect of bank balance sheets, income statements and even bank operations were impacted by COVID-19 related factors as the year wore on. The following highlights represent, in our opinion, some of the key themes to be mindful of when reviewing your Bank's 2020 Financial Report.

- Balance Sheet Swelling: Banks nationwide experienced strong growth in both deposits and total assets during 2020, due to the combined effects of reduced consumer and business spending and Federal economic stimulus efforts. This contributed to Merchants & Marine Bank experiencing "surge" deposit growth of $66,600M in 2020, or a 13.76% increase over last year, much of which occurred in the second quarter. As of this writing, most all of these funds remain in place. However, their long-term stability remains to be seen when more normalized economic conditions and spending patterns return. It should be noted that while here, these "surge" deposits and the corresponding increase in total assets have resulted, and will continue to result, in slightly negative impacts to many of our financial performance ratios as they have contributed to significant increases in our total assets that were largely invested in lower yielding short-term liquid assets.

- <u>Investment Portfolio Repositioning:</u> The Federal Reserve Board's March 2020 emergency action to cut the Federal Funds Target Rate to near zero led to significant calls and prepayments in investment securities, and also the lowering of overall portfolio yields nationwide. We experienced over $49,000M in calls during 2020, or an amount equivalent to 29% of our total year end 2019 investment portfolio. We were able to effectively redeploy a portion of this liquidity in the execution of a shorter-term investment strategy during the second quarter, but have refrained from reinvesting the majority of the funds due to a lack of attractive investment options. The investment portfolio's smaller size throughout 2020 resulted in a decline in interest on investment securities of $1,080M, or 29.15%, from 2019 levels.

- <u>Heightened Liquidity Levels:</u> The combination of reduced consumer and business spending, Federal stimulus efforts, and calls and prepayment activity in our investment portfolio led to the accumulation of significant cash balances during 2020. As of year end 2020, cash and due from bank balances totaled $128,554M, or 19.90% of total assets, compared to $49,371M, or 8.57% of total assets, at year end 2019. While this heightened level of liquidity does depress short term earnings, it also provides significant flexibility and protection for the Bank against additional economic turmoil and stress events. We continue to actively seek out opportunities to redeploy these funds and generate better yields, with an emphasis on quality organic loan growth. We are pleased to report that these efforts have produced results, including a 3.63% increase in interest and fee income on loans during 2020 over 2019 levels.

- <u>Reduction in Service Charges:</u> As consumer and business spending cratered during the first and second quarter of 2020, so did Bank income derived from service charges on deposit accounts. Income from service charges on deposit accounts totaled just $2,240M in 2020, a reduction of $805M, or 26.43%, from 2019. Though large, we observed the decline in service charge income to be most pronounced during the first half of 2020, with improvement during the latter months of the year. While we are unlikely to see service charges on deposit accounts return to pre-pandemic levels in 2021, we are hopeful the results will outpace those posted in 2020.

- <u>Small Business Administration (SBA) Lending Activity:</u> A cornerstone of the United States Government's Fiscal Response to COVID-19 during 2020 was the SBA Paycheck Protection Program Loan (PPP Loan). Our talented bankers worked around the clock for weeks on end helping small businesses throughout our trade area obtain these forgivable loans and stabilize their business finances. In total, we originated almost 700 "first round" PPP Loans totaling nearly $38,000M in 2020. Total origination fees from these loans, which have been received but are not recognized as income until PPP Loans are forgiven or repaid, totaled more than $1,600M. We recognized approximately $187M of this income during 2020 and expect to recognize the remainder during 2021 as additional PPP Loans are forgiven or repaid.

2020 Milestones

The theme of continued progress and improvement within the Bank that we have previously shared with you carried forward throughout 2020. We were overwhelmed with examples of our talented bankers stepping up to serve our clients, our communities, and each other throughout the darkest days of the pandemic. Their powerful examples of courage, resilience and service to others inspired us all to work even harder to make a difference.

Despite the turmoil and adversity of 2020, our team completed several key accomplishments that we expect will drive significant value in the days ahead. These include:

- Establishment of Hattiesburg Loan & Deposit Production Office: In September 2020 we opened a Loan and Deposit Production Office in the dynamic Hattiesburg, Mississippi market. Staffed by a team of seasoned, local bankers, this new office has already produced strong results in a very limited amount of time. We believe this team, and this market, will continue driving strong value for our Bank for years to come.

- Acquisition of Branch in Mobile, AL: In October 2020 we finalized the purchase of a new Bank Branch Office in Mobile, Alabama, from Bank OZK. Conveniently located on Airport Boulevard in the fast-growing community of West Mobile, this location provides a strategic presence in the robust Mobile metro area. Our team in this office is comprised of talented local bankers who we believe add depth and strong value to our Bank.

- Enhanced Risk Framework: We significantly strengthened our risk management framework during 2020, with an emphasis on credit risk. Our underwriting practices, credit risk monitoring systems and ongoing supervision of at-risk clients were all enhanced during 2020. We believe these enhancements will allow us to continue to grow with confidence in the days ahead.

- Technology Enhancements: Significant progress was made in enhancing our Bank's information technology framework during 2020. From hardening our systems against potential disruptions, to supporting a more mobile workforce, while offering enhanced digital capabilities to our clients, our bankers worked tirelessly throughout the year improving our capabilities. These enhancements are already paying dividends through increased efficiencies and improved service levels, and we believe they will continue to do so even after the pandemic subsides.

Looking Ahead

Our industry continues to experience significant consolidation nationwide. In fact, the number of commercial banks in the United States has fallen by more than 35% over the last decade to total approximately 4,300 in late 2020. The rate of consolidation is even more alarming when referencing the year 2000, when there were more than 8,400 commercial banks in the United States. There are many factors underlying the continued consolidation in our industry, most of which are unlikely to change any time soon. In fact, we expect some of these trends to accelerate in the years ahead as banks continue to grapple with the longer lasting challenges of a post COVID-19 world.

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 maximize the investments made during 2020 in the months ahead, and to identifying new and innovative ways to both serve clients and to improve your Bank.

We cordially invite you to join us for our 2021 Annual Shareholder's Meeting on April 1, 2021, at 10:00 a.m. This year's meeting will be held at the Performing Arts Center (Pascagoula-Gautier School District), located at 2104 Tucker 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 info.mandmbank.com/shareholder2020.

Thank you for your continued support & encouragement!

Sincerely,

Clayton Legear
President and 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,				
	2020	2019	2018	2017	2016
PERIOD END BALANCE SHEET					
Total assets	$ 646,061	$576,106	$ 558,043	$ 556,705	$ 563,734
Loans, net	359,408	309,648	301,801	265,113	264,002
Securities	107,957	171,420	188,245	205,678	201,614
Deposits	550,669	484,047	474,043	471,762	470,139
Stockholders' equity	81,813	77,492	71,304	70,386	67,917
AVERAGE BALANCE SHEET					
Total assets	628,391	587,797	573,293	582,183	578,947
Loans, net	338,023	312,633	286,100	263,998	258,022
Securities	138,537	172,867	197,615	204,623	210,454
Deposits	535,243	496,355	489,502	489,921	481,697
Stockholders' equity	81,048	74,865	70,844	69,152	67,121
INCOME STATEMENT					
Interest income	20,090	21,213	19,269	17,982	17,666
Interest expense	3,113	3,374	2,384	1,854	1,554
Net interest income	16,977	17,939	16,885	16,128	16,112
Provision for loan losses	951	905	882	818	568
Net interest income after provision for loan losses	16,026	17,035	16,003	15,310	15,545
Non-interest income	8,269	6,095	5,851	6,454	7,038
Non-interest expense	19,334	18,235	16,969	16,133	16,190
Net income, after tax	4,017	4,150	4,272	3,522	5,012
Cash dividends declared	1,929	1,929	1,929	1,862	1,796
PER SHARE DATA					
Net income	3.02	3.12	3.21	2.65	3.77
Cash dividends	1.45	1.45	1.45	1.40	1.35
Book value	61.50	58.25	53.60	52.91	51.05
RATIOS					
Return on average equity	4.96	5.54	6.03	5.09	7.47
Return on average assets	0.64	0.71	0.75	0.61	0.87
Capital to assets	12.66	13.45	12.78	12.64	12.05
Dividends declared as percentage of income	48.02	46.48	45.15	52.88	35.83

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Merchants & Marine Bancorp, Inc. and Subsidiary, which comprise the consolidated balance sheets as of December 31, 2020 and 2019, 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.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Bancorp's preparation and fair presentation of the consolidated financial statements 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 the Bancorp's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

Opinion

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, 2020 and 2019, 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.

T.E. Lott & Company

Columbus, Mississippi
February 18, 2021

MERCHANTS & MARINE BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2020 AND 2019

ASSETS	2020	2019
Cash and due from banks	$ 128,553,988	$ 49,371,493
Federal funds sold	132	-
Total cash and cash equivalents	128,554,120	49,371,493
Time deposits due from banks	1,952,933	1,750,136
Debt securities:		
Available-for-sale, at fair value	106,705,845	129,264,666
Held-to-maturity, at amortized cost	-	40,959,238
Equity securities	1,251,383	1,196,190
Loans	363,569,174	312,998,515
Less allowance for loan losses	(4,161,031)	(3,351,015)
Loans, net	359,408,143	309,647,500
Property and equipment, net	20,632,563	18,232,320
Other real estate owned	186,838	573,313
Accrued income	2,116,215	1,956,384
Goodwill	4,543,151	2,823,554
Cash surrender value	16,645,589	16,201,146
Operating lease right-of-use asset	456,396	507,930
Other assets	3,607,478	3,622,057
Total Assets	$ 646,060,654	$ 576,105,927
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Non-interest bearing demand	$ 152,944,024	$ 103,497,250
Interest bearing	397,724,589	380,550,215
Total deposits	550,668,613	484,047,465
Securities sold under agreements to repurchase	3,978,556	5,619,877
Operating lease liability	456,396	507,930
Accrued expenses and other liabilities	9,144,266	8,438,473
Total liabilities	564,247,831	498,613,745
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	65,840,301	63,752,454
Accumulated other comprehensive loss	(1,853,323)	(4,086,117)
Total stockholders' equity	81,812,823	77,492,182
Total Liabilities and Stockholders' Equity	$ 646,060,654	$ 576,105,927

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, 2020 AND 2019

	2020	2019
INTEREST INCOME		
Interest and fees on loans	$ 17,202,717	$ 16,598,772
Interest on investment securities:		
Taxable	1,388,314	2,263,483
Exempt	1,237,084	1,441,900
Interest on federal funds sold	244,740	816,656
Other interest income	17,429	192,274
Total interest income	20,090,284	21,313,085
INTEREST EXPENSE		
Interest on deposits	3,107,067	3,368,208
Interest on federal funds purchased and securities sold under agreements to repurchase	6,263	5,598
Total interest expense	3,113,330	3,373,806
Net interest income	16,976,954	17,939,279
Provision for loan losses	951,029	904,776
Net interest income after provision for loan losses	16,025,925	17,034,503
NON-INTEREST INCOME		
Service charges on deposit accounts	2,240,131	3,044,751
Other service charges, commissions and fees	1,943,757	1,854,171
Gain (loss) on sale of securities, net	3,100,182	(215,147)
Gain (loss) on sale of other real estate owned	(65,731)	230,049
Income from bank owned life insurance, net of premiums	378,739	467,552
Bank Enterprise Award	202,898	478,791
Other	468,528	234,624
Total non-interest income	8,268,504	6,094,791

(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, 2020 AND 2019

	2020	2019
NON-INTEREST EXPENSE		
Salaries and employee benefits	$ 9,172,334	$ 9,206,750
Occupancy expense	4,147,163	3,768,238
Regulatory assessments	124,401	120,863
Professional fees	1,224,306	1,142,975
Director and committee expenses	827,008	623,551
Other	3,838,979	3,372,339
Total non-interest expense	19,334,191	18,234,716
Income before income taxes	4,960,238	4,894,578
Income taxes	943,401	744,762
Net income	$ 4,016,837	$ 4,149,816
Net income per common share	$ 3.02	$ 3.12

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, 2020 AND 2019

	2020	2019
Net income	$ 4,016,837	$ 4,149,816
Other comprehensive income:		
Unrealized gains (losses) on securities:		
Unrealized holding gains arising during the period	5,772,807	4,310,631
Reclassification adjustment for (gains) losses included in net income	(3,100,182)	215,147
	2,672,625	4,525,778
Defined benefit pension plans:		
Net gain arising during the period	302,450	761,034
Income tax expense	(742,281)	(1,319,060)
Other comprehensive income	2,232,794	3,967,752
Comprehensive income	$ 6,249,631	$ 8,117,568

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, 2020 AND 2019

	Common Stock				Accumulated Other	
	Shares Issued	Amount	Surplus	Retained Earnings	Comprehensive Loss	Total
Balance, January 1, 2019	1,330,338	$3,325,845	$14,500,000	$61,531,628	$ (8,053,869)	$71,303,604
Net income	-	-	-	4,149,816	-	4,149,816
Cash dividends, $1.45 per share	-	-	-	(1,928,990)	-	(1,928,990)
Other comprehensive income	-	-	-	-	3,967,752	3,967,752
Balance, December 31, 2019	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

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, 2020 AND 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 4,016,837	$ 4,149,816
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,375,553	1,224,039
Provision for loan losses	951,029	904,776
FHLB stock dividend	(7,900)	(20,100)
Deferred income tax benefit	(174,000)	(49,000)
Increase in cash value of life insurance	(444,443)	(521,199)
Write-downs of real estate owned	21,600	13,167
Amortization of securities premium/discount	1,230,387	998,932
Amortization of operating lease right-of-use asset	51,534	48,523
(Gain) loss on sale of bank property	(320,127)	16,338
(Gain) loss on sale of other real estate	65,731	(230,049)
(Gain) loss on sale of securities available-for-sale	(3,100,182)	222,794
Gain on sale of securities held-to-maturity	-	(7,647)
Increase in fair value of equity securities	(47,293)	(98,775)
(Increase) decrease in accrued income	(130,140)	160,491
Increase in accrued expenses and other liabilities	1,038,398	29,767
(Increase) decrease in other assets	(383,126)	27,721
Net decrease in accrued pension liability	(352,878)	(470,662)
Net change in operating lease liability	(51,534)	(48,523)
Other, net	302,450	761,034
Net cash provided by operating activities	4,041,896	7,111,443
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of securities available-for-sale	145,702,634	49,530,721
Purchases of securities available-for-sale	(84,438,698)	(45,121,144)
Proceeds from sale and maturities of securities held-to-maturity	6,796,543	15,845,464
Net increase in loans	(37,053,079)	(9,026,239)
Increase in time deposits due from banks	(202,797)	(500,000)
Proceeds from sale of bank property	420,336	54,955
Purchases of property and equipment	(2,586,941)	(2,593,841)
Proceeds from sale of other real estate	339,384	1,013,466
Cash received from acquisition, net	7,922,869	-
Net cash provided by investing activities	36,900,251	9,203,382

(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, 2020 AND 2019

	2020	2019
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	$ 41,810,791	$ 10,004,000
Net increase (decrease) in securities sold under agreements to repurchase	(1,641,321)	1,803,243
Dividends paid	(1,928,990)	(1,928,990)
Net cash provided by financing activities	38,240,480	9,878,253
Net increase in cash and cash equivalents	79,182,627	26,193,078
Cash and cash equivalents, beginning of year	49,371,493	23,178,415
Cash and cash equivalents, end of year	$ 128,554,120	$ 49,371,493

Supplemental Disclosures of Cash Flow Information

	2020	2019
Cash paid during the year for:		
Interest	$ 3,270,622	$ 3,265,346
Income taxes	1,643,484	499,622
Non-cash activities:		
Transfer of loans to other real estate	40,240	274,597
Initial recognition of operating lease right-of-use asset	-	556,453
Initial recognition of operating lease liability	-	556,453
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. 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, 2020 and 2019. 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

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.*

7. 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.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability 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.

8. 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.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

8. Property and Equipment, Net (continued)

We lease a branch facility in Fairhope, Alabama under an operating lease. We also own certain properties which we lease to outside parties under operating lessor leases; however, such leases are not significant In 2019, we adopted certain accounting standard updates related to accounting for leases as further discussed below. Under the new standards, 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.

9. 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.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

10. 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.

11. Advertising Expense

The Bank expenses advertising costs as they are incurred. Advertising expenses amounted to $167,029 and $220,947 in 2020 and 2019, respectively.

12. 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.

13. 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.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

14. 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.

15. 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.

16. 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.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

17. 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.

18. Recent Accounting Pronouncements

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, which provides temporary, optional guidance to ease the potential burden in accounting for, or recognizing the effects of, the transition away from LIBOR or other interbank offered rate on financial reporting. To help with the transition to new reference rates, the ASU provides optional expedients and exceptions for applying GAAP to affected contract modifications and hedge accounting relationships. The main provisions include: a change in a contract's reference interest rate would be accounted for as a continuation of that contract rather than as the creation of a new one for contracts, including loans, debt, leases, and other arrangements, that meet specific criteria and when updating its hedging strategies in response to reference rate reform, an entity would be allowed to preserve its hedge accounting.

The guidance is applicable only to contracts or hedge accounting relationships that reference LIBOR or another reference rate expected to be discontinued. Because the guidance is meant to help entities through the transition period, it will be in effect for a limited time and will not apply to contract modifications made and hedging relationships entered into or evaluated after December 31, 2022, except for hedging relationships existing as of December 31, 2022, for which an entity has elected certain optional expedients that are retained through the end of the hedging relationship. The amendments in this ASU are effective March 12, 2020 through December 31, 2022. ASU 2020-04 permits relief solely for reference rate reform actions and permits different elections over the effective date for legacy and new activity. The Bancorp believes the adoption of this guidance on activities subsequent to December 31, 2020 through December 31, 2022 will not have a material impact on the consolidated financial statements.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

18. Recent Accounting Pronouncements (Continued)

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes,* which simplifies the accounting for income taxes by removing certain exceptions to the general principles in Topic 740. The amendments also improve consistent application of and simplifies GAAP for other areas of Topic 740 by clarifying and amending existing guidance. The amendments in this Update are effective for fiscal years, and interim periods with those fiscal years, beginning after December 15, 2020, with early adoption permitted. The Bancorp is currently assessing the impact of the adoption of this standard on the Bancorp's consolidated financial position.

In January 2017, the FASB issued ASU 2017-04*, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment.* This update is intended to amend existing guidance to simplify subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. The amendments require an entity to perform its annual, or interim, 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. Additionally, 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. For public business entities, which are not SEC filers, the amendments in this update are effective for fiscal years beginning after December 15, 2020. The adoption of this standard is not expected to have a material impact on the Bancorp' s consolidated financial statements.

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.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

19. Adoption of New Accounting Standards

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework- Changes to the Disclosure Requirements for Fair Value Measurement*, which removes certain disclosures required by Topic 820 related to transfers between Level 1 and Level 2 of the fair value hierarchy; the policy for timing of transfers between levels; the valuation processes for Level 3 fair value measurements; and, for nonpublic entities, the changes in unrealized gains and losses for the period included in earnings for recurring Level 3 fair value measurements held at the end of the reporting period. The ASU modifies certain disclosures required by Topic 820 related to disclosure of transfers into and out of Level 3 of the fair value hierarchy and purchases and issues of Level 3 assets and liabilities for nonpublic entities; the requirement to disclose the timing of liquidation of an investee's assets and the date when restrictions from redemption might lapse only if the investee has communicated the timing to the entity or announced the timing publicly for investments in certain entities that calculate net asset value; and clarification that the measurement uncertainty disclosure is to communicate information about the uncertainty in measurement as of the reporting date. The ASU adds certain disclosure requirements related to changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period and the range and weighted average of insignificant unobservable inputs used to develop Level 3 fair value measurements. For certain unobservable inputs, an entity may disclose other quantitative information in lieu of the weighted average if the entity determines that other quantitative information would be a more reasonable and rational method to reflect the distribution of unobservable inputs used to develop Level 3 fair value measurements. The amendments in this update were effective for the Bancorp on January 1, 2020. The adoption of this update did not have a material impact on the Bancorp's consolidated financial statements.

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

19. Adoption of New Accounting Standards (Continued)

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. See Note D for further information on non-TDR loan modifications.

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, 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
December 31, 2019				
Available-for-sale:				
U. S. Government agency funds	$ 38,799	$ -	$ 208	$ 38,591
Mortgage-backed securities	81,055	414	251	81,218
State, county and municipal securities	9,286	185	15	9,456
Total	$ 129,140	$ 599	$ 474	$ 129,265
Held-to-maturity:				
State, county and municipal securities	$ 40,959	$ 675	$ 132	$ 41,502
Total	$ 40,959	$ 675	$ 132	$ 41,502

NOTE B - SECURITIES (Continued)

The amortized cost and estimated fair value of available-for-sale securities at December 31, 2020, by contractual maturity are as follows (In thousands):

	Available-For-Sale	
	Amortized Cost	Fair Value
Amounts maturing in:		
One year or less	$ 1,496	$ 1,507
After one year through five years	5,073	5,150
After five years through ten years	10,966	11,304
Greater than ten years	41,900	43,425
Mortgage-backed securities	44,474	45,320
Total	$ 103,909	$106,706

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 of available-for-sale securities were $145,702,634 in 2020, including a realized gain of $3,100,182. Proceeds from sales of available-for-sale securities were $49,530,721 in 2019, including a realized loss of $222,794. 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. The amortized cost of held-to-maturity securities that were sold in 2019 was $1,483,230. There was a realized gain in the amount of $7,647 from the sale of held-to-maturity securities in 2019. The held-to-maturity securities were sold based on proximity of call date for 2019 and an evaluation of each security's credit rating for 2019.

NOTE B - SECURITIES (Continued)

Securities with a carrying value of $12,633,437 and $128,809,417 were pledged at December 31, 2020 and 2019, respectively, to secure certain deposits. Information pertaining to securities with gross unrealized losses at December 31, 2020 and 2019, 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, 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

	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, 2019:						
U.S. Government Agency Funds	$ 22,170	$ 133	$ 13,421	$ 75	$ 35,591	$ 208
Mortgage-backed securities	29,297	210	2,876	41	32,173	251
State, county and municipal securities	1,419	6	1,346	141	2,765	147
Total	$ 52,886	$ 349	$ 17,643	$ 257	$ 70,529	$ 606

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, 2020, approximately 3.83% 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, 2020, the seven debt securities with unrealized losses have declined 1.74 % 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 $883,260 and $875,360 as of December 31, 2020 and 2019, respectively. Equity securities also include VISA Class B stock recorded at fair market value of $368,123 and $320,830 at December 31, 2020 and 2019, respectively, in accordance with ASU 2016-01.

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

NOTE C - LOANS

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

	December 31, 2020		December 31, 2019	
	Amount	Percent of Total	Amount	Percent of Total
	(Dollars in thousands)		(Dollars in thousands)	
Loans secured by real estate:				
Construction	$ 41,863	11.51%	$ 29,286	9.36%
Farmland	2,984	.82%	852	.27%
Revolving, open and secured 1-4	8,247	2.27%	5,814	1.86%
1-4 Family residential property	81,929	22.53%	78,962	25.23%
Multifamily (5 or more) residential properties	3,655	1.01%	2,117	.68%
Nonfarm non-residential properties	126,413	34.77%	126,341	40.36%
Commercial and industrial loans	74,314	20.44%	35,837	11.45%
Loans to individuals for personal expenditures	19,775	5.44%	28,748	9.18%
Municipal and government	3,839	1.06%	4,559	1.46%
Other	550	.15%	483	.15%
	363,569	100.00%	312,999	100.00%
Allowance for loan losses	(4,161)		(3,351)	
Net loans	$ 359,408		$ 309,648	

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, 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
Year Ended December 31, 2019					
Residential	$ 1,171	$ (247)	$ 37	$ 226	$ 1,187
Non-Residential	1,016	-	-	142	1,158
Consumer	407	(555)	242	217	311
Commercial	158	(94)	15	342	421
Other	296	-	-	(22)	274
	$ 3,048	$ (896)	$ 294	$ 905	$ 3,351

NOTE D - ALLOWANCE FOR LOAN LOSSES (Continued)

The following table represents the Bank's impaired loans at December 31, 2020 and 2019. This table excludes performing troubled debt restructurings.

	December 31, 2020	December 31, 2019
	(In thousands)	
Impaired loans:		
Impaired loans without a valuation allowance	$ 6,596	$ 7,824
Impaired loans with a valuation allowance	2,068	1,040
Total impaired loans	8,664	8,864
Allowance for loan losses on impaired loans at period end	847	496
Total nonaccrual loans	9,510	6,351
Average investment in impaired loans	8,766	7,327

The gross interest income that would have been recorded in the year, if the nonaccrual loans at December 31, 2020 and 2019, 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, 2020 and 2019, was $395,126 and $236,781, respectively. The Bank had no loan commitments to borrowers in non-accrual status at December 31, 2020.

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, 2020 and 2019. 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, 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	$ 135,694	$ 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)

	Residential	Non-Residential	Consumer	Commercial	Other	Total
			(In thousands)			
December 31, 2019						
Loans:						
Individually evaluated	$ 5,398	$ 3,066	$ -	$ 400	$ -	$ 8,864
Collectively evaluated	110,781	124,127	28,748	39,996	483	304,135
Total	$ 116,179	$ 127,193	$ 28,748	$ 40,396	$ 483	$ 312,999
% of Total	37.12%	40.64%	9.18%	12.91%	.15%	100.00%
Allowance for Loan Losses:						
Individually evaluated	$ 110	$ 176	$ -	$ 210	$ -	$ 496
Collectively evaluated	1,077	982	311	211	274	2,855
Total	$ 1,187	$ 1,158	$ 311	$ 421	$ 274	$ 3,351
% of Total	35.42%	34.56%	9.28%	12.56%	8.18%	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, 2020 and 2019. 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, 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)

	Recorded Investment	Unpaid Balance	Related Allowance	Average Recorded Investment YTD	Interest Income Recognized YTD
			(In thousands)		
December 31, 2019:					
Impaired loans with no related allowance:					
Residential real estate	$ 4,958	$ 5,892	$ -	$ 4,431	$ 235
Non-residential real estate	2,679	2,675	-	1,659	98
Consumer	-	-	-	23	-
Commercial	187	187	-	94	11
Total	7,824	8,754	-	6,207	344
Impaired loans with a related allowance:					
Residential real estate	440	439	110	566	24
Non-residential real estate	387	387	176	349	13
Consumer	-	-	-	26	-
Commercial	213	210	210	179	12
Total	1,040	1,036	496	1,120	49
Total impaired loans:					
Residential real estate	5,398	6,331	110	4,997	259
Non-residential real estate	3,066	3,062	176	2,008	111
Consumer	-	-	-	49	-
Commercial	400	397	210	273	23
Total impaired loans	$ 8,864	$ 9,790	$ 496	$ 7,327	$ 393

NOTE D - ALLOWANCE FOR LOAN LOSSES (Continued)

The following tables set forth the amounts and past due status for the Bank's troubled debt restructurings (TDRs) at December 31, 2020 and 2019 (In thousands):

	Current Loans	Past Due 30 - 89	Past Due 90 Days and Still Accruing	Non-Accrual	Total
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
December 31, 2019					
Residential real estate loans	$ 222	$ 40	$ -	$ 596	$ 858
Non-residential	-	-	-	11	11
Commercial	-	-	-	99	99
Consumer loans	15	27	-	-	42
Total	$ 237	$ 67	$ -	$ 706	$ 1,010
Allowance for loan losses	$ 14	$ -	$ -	$ -	$ 14

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

NOTE D - ALLOWANCE FOR LOAN LOSSES (Continued)

The following table presents loans by segment modified as TDRs that occurred during the twelve months ended December 31, 2020 and 2019 (Dollars in thousands):

	Number	Outstanding Recorded Investment Pre-modification	Outstanding Recorded Investment Post-modification
December 31, 2020			
Residential real estate loans	-	$ -	$ -
Consumer loans	-	-	-
Total restructured loans	-	$ -	$ -
December 31, 2019			
Residential real estate loans	1	$ 23	$ 23
Consumer loans	1	2	2
Total restructured loans	2	$ 25	$ 25

The TDRs presented above did not increase the allowance for loan losses and resulted in no charge-offs for the years ended December 31, 2020 and 2019, respectively.

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, 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

	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, 2019:						
Residential real estate	$ 2,957	$ -	$ 3,988	$ 6,945	$109,234	$ 116,179
Non-residential real estate	1,454	-	1,681	3,135	124,058	127,193
Commercial	503	-	341	844	39,552	40,396
Consumer	856	-	341	1,197	27,551	28,748
Other	-	-	-	-	483	483
Total	$ 5,770	$ -	$ 6,351	$ 12,121	$300,878	$ 312,999

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, 2020 and 2019, 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, 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
December 31, 2019							
Residential real estate	$ 104,896	$ 1,953	$ 1,431	$ 4,266	$ 3,475	$ 158	$ 116,179
Non-residential real estate	116,407	5,739	2,424	1,373	1,250	-	127,193
Commercial	38,030	98	1,524	383	351	10	40,396
Consumer	27,759	316	218	134	288	33	28,748
Other	483	-	-	-	-	-	483
Total	$ 287,575	$ 8,106	$ 5,597	$ 6,156	$ 5,364	$ 201	$ 312,999

NOTE E - PROPERTY AND EQUIPMENT, NET

Property and equipment as of December 31, 2020 and 2019, are stated at cost less accumulated depreciation as follows (In thousands):

	2020	2019
Land and buildings	$ 26,923	$ 26,777
Furniture and equipment	9,164	8,612
Leasehold improvements	509	509
	36,596	35,898
Accumulated depreciation	(17,823)	(17,666)
	18,773	18,232
Construction in process	1,860	-
Net property and equipment	$ 20,633	$ 18,232

Depreciation expense for the years ended December 31, 2020 and 2019 amounted to $1,375,553 and $1,224,039.

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, 2020 and 2019, were as follows (In thousands):

	2020	2019
Deferred tax assets:		
Allowance for loan losses	$ 1,077	$ 863
Deferred compensation	1,098	1,150
Loan origination costs	315	248
Loan impairment	6	10
Interest on nonaccrual loans	276	212
Other	34	62
Losses on defined benefit plan assets	1,314	1,389
Gross deferred tax asset	4,120	3,934
Deferred tax liabilities:		
Property and equipment	(1,192)	(1,217)
Core deposit intangible	(58)	(50)
Prepaid pension obligation	(1,066)	(1,054)
Prepaid expenses	(173)	(89)
Unrealized gain on equity securities	(74)	(62)
Unrealized gain on securities available-for-sale	(698)	(31)
Other	(15)	(19)
Gross deferred tax liability	(3,276)	(2,522)
Net deferred tax asset	$ 844	$ 1,412

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, 2020 and 2019 (In thousands):

	2020	2019
Currently payable	$ 1,117	$ 794
Deferred	(174)	(49)
Total income taxes	$ 943	$ 745

NOTE F - INCOME TAXES (Continued)

Income taxes were computed by applying the U.S. Federal income tax rate 21% to income before taxes for the years ended December 21, 2020 and 2019. The reasons for the differences for the years ended December 31, 2020 and 2019, are as follows (Dollars in thousands):

	2020		2019	
	Amount	Percent	Amount	Percent
Taxes computed at statutory rate	$ 1,042	21.0	$ 1,028	21.0
Decrease in taxes resulting from:				
Tax-exempt life insurance income (net of expense)	(77)	(1.6)	(92)	(1.9)
Tax-exempt interest income	(248)	(5.0)	(305)	(6.2)
State income tax expense	114	2.3	150	3.1
Other, net	112	2.3	(36)	(.8)
Total	$ 943	19.0	$ 745	15.2

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, 2020 and 2019, 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 2017 are no longer subject to examination by tax authorities.

NOTE G - DEPOSITS

Deposit account balances at December 31, 2020 and 2019, are summarized as follows (In thousands):

	2020	2019
Non-interest bearing demand	$ 152,944	$ 103,497
Interest bearing demand	229,026	206,003
Savings	78,199	62,770
Certificates of deposit	90,500	111,777
Total deposits	$ 550,669	$ 484,047

NOTE G - DEPOSITS (Continued)

Certificates of deposit by contractual maturity as of December 31, 2020, were as follows (In thousands):

2021	$ 68,772
2022	13,482
2023	2,267
2024	3,197
2025	2,782
Thereafter	-
Total	$ 90,500

Certificates of deposit in excess of $250,000 aggregated approximately $21,589,000 and $35,314,000 at December 31, 2020 and 2019, respectively.

Overdrawn demand deposits, reclassified as loans, totaled approximately $550,000 and $483,000 at December 31, 2020 and 2019, respectively.

NOTE H - BORROWINGS

The Bank has established various lines of credit with financial institutions, allowing for maximum borrowings of approximately $43,490,616 at rates determined by the lender when borrowed. At December 31, 2020 and 2019, the Bancorp had an undisbursed direct standby letter of credit with the Federal Home Loan Bank in the amount of $130,000,000 and $0, respectively. At December 31, 2020 and 2019, 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, 2020 and 2019, follows (In thousands):

	2020	2019
Reconciliation of benefit obligation:		
Projected benefit obligation at beginning of period	$ 18,216	$ 16,709
Interest cost	568	681
Actuarial (gain) loss	1,759	1,747
Distributions	(926)	(890)
Curtailments, settlement acquisition	(23)	(31)
Projected benefit obligation at end of period	19,594	18,216
Reconciliation of plan assets:		
Fair value of plan assets at beginning of period	16,863	14,885
Actual return on plan assets	2,680	2,899
Benefit payments	(926)	(890)
Settlements	(23)	(31)
Fair value of plan assets at end of period	18,594	16,863
Funded status, included in other liabilities	$ (1,000)	$ (1,353)
Net periodic pension expense:		
Interest cost	$ 568	$ 681
Return on plan assets	(1,139)	(1,002)
Amortization of loss	521	611
Net periodic pension cost (credit)	$ (50)	$ 290

NOTE I - EMPLOYEE BENEFIT PLANS (Continued)

The accumulated benefit obligation for the defined benefit plan was $19,594,559 and $18,216,464 at December 31, 2020 and 2019, respectively.

	2020	2019
Rate assumptions:		
Discount rate	3.22%	4.22%
Long-term rate of investment return	7.00%	7.00%
Rate of compensation increase	N/A	N/A
Amortization period	7.19	7.62

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 35% fixed income and 65% 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, 2020 and 2019, by asset category were as follows (In thousands):

	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	$ -

NOTE I - EMPLOYEE BENEFIT PLANS (Continued)

	Total	Level 1	Level 2	Level 3
December 31, 2019:				
Asset category:				
Cash and cash equivalents	$ 246	$ 246	$ -	$ -
Mutual funds:				
Collective fund – U.S. equity	1,263	-	1,263	-
Other equity	9,485	9,485	-	-
Fixed income	5,869	5,869	-	-
Total pension plan assets	$ 16,863	$ 15,600	$ 1,263	$ -

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

2021	$ 1,234,911
2022	1,236,309
2023	1,236,675
2024	1,210,377
2025	1,194,036
2026 - 2030	5,716,715

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 $198,408 and $194,108, for the years ended December 31, 2020 and 2019, 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 $407,000 and $208,000 for the years ended December 31, 2020 and 2019, 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, 2020 and 2019, 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, 2020 and 2019, 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, 2020 and 2019. 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, 2020 and 2019, 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, 2020						
Common Equity Tier 1 Capital to						
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%
December 31, 2019						
Common Equity Tier 1 Capital to						
Consolidated	$ 78,755	20.81%	$ 17,029	4.50%	N/A	N/A
Merchants & Marine Bank	75,871	20.05%	17,029	4.50%	$ 24,597	6.50%
Total Capital to Risk Weighted Assets:						
Consolidated	82,208	21.72%	30,273	8.00%	N/A	N/A
Merchants & Marine Bank	79,324	20.96%	30,273	8.00%	37,841	10.00%
Tier 1 Capital to Risk Weighted Assets:						
Consolidated	78,755	20.81%	22,705	6.00%	N/A	N/A
Merchants & Marine Bank	75,871	20.05%	22,705	6.00%	30,273	8.00%
Tier 1 Capital to Average Assets:						
Consolidated	78,755	13.82%	22,796	4.00%	N/A	N/A
Merchants & Marine Bank	75,871	13.31%	22,796	4.00%	28,495	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 $890,000 and $1,219,000 at December 31, 2020 and 2019, respectively. In addition to these loans, the Bank has commitments to extend credit to these related parties, which amounted to approximately $2,630,000 and $3,110,000 at December 31, 2020 and 2019, respectively. The following is a summary of activity in related party loans:

	2020	2019
Balance, beginning of year	$1,218,601	$973,714
Advances	945,242	420,781
Effect of changes in composition of related parties	(607,912)	-
Repayments	(665,624)	(175,894)
Ending balance	$ 890,307	$1,218,601

Deposits from related parties held by the Bank at December 31, 2020 and 2019, totaled approximately $14,387,000 and $10,423,000, 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, 2020 and 2019, the Bank paid $256,500 and $231,333, 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, 2020 and 2019 (In thousands):

	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	$ -

	Total	Level 1	Level 2	Level 3
Assets at December 31, 2019:				
Securities available-for-sale:				
U.S. Government Agency funds	$ 38,591	$ -	$ 38,591	$ -
Mortgage-backed securities	81,218	-	81,218	-
State, county and municipal securities	9,456	-	9,456	-
	$ 129,265	$ -	$ 129,265	$ -

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 2020 or 2019.

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, 2020 and 2019 (In thousands):

	Total	Level 1	Level 2	Level 3
Assets at December 31, 2020:				
Impaired loans	$ 8,664	$ -	$ 8,664	$ -
Other real estate owned	187	-	187	-
Assets at December 31, 2019:				
Impaired loans	$ 8,864	$ -	$ 8,864	$ -
Other real estate owned	573	-	573	-

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 2020 or 2019.

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, 2020 and 2019 (In thousands):

	December 31, 2020		December 31, 2019	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Level 2 Inputs:				
Cash and due from banks	$ 128,554	$ 128,554	$ 49,371	$ 49,371
Time deposits due from banks	1,953	1,953	1,750	1,750
Accrued income	2,116	2,116	1,956	1,956
FHLB stock	883	883	875	875
Loans, net	359,408	371,419	309,648	315,007
Financial liabilities				
Level 2 Inputs:				
Deposits	550,669	544,060	484,047	477,706
Interest payable	141	141	299	299

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, 2020, of approximately $1,031,000.

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, 2020 and 2019 (In thousands):

	2020	2019
Commitments to extend credit	$ 54,121	$ 52,480
Standby letters of credit	2,554	2,578

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 outbreak of Coronavirus Disease 2019 ("COVID-19") continues to adversely impact a broad range of industries in which the Bancorp's customers operate and impairs their ability to fulfill their obligations to the Bancorp. The World Health Organization has declared COVID-19 to be a global pandemic indicating that almost all public commerce and related business activities must be, to varying degrees, curtailed with the goal of decreasing the rate of new infections. The spread of the outbreak has caused disruptions in the U.S. economy and has disrupted banking and other financial activity in the areas in which the Bancorp operates and could potentially create widespread business continuity issues for the Bancorp.

The Bancorp's business is dependent upon the willingness and ability of its employees and customers to conduct banking and other financial transactions. If the global response to contain COVID-19 is

NOTE O - COMMITMENTS AND CONTINGENCIES (Continued)

unsuccessful, the Bancorp could experience further adverse effects on its business, financial condition, results of operations and cash flows. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration and its impacts on the Bancorp's customers, employees and vendors. Therefore, the extent to which COVID-19 may impact the Bancorp's financial condition or results of operations cannot be reasonably estimated at this time.

NOTE P – OPERATING LEASES

On January 1, 2019, The Bank 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 $96,939 and $82,913 in 2020 and 2019, 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 $17,516 and $21,113 in 2020 and 2019, respectively.

The Bank leases a branch facility in Fairhope, Alabama under an operating lease. The lease expires in 2022 and contains 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 $51,534 and $48,523 during 2020 and 2019, 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, 2020.

NOTE P – OPERATING LEASES (Continued)

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

2021	$ 65,564
2022	67,531
2023	69,556
2024	71,643
2025	73,792
Thereafter	154,293
Total undiscounted cash flows	502,379
Discount on cash flows	(45,983)
Total operating lease liability included in the accompanying balance sheet	$ 456,396
Weighted-average remaining lease term in years	7
Weighted-average discount rate	2.58%

NOTE Q - 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.

NOTE Q - BUSINESS COMBINATION (Continued)

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 R - SUBSEQUENT EVENTS

Management of the Bancorp and the Bank has evaluated subsequent events through February 18, 2021, the date the financial statements were available to be issued. No material subsequent events have occurred since December 31, 2020, 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 $4,017, or $3.02 per share, for the 12 months ended December 31, 2020 compared to $4,150, or $3.12 per share, for the 12 months ended December 31, 2019. Return on average assets totaled 0.64% and 0.71% for the years ended December 31, 2020, and December 31, 2019, respectively. Return on average equity for the 12 months ended December 31, 2020 and December 31, 2019, totaled 4.96% and 5.54%, 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) declined to 3.09% at December 31, 2020, from 3.47% in the same period in 2019. The decline in net interest margin was due primarily to the Paycheck Protection Program (PPP) sponsored by the SBA. Loans originated under this program accrue interest at just 1.00%, negatively impacting mean interest as a function of average earning assets. However, upon forgiveness, significant fees should be realized, making these loans a large source of non-recurring income in fiscal year 2021. PPP loan balances constituted 8.10% of gross loans as of December 31, 2020. The company expects to issue additional PPP loans in 2021 as it participates in the second phase of the program.

Average loan yield was 5.03% during 2020, a decrease of 22 basis points from 2019. This decrease was primarily the result of the above-mentioned concentration in low-yielding PPP loans, along with a declining rate environment experienced leading up to, and more markedly after, the arrival of the COVID-19 virus. Average yield on securities saw downward variance as well. The securities portfolio saw an average yield of 1.89% in 2020, down from 2.14% in 2019. Increased supply of the dollar, along with deposit bloat and enhanced pricing strategies implemented by management, served to decrease average cost of deposits from 0.68% in 2019 to 0.58% in 2020.

Late in the second quarter of 2020, management elected to liquidate a significant portion of the investment portfolio. On a pre-tax basis, the gain on the liquidated portion represented non-recurring income of approximately $3,100. Management elected to liquidate those securities in order to monetize a portion of the unrealized gain in the portfolio, and to reinvest this non-recurring gain into strengthening and establishing core lines of business that the company believes will produce recurring income on a lasting basis. The return on these investments should begin to materialize later in fiscal year 2021, and in a more pronounced way in subsequent periods.

Average assets totaled $628,391 for the year ended December 31, 2020, an increase of $40,594, or 6.91%, from $587,797 through the year ended December 31, 2019. Average net loans totaled $338,023 during 2020, an increase of $25,390, or 8.12%, from 2019. Average total deposits also grew, by $38,888, or 7.83%, averaging $535,243 during 2020.

Total non-performing assets, including non-accrual loans, accruing loans past due over 90 days, and other real estate owned, totaled $9,723 and $6,924 in 2020 and 2019, respectively. Non-performing assets, as a percentage of total loans, were 2.62% as of December 31, 2020 and 2.03% as of December 31, 2019.

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 2020 were 19.84%, 18.86%, 18.86% and 11.92% compared to 21.72%, 20.81%, 20.81% and 13.82% for 2019. 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 allows the company to pursue growth opportunities as they arise and are identified, such as the acquisition of the new Airport Boulevard branch in Mobile.

Stockholders’ equity to total assets for 2020 and 2019 was 12.66% and 13.45%, respectively.

OTHER INFORMATION

Information Relating to Common Stock

At December 31, 2020, 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, 2020, the common stock of the Company was held of record by 924 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 2020 and 2019.

Stock Prices

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

2019	High	Low
1st Quarter	$39.00	$37.15
2nd Quarter	39.50	37.20
3rd Quarter	40.25	39.00
4th Quarter	40.30	39.55

During each quarter of 2020 and 2019, cash dividends on common stock were paid as follows:

	2020	2019
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 2021, 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

Scott B. Lemon
Co-Owner
Lemon-Mohler Insurance Agency

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

Diann M. Payne
Executive Director
Jackson County Civic Action Committee

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

Alan K. Sudduth
Public & Government 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 DIRECTORS

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

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.
Officers as of December 31, 2020

Royce Cumbest*
Chairman of the Board

Clayton Legear*
President and Chief Executive Officer

Jimmy Conyers*
Executive Vice President/Alabama Market President

Casey Hill*
Senior Vice President/Chief Financial Officer

Kristi Maxwell*
Executive Vice President/Chief Administrative Officer

Mack Rushing*
Executive Vice President/Coastal Mississippi Market President

Herman E. Smith*
Executive Vice President

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

Jackie Skelton
Secretary to the Board

MERCHANTS & MARINE BANK
Officers as of December 31, 2020

Royce Cumbest*
Chairman of the Board

Clayton Legear*
President and Chief Executive Officer

Jimmy Conyers*
Executive Vice President/Alabama Market President

Casey Hill*
Senior Vice President/Chief Financial Officer

Greg Hodges*
Senior Vice President/Hattiesburg Market President

Kristi Maxwell*
Executive Vice President/Chief Administrative Officer

Mack Rushing*
Executive Vice President/Coastal Mississippi Market President

Herman E. Smith*
Executive Vice President

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

Lisa Adams
Credit and Loan Portfolio Administration Officer

Rita Bailey
Controller/Cashier

Michelle Baldwin
Assistant Vice President/Credit Analyst Manager

Beverly Baxter
Vice President/Business Banker

Bradley Bell
Vice President/Technology & Integration

Nick Bosco
Associate Business Banker

Shelly Brockway
Community Banker/Loan Officer

Amanda Brown
Assistant Vice President/Community Banker

Lauren Carpenter
Retail Solutions Specialist

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

***Officers as of December 31*, 2020 (continued)**

Sherrill Edwards
Assistant Vice President/Community Banker

Riece Fleming
Security Officer/Bank Secrecy Act Compliance Analyst

Mary Graham
Loan Officer/Associate Lender

Kelly Green
Assistant Vice President/Deposit Operations

Caretta Hall
Assistant Vice President/Community Banker

Jonathan Jones
Vice President/Senior Business Banker

Lisa Jones
Director of Lending Services

Brooke Jordan
Loan Assistant Manager/Bank Officer

Jodi Keating
Vice President/Community Banker

Landon McCarty
Assistant Vice President/Business Banker

Tom Peresich
Vice President/Bank Secrecy Act Officer

Jackie Skelton
Secretary to the Board

Stephanie Spring
Vice President/Compliance Manager

Monica Stork
Bank Operations Officer/Electronic Banking Department 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

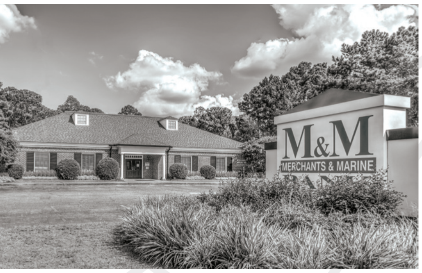
**Executive Officers*

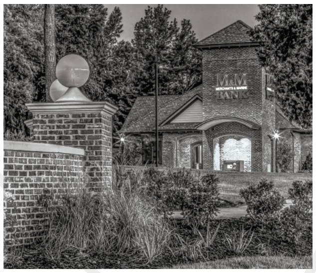
NOTES

(This page intentionally left blank)

(This page intentionally left blank)

Now Serving
14 Great 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 AIRPORT BLVD
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

M&M
MERCHANTS & MARINE
BANK

mandmbank.com
Customer Service: 1.866.223.9512
24-Hour Access: 1.866.229.9415