MERCHANTS & MARINE BANCORP, INC.

Annual Report 2023

mandmbank.com/investor-relations

We're constantly innovating new solutions for the communities we serve to assist with all their financial needs. In 2023, Canvas Mortgage, Voyager Lending, and CannaFirst Financial consistently brought invaluable expertise and preparation to help our clients when the need arises. With the addition of COR Banking, we're continuing to plan three steps ahead along our 2024 journey to make it our best year yet.

MERCHANTS & MARINE BANK

A community bank in the truest sense of the term, Merchants & marine Bank has provided dedicated service and financial guidance to the individuals and businesses in their communities for more than 120 years. Their core values: community, relationship and personal service, form every decision their team makes, from new deposit account openings, to helping local business owners secure financing, expanding their team, or dedicating time to the communities they serve. With 16 office locations open today, Merchants & Marine Bank brings exceptional service to clients across the Mississippi and Alabama Gulf coast.

CANVAS MORTGAGE

Canvas Mortgage is the residential mortgage division of Merchants & Marine Bank and works to help clients achieve their personal goals and begin their next great story through home ownership. Led by industry veterans, Canvas Mortgage serves community members in their key markets along the Louisiana, Mississippi and Alabama Gulf Coast and beyond. Their robust staff of Mortgage Loan Officers and operations team allows them to bring the "community banking" style service to home buyers.

VOYAGER LENDING

Voyager Lending is a division of Merchants & Marine Bank that partners with small businesses by offering government-guaranteed lending solutions. The team at Voyager Lending knows that every business navigates a voyage, and they work to guide clients through their lending journey by giving borrowers the confidence to help their company take flight and thrive. Their community commitment and lending expertise allow them to provide a knowledgeable and personalized service that makes for a seamless experience.

CANNAFIRST FINANCIAL

Powered by Merchants & Marine Bank, CannaFirst Financial is a dedicated division of banking professionals who work directly with Mississippi Cannabis business owners and their affiliates. CannaFirst Financial helps Cannabis business owners navigate regulatory waters and protect their income. Working with Financial Technology (FinTech) providers allows their team to help Cannabis business owners keep their business current and ensure that the providers who work for them also work for their clients.

COMMUNITY OF RESOURCES

Community of Resources (COR) was launched as an operational and services-based bank division for Merchants & Marine Bancorp made up of top leaders from across the Southeast. Since its founding, COR has spearheaded the recruitment of top operational talent, delivered unmatched client support and service, and instilled operational efficiency throughout the entire holding company.

To RSVP to this year's shareholder meeting, visit: **https://info.mandmbank.com/2024-shareholders-meeting**

TABLE OF CONTENTS

MERCHANTS & MARINE BANCORP, INC.

March 28, 2024

Dear Fellow Shareholder,

It is our great pleasure to share detailed results of your Company's 2023 performance. As reflected throughout the enclosed financial statements and disclosures, your Company's financial condition remains incredibly strong, and earnings have markedly improved over prior periods. Comments such as these are encouraging to write in any environment, but they are all the more impactful when written in the context of a year like 2023 – one which presented significant challenges for our industry.

The narrative that follows is meant to provide additional context, perspective and insights that we hope will aid in your review of our 2023 performance.

2023 Financial Performance

Your Company's Net Income for 2023 totaled $6,033M, or $4.53 per share, compared to $2,972M, or $2.23 per share for 2022. In terms of Return on Average Assets (ROAA), *our industry's preferred measure of profitability,* our consolidated 2023 earnings yielded a return of 0.91%, compared to 0.42% in 2022. While significant when comparing year over year results, our 2023 results are even more impressive when looking back further. For example, our 2023 ROAA is the highest posted since 2010. Furthermore, our 2023 Earnings Per Share (EPS) is the highest posted since 2007.

This significant improvement in financial performance is a direct result of our team's disciplined execution of a long-term strategic financial plan. Adopted in 2021 and designed to help your company thrive in a rapidly changing operating environment, our strategic financial plan called for heavy investments into growth and operational infrastructure, the acquisition of first-class talent for key roles throughout our Company, and the formation of a *Battle-Ready Balance Sheet.* While the early stages of this plan resulted in the intentional reduction of earnings during 2021 and the first half of 2022, the latter stages of our plan have yielded a strong return of bottom-line earnings. The execution of our plan has also produced various other benefits that lie beneath the surface of our bottom-line results, some of which we will attempt to unearth in this letter.

Credit Quality

Your Company's credit quality remains incredibly strong. Our team has dedicated tremendous attention to enhancing our processes related to underwriting, granting, and administering credit throughout our "Family of Brands." The results of their work are quite remarkable.

Two key measures of credit quality observed by our industry are the ratio of Loans Past Due 30-89 Days as a Percentage of Total Loans (Past Due Ratio) and the more severe Ratio of Non-Performing Assets as a Percentage of Total Assets (NPA Ratio). Thanks to the hard work of our team, our Past Due Ratio improved from 0.74% at the end of 2022 to just 0.25% at the end of 2023. During the same time period, our NPA Ratio improved from 0.76% to 0.37%.

This improvement is significant and leaves us with Past Due and NPA Ratios that near all-time lows reported over the prior two decades. Furthermore, our team's progress in improving credit quality was made during a period in which overall bank peer group average Past Due and NPA Ratios actually increased. We are extremely proud of the progress that has been made in this area, and believe it positions us very well for future economic uncertainty in a "higher for longer" interest rate environment.

Allowance for Credit Losses

As outlined in Notes 10 and 23 to the enclosed financial statements, your Company adopted a new methodology for calculating the Allowance for Credit Losses (ACL) on January 1, 2023. In general terms, the ACL is a reserve set aside to offset against future losses resulting from bad loans. This change in methodology, and the timing with which we completed it, was prescribed by Accounting Standards Update (ASU) 2016-13 and outstanding regulatory guidance.

In converting to the ASU 2016-13 methodology, your Company followed regulatory guidance and recognized a one-time transfer from Retained Earnings of $3,526M to fund the additional contribution required to our ACL under the new methodology. Following the initial conversion to this new accounting standard, all further adjustments to the ACL have flown through the income statement, just as they did prior to the conversion. Our ACL totaled 1.81% of gross loans at the end of 2023, up from 0.89% at the end of 2022. Our year end 2023 ACL also compares favorably to our peer group average of 1.28%.

We are very encouraged by the continued improvement in credit quality as measured by our Past Due and NPA Ratios. However, we believe maintaining a strong ACL to guard against future economic uncertainty in our loan portfolio is a core component of our *Battle-Ready Balance Sheet.*

Interest Rate Risk Management

As shared several times over the years, our Company elected to maintain strong cash reserves during 2021 and 2022 in lieu of reinvesting into an all-time low interest rate environment. Holding near 30% of total assets in cash materially reduced revenue, and overall net income, during the years. However, doing so provided us an opportunity to both reposition our deposit portfolio to eliminate reliance on non-core funding and to avoid incurring the significant unrealized losses that would have accompanied holding low yielding bonds issued post-COVID in the current higher rate environment.

As rates increased, and with them the competition for deposits, the strong strategic advantage that had been built into our deposit portfolio began to shine and help further augment our profitability. At the end of 2023, our Cost of Total Interest-Bearing Deposits stood at 0.26%, up just slightly from 0.22% at year end 2022. At the same time, our National Peer Group saw their Cost of Total Interest-Bearing Deposits increase to 1.89% at the end of 2023 from just 0.51% at the end of 2022. As of this writing, our Cost of Interest-Bearing Deposits is less than 99% of banks in our National Peer Group. The financial effects of this are material and positively impact us in numerous ways.

Of note, our stable funding costs have allowed us to increase our Net Interest Margin (NIM), which is a key driver of bank profitability. Our NIM increased to 4.82% at the end of 2023 from 3.49% at the end of 2022. During this same period, our peers saw increased Deposit Costs either flatten or degrade their NIM and their overall profitability. We have worked to leverage our position of strength during this period to acquire new core client relationships that will be mutually beneficial for years to come.

One way in which we leveraged resources to further bolster our *Battle-Ready Balance Sheet* was participating in the Federal Reserve's Bank Term Funding Program (BTFP) to build an enhanced liquidity buffer to guard against unplanned deposit runoff. After carefully evaluating a full menu of funding options to access additional funding, we judged the BTFP to be the best fit for our needs. We valued the stability of the BTFP funds, and their lower pricing compared to almost every other option. Following our analysis, we borrowed $50,000M from the BTFP in the late 4th Quarter, which is secured by investment securities and has a one-year term. Having this enhanced liquidity buffer has allowed our team to continue competing for low-cost core deposits while also protecting our NIM.

Our lack of volatile funding, and our liquidity buffer, provides our Company significant flexibility and myriad options in managing through a variety of economic scenarios. We consider both to be material strategic advantages to leverage in order to continue driving value. While we do expect to see continued upward pressure on Deposit Costs and potential declines in NIM during 2024, we expect that our performance will continue to be very favorable compared to our peers.

The Merchants & Marine Bancorp, Inc. Family of Brands

Your Company continues to benefit from operating as a diversified "Family of Community Banking Brands" across a variety of business lines and geographies. *(For a full listing of the companies that comprise our Family of Brands, and information about each, please refer to the inside cover of our Annual Report).* While our Family of Brands approach remains novel in banking, it has produced strong results time and again across a variety of other industries. This unique model now offers strong value to your Company through increasing diversification of revenue, growing geographic diversification, and the maintenance of an agile and entrepreneurial business ethos throughout our organization. In particular, we consider our diversification into lines of business that are countercyclical to our core commercial banking franchise essential as a means of mitigating risk.

In addition to the overview of our Family of Brands provided in the inside cover of our Annual Report, the following narratives address key developments in our Family of Brands from 2023.

Voyager Lending, *a Division of Merchants & Marine Bank*

Your Company saw its Family of Brands grow in January 2023 with the launch of Voyager Lending, a *Division of Merchants & Marine Bank.* Led by a team of industry veterans, Voyager Lending specializes in the origination and servicing of government guaranteed business loans, such as those guaranteed by the U.S. Small Business Administration (SBA) and U.S. Department of Agriculture (USDA). Not only are these loans important to helping honor our mission as a Community Development Financial Institution (CDFI), they are a great way to establish new core banking relationships throughout the region.

Financially, Voyager Lending drives non-interest income through premiums on the sale of the guaranteed portions of SBA and USDA loans originated, as well as servicing income on these loans. This diversification in revenue is important for your Company, and we believe it can help buffer against economic conditions that may compress our NIM. Furthermore, loan yields on retained portions of SBA and USDA loans held in portfolio are also generally more attractive than those earned on conventional loans.

Mississippi River Bank Acquisition

In September 2023 your Company signed a definitive agreement to acquire Mississippi River Bank, Belle Chasse, Louisiana (MRB). Founded in 1980, MRB serves Plaquemines Parish, Louisiana, and the entire West Bank community. Like our flagship brand, Merchants & Marine Bank, MRB has a proud legacy of serving as the bank of choice for their community. MRB's standing as the bank of choice in the communities they call home has produced a strong core deposit base and propelled their bank to the status of a perennial top performer, with financial results that regularly rank in the top quartile of all banks.

While MRB will merge into Merchants & Marine Bank following the acquisition, it will continue to operate as an independent division with local leadership as a member of our Family of Brands. Closing of this transaction is subject to customary closing conditions, including regulatory approval. We anticipate closing to occur in the first half of 2024.

Community of Resources (COR)

To help support the continued growth and diversification of our Family of Brands, your Company expanded our Community of Resources (COR) bank services division in the 4th Quarter of 2023 to include all non-client facing business lines within the Company. This strategic expansion of COR stands in contrast to the consistent underinvestment we have seen many peers make into their operational infrastructure during growth. It is our observation that this type of underinvestment invariably leads to diminished client satisfaction, disengaged team members, and degraded risk and operational controls. Combined, these present significant headwinds to a company's financial performance.

Having COR operate as a dynamic and capable bank services division is a key part of our longer-term plans for shepherding future growth. COR provides a common identity, clarity of purpose, and unity of vision for our operational and support team members. For revenue-producing members of our Family of Brands, COR offers a unified source of operational and technical knowledge, strength, and support to reach their full potential. And, for our Corporate Executive Leadership Team, COR provides a unique resource with which we can help our Company navigate ongoing industry changes, identify and control risk, and confidently support the continued growth of your Company and our Family of Brands.

Community Development Financial Institution (CDFI)

An essential piece of our DNA is our longstanding and continued certification as a CDFI at both the Holding Company and Bank level. We remain proud of our standing as one of less than 200 banks nationwide who carry this certification, and as one of far less who are also publicly traded. As a community banking organization at heart, we strongly identify with the CDFI mission. And, we take our responsibility to foster community development and economic development throughout our communities very seriously.

Over the years, we have been able to channel CDFI grants to make significant impacts in underserved and at risk communities throughout our trade areas. A few examples include: developing, marketing, and funding Canvas Mortgage's SAIL Loan Program, which provides affordable home loan options for low- to moderate-income borrowers throughout our trade area; underwriting the launch of LifeWise, a financial counseling nonprofit based in Pascagoula, MS; and sponsoring the University of South Alabama's Minority Business Accelerator program in Mobile, AL. Through each of these efforts, we continue to see truth in the saying that "a rising tide lifts all boats."

While significant time and resources are expended to maintain this certification, we continue to believe that our CDFI certification also adds strong value for fellow shareholders. From being eligible to receive various grants and awards in recognition of our efforts, to receiving preferential regulatory treatment for some lending activities, to being able to participate in transformative programs like the CDFI Emergency Capital Investment Program (ECIP); the CDFI value proposition remains strong. We will endeavor to continue organizing and conducting your Company's affairs in a way that maintains our eligibility for CDFI certification.

Looking Ahead

Your Company is operating from a position of strength and is incredibly well positioned to confront any turbulence that may lie ahead. The progress that has been made by our talented team of bankers in executing our long-term strategic financial plan, while simultaneously adapting to rapidly changing economic conditions and continuing to grow our Family of Brands, is nothing short of incredible. These ladies and gentlemen, who day in and day out bring life to our Family of Brands, are the real secret to our success.

We remain optimistic about the future of your Company, and of our Family of Brands. Our *Battle-Ready Balance Sheet,* our increasing – and increasingly diversified – core earnings streams, and the strong momentum that has been built throughout our Family of Brands should serve as powerful propellants for our organization as we move forward. We look forward to continuing to leverage our collective strength to drive strong results.

We cordially invite you to join us for our 2024 Annual Shareholder's Meeting on May 2, 2024, at 10:00 a.m. This year's meeting will be held at Pelican Landing, located at 6217 Highway 613, Moss Point, MS 39563. We are pleased to also offer a virtual attendance option for our Annual Shareholder's Meeting. Additional details concerning the virtual attendance option and registration instructions will be posted to our Investor Relations Website at www.mandmbank.com/investor-relations/.

Sincerely,

Clayton Legear
President & Chief Executive Officer

Royce Cumbest
Chairman of the Board

MERCHANTS & MARINE BANCORP, INC. AND SUBSIDIARY

FINANCIAL HIGHLIGHTS

(In Thousands, Except Per Share Data)

	As of December 31,				
	2023	2022	2021	2020	2019
PERIOD END BALANCE SHEET					
Total assets	$ 686,157	$ 686,472	$ 678,171	$ 646,061	$ 576,106
Loans, net	415,144	397,788	345,387	359,408	309,648
Securities	139,332	201,910	108,219	107,957	171,420
Deposits	498,994	552,650	585,647	550,669	484,047
Stockholders' equity	123,750	120,891	82,109	81,813	77,492
AVERAGE BALANCE SHEET					
Total assets	663,584	711,706	708,368	628,391	587,797
Loans, net	405,555	365,928	341,912	338,023	312,633
Securities	154,799	175,622	108,331	138,537	172,867
Deposits	553,993	613,718	609,768	535,243	496,355
Stockholders' equity, net of preferred stock	68,807	71,929	81,721	80,425	74,865
INCOME STATEMENT					
Interest income	31,090	23,783	22,128	20,090	21,213
Interest expense	1,940	1,387	2,166	3,113	3,374
Net interest income	29,149	22,396	19,962	16,977	17,939
Provision for credit losses	91	205	1,391	951	905
Net interest income after provision for credit losses	29,058	22,191	18,571	16,026	17,035
Non-interest income	11,685	7,935	7,550	8,269	6,095
Non-interest expense	33,320	27,165	23,526	19,334	18,235
Net income, after tax	6,033	2,972	2,185	4,017	4,150
Cash dividends declared on common stock	1,929	1,929	1,929	1,929	1,929
PER COMMON SHARE DATA					
Net income	4.53	2.23	1.64	3.02	3.12
Cash dividends	1.45	1.45	1.45	1.45	1.45
Book value, net of preferred stock	54.99	52.84	61.72	61.50	58.25
RATIOS					
Return on average common equity	8.77	4.13	2.67	4.96	5.54
Return on average assets	0.91	0.42	0.31	0.64	0.71
Capital to assets	18.04	17.61	12.11	12.66	13.45
Dividends declared as percentage of income	31.98	64.91	88.30	48.02	46.48

INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the accompanying consolidated financial statements of Merchants & Marine Bancorp, Inc. and Subsidiary (the Bancorp) (a Mississippi Corporation), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of income, comprehensive income (loss), changes in stockholders' equity and cash flows for the years then ended, and the related notes to consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Merchants & Marine Bancorp, Inc. and Subsidiary as of December 31, 2023 and 2022, 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.

Change in Accounting Principle

As discussed in Note A to the consolidated financial statements, the Bancorp has changed its method of accounting for credit losses effective January 1, 2023, due to the adoption of Financial Accounting Standards Board (FASB) Accounting Standards Codification No. 326, *Financial Instruments - Credit Losses* (ASC 326). The Bancorp adopted the new credit loss standard using the modified retrospective method such that prior period amounts are not adjusted and continue to be reported in accordance with previously applicable generally accepted accounting principles.

Basis for Opinion

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

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

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

Other Information Included in the Bancorp's Annual Report

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

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

T.E. Lott & Company

Columbus, Mississippi
February 28, 2024

MERCHANTS & MARINE BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2023 AND 2022

ASSETS	2023	2022
Cash and due from banks	$ 65,963,383	$ 26,380,856
Federal funds sold	156,525	3,625,000
Total cash and cash equivalents	66,119,908	30,005,856
Time deposits due from banks	5,448,898	2,452,898
Debt securities:		
Available-for-sale, at fair value	102,781,528	168,174,143
Held-to-maturity, at amortized cost, net of allowance for credit losses of $8,000 in 2023 and $0 in 2022	35,175,173	32,492,147
Equity securities	1,374,913	1,243,420
Loans held for sale	2,863,688	1,032,237
Loans, net of allowance for credit losses of $7,684,076 in 2023 and $3,566,893 in 2022	415,143,855	397,787,851
Property and equipment, net	26,813,426	23,684,082
Other real estate owned	22,401	1
Accrued income	2,508,857	2,935,587
Goodwill	4,543,152	4,543,151
Cash surrender value of life insurance	14,889,684	14,510,476
Operating lease right-of-use asset	548,426	495,357
Other assets	7,923,287	7,114,510
Total Assets	$ 686,157,196	$ 686,471,716
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Non-interest bearing demand	$ 128,905,987	$ 135,286,816
Interest bearing	370,088,244	417,363,131
Total deposits	498,994,231	552,649,947
Borrowed funds	50,000,000	-
Securities sold under agreements to repurchase	3,631,491	4,167,435
Operating lease liability	582,630	529,557
Accrued expenses and other liabilities	9,199,337	8,234,259
Total liabilities	562,407,689	565,581,198
STOCKHOLDERS' EQUITY		
Preferred stock- $1,000 par value per share, 50,595 noncumulative shares authorized, issued and outstanding	50,595,000	50,595,000
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	67,715,945	67,138,698
Accumulated other comprehensive loss	(12,387,283)	(14,669,025)
Total stockholders' equity	123,749,507	120,890,518
Total Liabilities and Stockholders' Equity	$ 686,157,196	$ 686,471,716

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, 2023 AND 2022

	2023	2022
INTEREST INCOME		
Interest and fees on loans	$ 25,286,311	$ 19,156,418
Interest on investment securities:		
Taxable	2,796,059	2,459,202
Exempt	1,529,418	1,252,724
Interest on federal funds sold	739,675	760,885
Other interest income	738,057	153,675
Total interest income	31,089,520	23,782,904
INTEREST EXPENSE		
Interest on deposits	1,490,495	1,380,692
Interest on federal funds purchased and securities sold under agreements to repurchase	449,849	6,794
Total interest expense	1,940,344	1,387,486
Net interest income	29,149,176	22,395,418
Provision for credit losses	90,859	204,767
Net interest income after provision for credit losses	29,058,317	22,190,651
NON-INTEREST INCOME		
Service charges on deposit accounts	2,951,245	2,850,782
Other service charges, commissions and fees	2,456,682	2,396,964
Gain on sale of other real estate owned	36,786	155,820
Income from bank owned life insurance, net of premiums	395,451	331,642
Gain on redemption of bank owned life insurance	-	905,903
CDFI Fund Awards	4,155,608	170,699
Other	1,689,515	1,123,178
Total non-interest income	11,685,287	7,934,988

(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, 2023 AND 2022

(Continued)

	2023	2022
NON-INTEREST EXPENSE		
Salaries and employee benefits	$ 17,878,255	$ 13,865,814
Occupancy expense	6,643,668	5,710,276
Regulatory assessments	321,456	212,304
Professional fees	2,090,349	1,344,611
Director and committee expenses	585,934	606,689
Other	5,799,980	5,425,667
Total non-interest expense	33,319,642	27,165,361
Income before income taxes	7,423,962	2,960,278
Provision (benefit) for income taxes	1,391,357	(11,450)
Net income	$ 6,032,605	$ 2,971,728
Net income per common share	$ 4.53	$ 2.23

The accompanying notes are an integral part of these statements.

MERCHANTS & MARINE BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
Net income	$ 6,032,605	$ 2,971,728
Other comprehensive income (loss):		
Unrealized gains (losses) on securities:		
Unrealized holding gains (losses) arising during the period	2,034,162	(14,658,146)
Reclassification adjustment for gains included in net income	-	-
	2,034,162	(14,658,146)
Defined benefit pension plans:		
Net gain (loss) arising during the period	1,006,134	(2,472,726)
Income tax (expense) benefit	(758,554)	4,274,153
Other comprehensive income (loss)	2,281,742	(12,856,719)
Comprehensive income (loss)	$ 8,314,347	$ (9,884,991)

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, 2023 AND 2022

	Preferred Stock		Common Stock				Accumulated Other	
	Shares Issued	Amount	Shares Issued	Amount	Surplus	Retained Earnings	Comprehensive Loss	Total
Balance, January 1, 2022	-	$ -	1,330,338	$ 3,325,845	$ 14,500,000	$ 66,095,960	$ (1,812,306)	$ 82,109,499
Net income	-	-	-	-	-	2,971,728	-	2,971,728
Issuance of preferred stock	50,595	50,595,000	-	-	-	-	-	50,595,000
Cash dividends, $1.45 per share	-	-	-	-	-	(1,928,990)	-	(1,928,990)
Other comprehensive loss	-	-	-	-	-	-	(12,856,719)	(12,856,719)
Balance, December 31, 2022	50,595	50,595,000	1,330,338	3,325,845	14,500,000	67,138,698	(14,669,025)	120,890,518
Net income	-	-	-	-	-	6,032,605	-	6,032,605
Cash dividends, $1.45 per share	-	-	-	-	-	(1,928,990)	-	(1,928,990)
Cumulative effect adjustment resulting from the initial adoption of ASU 2016-13	-	-	-	-	-	(3,526,368)	-	(3,526,368)
Other comprehensive income	-	-	-	-	-	-	2,281,742	2,281,742
Balance, December 31, 2023	50,595	$ 50,595,000	1,330,338	$ 3,325,845	$ 14,500,000	$ 67,715,945	$ (12,387,283)	$ 123,749,507

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, 2023 AND 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 6,032,605	$ 2,971,728
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,581,309	1,627,574
Provision for credit losses	90,859	204,767
FHLB stock dividend	(42,900)	(9,400)
Deferred income tax expense (benefit)	(553,000)	79,000
Increase in cash value of life insurance	(391,301)	(332,445)
Gain on redemption of bank owned life insurance	-	(905,903)
Amortization of securities premium/discount	478,176	948,957
Amortization of operating lease right-of-use asset	160,103	140,424
Gain on sale of other real estate	(36,786)	(155,820)
(Increase) decrease in fair value of equity securities	(88,593)	15,231
(Increase) decrease in accrued income	426,730	(1,303,165)
Increase in accrued expenses and other liabilities	874,865	354,565
Decrease in other assets	219,923	116,900
Net increase (decrease) in accrued pension liability	(345,498)	2,152,862
Repayment of operating lease liabilities	(160,099)	(106,224)
Origination of loans held for sale	(33,573,420)	(32,397,022)
Proceeds from loans held for sale	31,741,969	33,164,509
Other, net	1,006,134	(2,472,726)
Net cash provided by operating activities	7,421,076	4,093,812
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of securities available-for-sale	73,643,793	26,286,993
Purchases of securities available-for-sale	(6,870,361)	(103,156,207)
Proceeds from sale and maturities of securities held-to-maturity	1,415,499	16,615
Purchases of securities held-to-maturity	(3,931,356)	(32,451,341)

(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, 2023 AND 2022

(Continued)

	2023	2022
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to premises and equipment	$ (4,710,653)	$ (2,265,943)
Net increase in loans	(21,908,253)	(53,145,019)
Increase in time deposits due from banks	(2,996,000)	(250,000)
Proceeds from redemption of bank owned life insurance	63,515	3,919,715
Purchase of bank owned life insurance	(51,422)	(90,826)
Proceeds from sale of other real estate	158,864	941,057
Net cash provided by (used in) investing activities	34,813,626	(160,194,956)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net decrease in deposits	$ (53,655,716)	$ (32,997,068)
Net increase (decrease) in securities sold under agreements to repurchase	(535,944)	115,317
Proceeds from issuance of preferred stock	-	50,595,000
Proceeds from borrowed funds	50,000,000	-
Dividends paid	(1,928,990)	(1,928,990)
Net cash provided by (used in) financing activities	(6,120,650)	15,784,259
Net increase (decrease) in cash and cash equivalents	36,114,052	(140,316,885)
Cash and cash equivalents, beginning of year	30,005,856	170,322,741
Cash and cash equivalents, end of year	$ 66,119,908	$ 30,005,856

Supplemental Disclosures of Cash Flow Information

	2023	2022
Cash paid (received) during the year for:		
Interest	$ 1,865,100	$ 1,385,194
Income taxes	34,367	(183,440)
Non-cash activities:		
Transfer of loans to other real estate	144,478	539,900
Lease liabilities arising from obtaining right-of-use assets	213,172	-

The accompanying notes are an integral part of these statements.

MERCHANTS & MARINE BANCORP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2023 AND 2022

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

1. Nature of Operations

The Bancorp is a bank holding company and its principal activity is the ownership and management of the Bank. The Bancorp is subject to regulation by the Federal Reserve Bank. The Bank generates commercial, mortgage and consumer loans and receives deposits from customers located in Jackson, George, Lamar and Forrest Counties in Mississippi and Baldwin and Mobile Counties in Alabama. The Bank operates under a state bank charter and provides full banking services. Canvas Mortgage, a division of the Bank, originates mortgage loans for sale into the secondary market. CannaFirst Financial, a division of the Bank, provides banking services and regulatory guidance to cannabis business owners and affiliates. Voyager Lending, also a division of the Bank, originates government guaranteed loans to small businesses. 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 consolidated financial statements in conformity with accounting principles generally accepted in the Unites 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for credit losses on loans and off-balance sheet credit exposures, deferred tax assets, the fair values of financial instruments, and pension and deferred compensation obligations.

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.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2023 and 2022. Held-to-maturity securities debt 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 include Federal Home Loan Bank (FHLB) stock, which the Bank accounts for in accordance with FASB ASC 942-325, *Financial Services-Depository and Lending Investments-Other*. FHLB stock is an equity security that does not have a readily determinable fair value because its ownership is restricted, and it lacks a market. FHLB stock is carried at cost and evaluated for impairment. The Bank’s investment in FHLB stock is included in equity securities in the accompanying consolidated balance sheets. At December 31, 2023 and 2022, the Bank’s investment in FHLB stock totaled $936,600 and $893,700, respectively. The carrying value of the Bank’s FHLB stock gave rise to no other-than-temporary impairment for the years ended December 31, 2023 and 2022.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

6. Allowance for Credit Losses - Held-to-Maturity Debt Securities

On January 1, 2023, the Bancorp adopted Accounting Standards Update (ASU) 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which introduces guidance on reporting credit losses for assets held at amortized cost basis, including held-to-maturity debt securities. The Bancorp's debt securities portfolio classified as held-to-maturity includes obligations of states and political subdivisions. Management measures expected credit losses on held-to-maturity debt securities on a collective basis by major security type. That is, for pools of such securities with common risk characteristics, the historical lifetime probability of default and severity of loss in the event of default is derived or obtained from external sources and adjusted for the expected effects of reasonable and supportable forecasts over the expected lives of the securities. Loss forecasts for held-to-maturity debt securities utilize Moody's municipal and corporate database, based on a scenario-conditioned probability of default and loss rate platform. The core of the stressed default probabilities and loss rates is based on the methodological relationship between key macroeconomic risk factors and historical defaults. Accrued interest receivable on held-to-maturity debt securities totaled $311,206 and $266,599 at December 31, 2023 and 2022, respectively and is excluded from the estimate of credit losses.

A substantial portion of held-to-maturity debt securities held by the Bancorp are obligations issued by U.S. government agency and U.S. government-sponsored enterprises, including mortgage-backed securities. These securities are either explicitly or implicitly guaranteed by the U.S. government, are highly rated by major credit rating agencies and have a long history of no credit losses. For these securities, management takes into consideration the long history of no credit losses and other factors to assess the risk of nonpayment even if the U.S. government were to default. As such, the Bancorp does not identify a credit loss estimate for these securities.

7. Allowance for Credit Losses - Available-for-Sale Debt Securities

On January 1, 2023, the Bancorp adopted Accounting Standards Update (ASU) 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which introduces guidance on reporting credit losses for assets held at amortized cost basis and available-for-sale debt securities. For available-for-sale debt securities in an unrealized loss position, the Bancorp first assesses whether it intends to sell or is more likely than not that the Bancorp will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For securities that do not meet these criteria, the Bancorp evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, the Bancorp considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

7. Allowance for Credit Losses - Available-for-Sale Debt Securities (Continued)

from the security is compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis.

Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income. Changes in the allowance for credit losses are recorded as provision for (or reversal of) credit loss expense. Losses are charged against the allowance when management believes the uncollectability of a security is confirmed or when either of the criteria regarding intent or requirement to see is met. Accrued interest receivable on available-for-sale debt securities totaled $754,699 and $1,375,363 at December 31, 2023 and 2022, respectively and is excluded from the estimate of credit losses.

8. Loans Held-for-Sale

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

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

9. 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.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

9. *Loans* (Continued)

Loan origination fees are deferred and recognized in interest income over the remaining life of the loan without anticipating prepayments. Direct loan costs are recognized currently as period costs and do not vary materially from the results that would be recorded using the deferral method prescribed by ASC Topic 310, *Receivables*.

10. Allowance for Credit Losses - Loans

On January 1, 2023, the Bancorp adopted Accounting Standards Update (ASU) 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which introduces guidance on reporting credit losses for assets held at amortized cost basis, including loans. Management employs a process and methodology to estimate the allowance for credit losses (ACL) on loans that evaluates both quantitative and qualitative factors. The methodology for evaluating quantitative factors consists of two basic components. The first component involves pooling loans into portfolio segments for loans that share similar risk characteristics. Pooled loan portfolio segments include construction, commercial real estate, residential real estate, commercial loans, and other consumer loans. The second component involves identifying individually analyzed loans that do not share similar risk characteristics with loans that are pooled into portfolio segments. Individually analyzed loans include nonaccrual loans, troubled debt restructured loans, as well as other loans based on the underlying risk characteristics and the discretion of management to individually analyze such loans.

Loans evaluated individually are not included in the collective evaluation. When management determines that foreclosure is probable or when the borrower is experiencing financial difficulty at the reporting date and repayment is expected to be provided substantially through the operation or sale of the collateral expected credit losses are based on the fair value of the collateral at the reporting date, adjusted for undiscounted selling costs as appropriate.

For pooled loans, the Bancorp utilizes a Scaled CECL Allowance for Losses Estimator (SCALE) methodology to estimate credit losses over the expected life of the loan. The life of the loan excludes expected extension, renewals and modifications, unless the extension or renewal options are included in the original or modified contract terms and not unconditionally cancellable by the Bancorp. The methodology incorporates industry and peer expected lifetime loss rates, reported on Call Report Schedule RI-C.

Quantitative loss factors are also supplemented by certain qualitative risk factors reflecting management's view of how losses may vary from those represented by quantitative loss rates. These qualitative risk factors include: 1) levels of and trends in loan growth, delinquencies and non-accruals; 2) problem loan identification system; 3) experience, ability and depth of lending management and other relevant staff; 4) changes in national and local economic business conditions and developments that affect the collectability of the portfolio; 5) the existence and effect of any concentrations of credit, and changes in the level of such concentrations; 6) the effect of other internal factors such as changes in credit administration and results of examinations. Qualitative loss factors are applied to each portfolio segment.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

10. Allowance for Credit Losses - Loans (Continued)

Because the methodology is based upon historical experience and trends, current economic data, reasonable and supportable forecasts, as well as management's judgement, factors may arise that result in different estimations. Deteriorating conditions or assumptions could lead to further increases in the ACL on loans, conversely improving conditions or assumptions could lead to further reductions in the ACL on loans. In addition, various regulatory agencies periodically review the ACL on loans. Such agencies may require additions to the allowance based on their judgements about information available to them at the time of their examination. The ACL on loans is an estimate, and ultimate losses may vary from management's estimate. See Note D for further discussion regarding the allowance for credit losses on loans.

11. Property and Equipment, Net

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

The Bancorp leases facilities in Mobile, Alabama, Fairhope, Alabama, Hattiesburg, Mississippi and Moss Point, Mississippi under operating leases. It also owns certain properties which are leased to outside parties under operating lessor leases; however, such leases are not significant. In accordance with ASU 2016-02, *Leases*, for operating leases other than those considered to be short-term, the Bancorp recognizes lease right-of-use assets and related lease liabilities. Short-term operating leases are not recognized on the 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, the Bancorp accounts for lease and non-lease components (such as taxes, insurance, and common area maintenance costs) separately, as such amounts are generally readily determinable under 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. Renewal and termination options are also considered 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, it is not reasonably possible to be certain about whether or not a lease will be renewed 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 management is reasonably certain that a renewal option will be exercised, a measure/remeasure the right-of-use asset and related lease liability process is implemented using the lease payments specified for the renewal period or, if such amounts are unspecified, an increase is generally assumed (evaluated on a case-by-case basis in light of prevailing market conditions) in the lease payment over the final period of the existing lease term.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

12. 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.

13. Goodwill and Identifiable Intangible Assets

The Bancorp accounts for goodwill and other intangible assets in accordance with FASB ASC Topic 350, *"Intangibles - Goodwill and Other"*. Goodwill, which represents the excess of cost over the fair value of the net assets of an acquired business, is not amortized but tested on an annual basis or more often if events or circumstances indicate that there may be impairment.

Identifiable intangible assets are acquired assets that lack physical substance but can be distinguished from goodwill because of contractual or legal rights or because the assets are capable of being sold or exchanged either on their own or in a combination with a related contract asset or liability. The Bancorp's identifiable intangible assets consist, primarily, of core deposits. These intangibles, which have definite useful lives, are amortized on a straight-line basis over their estimated useful lives. In addition, these intangibles are evaluated for impairment whenever events and changes in circumstances indicate that the carrying amount should be reevaluated.

14. Advertising Expense

The Bank expenses advertising costs as they are incurred. Advertising expenses amounted to $630,058 and $683,286 in 2023 and 2022, respectively.

15. 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.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

16. Comprehensive Income (Loss)

Comprehensive income (loss) 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.

17. 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.

18. Bank Owned Life Insurance

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

19. 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.

20. Allowance for Credit Losses on Off-Balance Sheet Financial Instruments

On January 1, 2023, the Bancorp adopted Accounting Standards Update (ASU) 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which introduces guidance on reporting credit losses for assets held at amortized cost basis, including off-balance sheet credit exposures. The Bancorp estimates expected credit losses over the contractual period in which the Bancorp is exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Bancorp. Changes in the allowance for credit losses on off-balance sheet exposures are recorded as provision for (or reversal of) credit loss expense. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life. The allowance for credit losses on off-balance sheet credit exposures is estimated by loan segment at each balance sheet date under the current expected credit loss model using the same methodologies as portfolio loans. The allowance for unfunded commitments is included in other liabilities on the Bancorp's consolidated balance sheets.

21. Revenue from Contracts with Customers

The Bancorp records revenue from contracts with customers in accordance with ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Under Topic 606, the Bancorp 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 Bancorp 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 Bancorp'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 Bancorp 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 Bancorp generally fully satisfies its performance obligations on its contracts with customers as services are rendered and the transaction prices are fixed; the Bancorp 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.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

22. Recent Accounting Pronouncements

In December 2022, the FASB issued ASU 2022-06, *Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848*. This update extends the period of time preparers can utilize the reference rate reform relief guidance provided by ASU 2020-04 and 2021-01, which are discussed below. ASU 2022-06, which was effective upon issuance, defers the sunset date of this prior guidance from December 31, 2022 to December 31, 2024, after which entities will no longer be permitted to apply the relief guidance in Topic 848. The Bancorp has not elected to apply the amendments at this time, however, will assess the applicability of this ASU and continue to monitor guidance for reference rate reform from FASB and its impact on the financial condition and results from operations.

In June 2022, the FASB issued ASU 2022-03, *Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions*. The amendments in this ASU affect all entities that have investments in equity securities measured at fair value that are subject to a contractual sale restriction. These amendments clarify that a contractual restriction on the sale of an equity security is not considered part of the unit of account of the equity security and, therefore, is not considered in measuring fair value. The amendments in this ASU are effective for fiscal years, beginning after December 15, 2023, including interim periods within those fiscal years. Early adoption is permitted for both interim and annual financial statements that have not yet been issued or made available for issuance. The adoption of this ASU is not expected to have a material impact in the Bancorp's consolidated financial statements.

In January 2021, the FASB issued ASU 2021-01, *Reference Rate Reform (Topic 848)*. The amendments in this update were intended to clarify certain optional expedients and scope of derivative instruments. The ASU was effective upon issuance and, based upon the amendments provided in ASU 2022-06 discussed above, can generally be applied through December 31, 2024. The Bancorp has not elected to apply these amendments. The Bancorp will, however, assess the applicability of this ASU and continue to monitor guidance for reference rate reform from the FASB and its impact on financial condition and results of operations.

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848)*. The amendments in this ASU are elective and provide optional guidance for a limited period of time to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform. The amendments in this ASU provide optional expedients and exceptions for applying generally accepted accounting principles (GAAP) to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. ASU 2020-04 was effective upon issuance and, based upon the amendments provided in ASU 2022-06 discussed above, can generally be applied through December 31, 2024. The Bancorp has not elected to apply these amendments. The Bancorp will, however, assess the applicability of this ASU and continue to monitor guidance for reference rate reform from the FASB and its impact on our financial condition and results of operations.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

23. Adoption of New Accounting Standards

On January 1, 2023, the Bancorp adopted ASU 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (CECL) methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments). Additionally, the amendments of ASU 2016-13 require that credit losses on available-for-sale debt securities be presented as an allowance rather than as a write-down.

The Bancorp adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized cost and off-balance sheet credit exposures. Results for reporting periods beginning after January 1, 2023, are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP. The transition adjustment of the adoption of CECL included an increase in the allowance for credit losses on loans of $4,316,917, which is presented as a reduction to net loans outstanding, and an increase in the allowance for credit losses on unfunded loan commitments of $435,706, which is recorded within other liabilities. The Bancorp recorded an allowance for credit losses for held-to-maturity debt securities of $8,000, which is presented as a reduction to held-to-maturity debt securities. The Bancorp recorded a net decrease to retained earnings of $3,526,368 as of January 1, 2023, for the cumulative effect of adopting CECL which reflects the transition adjustments noted above, net of the applicable deferred tax assets recorded.

The following table illustrates the impact of ASC 326 (In thousands):

	January 1, 2023		
	As Reported Under ASC 326	Pre-ASC 326 Adoption	Impact of ASC 326 Adoption
Assets:			
ACL on debt securities held-to-maturity			
State, county and municipal securities	$ 8	$ -	$ 8
ACL on loans	7,884	3,567	4,317
Net deferred tax asset	5,881	4,647	1,234
Liabilities and Stockholders' Equity:			
ACL on off-balance sheet credit exposures	622	186	436
Retained earnings	63,613	67,139	(3,526)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

23. Adoption of New Accounting Standards (Continued)

On January 1, 2023, the Bancorp adopted ASU 2022-02, *Financial Instruments-Credit Losses (Topic 326): Troubled Debt Restructuring and Vintage Disclosures*. This Update eliminates the accounting guidance for TDRs by creditors in ASC 310-40, while enhancing disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty. Specifically, rather than applying the recognition and measurement guidance for TDRs, an entity will apply the loan refinancing and restructuring guidance to determine whether a modification or other form of restructuring results in a new loan or a continuation of an existing loan. Additionally, the amendments in this ASU require a public business entity to disclose current-period gross charge-offs by year of origination for financing receivables and net investments in leases in the existing vintage disclosures. The Bancorp adopted the Update using prospective transition for the disclosures related to loan restructurings for borrowers experiencing financial difficulty, the presentation of gross charge-offs in the vintage disclosures, and the recognition and measurement of TDRs. The adoption of this standard did not have a material impact on the Bancorp's consolidated financial statements.

On January 1, 2023, the Bancorp adopted ASU 2017-04, *Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment* and all related amendments. This update amends existing guidance to simplify subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and recognizing an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value, not to exceed the total amount of goodwill allocated to that reporting unit. Also, an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. The adoption of this standard did not have a material impact on the Bancorp's consolidated financial statements.

24. Reclassifications

Certain reclassifications have been made to the consolidated financial statements for the year ended December 31, 2022, to conform to the current year presentation.

25. Subsequent Events

The Bancorp has evaluated subsequent events for recognition and disclosure through the date of the Independent Auditors' Report, which is the date the consolidated financial statements were available to be issued. See note U for additional discussion regarding subsequent events.

NOTE B - SECURITIES

The amortized cost, allowance for credit losses, 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	Allowance for Credit Losses	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2023					
Available-for-sale:					
U.S. Government Agency Funds	$ 5,236	$ -	$ 8	$ 294	$ 4,950
Mortgage-backed securities	54,037	-	-	7,829	46,208
State, county and municipal securities	54,918	-	48	3,342	51,624
Total	$ 114,191	$ -	$ 56	$ 11,465	$ 102,782
Held-to-maturity:					
U.S. Government Agency Funds	$ 1,999	$ -	$ 5	$ 11	$ 1,993
U.S. Treasuries	14,771	-	-	279	14,492
Mortgage-backed securities	3,337	-	-	260	3,077
State, county and municipal securities	15,076	8	162	226	15,004
Total	$ 35,183	$ 8	$ 167	$ 776	$ 34,566

NOTE B - SECURITIES (Continued)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2022				
Available-for-sale:				
U.S. Government Agency Funds	$ 2,971	$ -	$ 329	$ 2,642
U.S. Treasuries	66,943	-	230	66,713
Mortgage-backed securities	57,135	-	8,460	48,675
State, county and municipal securities	54,569	7	4,432	50,144
Total	$ 181,618	$ 7	$ 13,451	$ 168,174
Held-to-maturity:				
U.S. Government Agency Funds	$ 1,000	$ -	$ 12	$ 988
U.S. Treasuries	14,634	-	335	14,299
Mortgage-backed securities	3,929	-	305	3,624
State, county and municipal securities	12,929	69	600	12,398
Total	$ 32,492	$ 69	$ 1,252	$ 31,309

The amortized cost and estimated fair value of securities by contractual maturity at December 31, 2023, are as follows (In thousands):

	Available-For-Sale		Held-to-Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Amounts maturing in:				
One year or less	$ 1,571	$ 1,548	$ -	$ -
After one year through five years	4,933	4,816	15,771	15,481
After five years through ten years	18,288	17,274	1,477	1,478
Greater than ten years	35,362	32,936	14,598	14,530
Mortgage-backed securities	54,037	46,208	3,337	3,077
Total	$ 114,191	$ 102,782	$ 35,183	$ 34,566

NOTE B - SECURITIES (Continued)

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

Proceeds from sales and maturities of available-for-sale securities were $76,643,793 in 2023, including a realized gain of $0. Proceeds from sales of available-for-sale securities were $26,286,993 in 2022, including a realized gain of $0.

Securities with a carrying value of $58,517,800 and $17,666,895 were pledged at December 31, 2023 and 2022, respectively, to secure certain deposits. Information pertaining to securities with gross unrealized losses at December 31, 2023 and 2022, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows (In thousands):

	Losses Less Than 12 Months		Losses 12 Months Or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
December 31, 2023:						
Available-for-sale securities:						
U.S. Government Agency Funds	$ 1,749	$ 23	$ 2,703	$ 271	$ 4,452	$ 294
U.S. Treasuries	-	-	-	-	-	-
Mortgage-backed securities	-	-	46,208	7,829	46,208	7,829
State, county and municipal securities	4,080	57	42,688	3,285	46,768	3,342
Total	$ 5,829	$ 80	$ 91,599	$11,385	$ 97,428	$ 11,465
Held-to-maturity securities:						
U.S. Government Agency Funds	$ -	$ -	$ 989	$ 11	$ 989	$ 11
U.S. Treasuries	-	-	14,492	279	14,492	279
Mortgage-backed securities	767	18	2,309	242	3,076	260
State, county and municipal securities	2,514	39	6,409	187	8,923	226
Total	$ 3,281	$ 57	$ 24,199	$ 719	$ 27,480	$ 776

NOTE B - SECURITIES (Continued)

	Losses Less Than 12 Months		Losses 12 Months Or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
December 31, 2022:						
Available-for-sale securities:						
U.S. Government Agency Funds	$ 968	$ 33	$ 1,674	$ 296	$ 2,642	$ 329
U.S. Treasuries	56,714	230	-	-	56,714	230
Mortgage-backed securities	21,243	2,500	27,432	5,960	48,675	8,460
State, county and municipal securities	41,567	2,904	6,604	1,528	48,171	4,432
Total	$ 120,492	$ 5,667	$ 35,710	$ 7,784	$156,202	$ 13,451
Held-to-maturity securities:						
U.S. Government Agency Funds	$ 988	$ 12	$ -	$ -	$ 988	$ 12
U.S. Treasuries	14,299	335	-	-	14,299	335
Mortgage-backed securities	3,624	305	-	-	3,624	305
State, county and municipal securities	9,843	600	-	-	9,843	600
Total	$ 28,754	$ 1,252	$ -	$ -	$ 28,754	$ 1,252

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, 2023, approximately 86.79% 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, 2023, the one hundred eighty-four debt securities with unrealized losses have declined 8.93% 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 $936,600 and $893,700 as of December 31, 2023 and 2022, respectively. Equity securities also include VISA Class B stock recorded at fair market value of $438,253 and $349,660 at December 31, 2023 and 2022, respectively, in accordance with ASU 2016-01.

Additionally, the FNBB, Inc. equity investment of $932,460, was reclassified from Equity securities to other assets in accordance with ASU 2016-01, which was adopted prospectively as allowed by the standard.

NOTE C - LOANS

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

	December 31, 2023		December 31, 2022	
	Amount	Percent of Total	Amount	Percent of Total
	($ in thousands)		($ in thousands)	
Loans secured by real estate:				
Construction	$ 64,694	15.30%	$ 59,386	14.80%
Farmland	9,742	2.30%	9,995	2.49%
Revolving, open and secured 1-4	13,286	3.14%	8,192	2.04%
1-4 Family residential property	83,722	19.80%	82,292	20.50%
Multifamily (5 or more) residential properties	3,098	0.73%	15,091	3.76%
Nonfarm non-residential properties	173,545	41.04%	152,097	37.90%
Commercial and industrial loans	63,618	15.05%	61,694	15.37%
Loans to individuals for personal expenditures	8,605	2.04%	10,865	2.71%
Municipal and government	1,855	0.44%	1,419	.35%
Other	663	0.16%	324	.08%
	422,828	100.00%	401,355	100.00%
Allowance for credit losses	(7,684)		(3,567)	
Net loans	$ 415,144		$ 397,788	

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 CREDIT 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 credit losses on loans or that additional increases in the credit 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. An expected lifetime loss rate based on proxy aggregated data reported on Call Reports from peer groups determined by management 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 expected lifetime 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 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.

NOTE D - ALLOWANCE FOR CREDIT LOSSES (Continued)

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.

NOTE D - ALLOWANCE FOR CREDIT LOSSES (Continued)

The following table summarizes the activity related to the allowance for credit losses by portfolio segment for the year ended December 31, 2023, under the CECL methodology (In thousands):

	Beginning Balance	Impact of Adopting ASC 326	Charge-Offs	Recoveries	Provision/ (Recapture) for Credit Losses	Ending Balance
Year Ended December 31, 2023:						
Residential	$ 1,327	$ 1,287	$ (19)	$ 75	$ (235)	$ 2,435
Non-Residential	1,254	2,408	-	3	57	3,722
Consumer	199	(44)	(382)	220	197	190
Commercial	612	666	(196)	8	247	1,337
Other	175	-	-	-	(175)	-
Total	$ 3,567	$ 4,317	$ (597)	$ 306	$ 91	$ 7,684

The following table summarizes the activity related to the allowance for loan losses by portfolio segment for the year ended December 31, 2022, under the incurred loss methodology (In thousands):

	Beginning Balance	Charge-Offs	Recoveries	Provision/ (Recapture) for Loan Losses	Ending Balance
Year Ended December 31, 2022:					
Residential	$ 1,313	$ (184)	$ 115	$ 83	$ 1,327
Non-Residential	1,214	-	6	34	1,254
Consumer	173	(466)	255	237	199
Commercial	784	(113)	139	(198)	612
Other	126	-	-	49	175
Total	$ 3,610	$ (763)	$ 515	$ 205	$ 3,567

NOTE D - ALLOWANCE FOR CREDIT LOSSES (Continued)

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of December 31, 2022 ($ in thousands):

	Residential	Non-Residential	Consumer	Commercial	Other	Total
December 31, 2022						
Loans:						
Individually evaluated	$ 2,437	$ 2,896	$ 17	$ 359	$ -	$ 5,709
Collectively evaluated	162,524	159,196	10,848	62,754	324	395,646
Total	$ 164,961	$ 162,092	$ 10,865	$ 63,113	$ 324	$ 401,355
% of Total	41.10%	40.39%	2.71%	15.72%	.08%	100.00%
Allowance for Loan Losses:						
Individually evaluated	$ 41	$ -	$ -	$ 217	$ -	$ 258
Collectively evaluated	1,327	1,254	158	395	175	3,309
Total	$ 1,368	$ 1,254	$ 158	$ 612	$ 175	$ 3,567
% of Total	38.35%	35.16%	4.43%	17.16%	4.90%	100.00%

NOTE D - ALLOWANCE FOR CREDIT LOSSES (Continued)

The following table provides additional detail of impaired loans broken out according to class as of December 31, 2022. 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	Cash Basis Interest Recognized YTD
			(In thousands)			
December 31, 2022:						
Impaired loans with no related allowance:						
Residential	$ 2,394	$ 2,388	$ -	$ 2,384	$ 119	$ 98
Non-residential	2,896	2,887	-	1,724	170	-
Consumer	17	17	-	14	1	-
Commercial	71	71	-	99	3	1
Total	5,378	5,363	-	4,221	293	99
Impaired loans with a related allowance:						
Residential	43	43	41	420	3	8
Non-residential	-	-	-	85	-	-
Consumer	-	-	-	2	-	-
Commercial	288	288	217	427	8	47
Total	331	331	258	934	11	55
Total impaired loans:						
Residential	2,437	2,431	41	2,804	122	106
Non-residential	2,896	2,887	-	1,809	170	-
Consumer	17	17	-	16	1	-
Commercial	359	359	217	526	11	48
Total impaired loans	$ 5,709	$ 5,694	$ 258	$ 5,155	$ 304	$ 154

NOTE D - ALLOWANCE FOR CREDIT LOSSES (Continued)

The following table is a summary of the Bancorp's nonaccrual loans by portfolio segment for the years ended December 31, 2023 and 2022 (In thousands):

	CECL December 31, 2023			Incurred Loss December 31, 2022
	Nonaccrual Loans With No Allowance	Nonaccrual Loans With An Allowance	Total Nonaccrual Loans	Nonaccrual Loans
Residential	$ 1,737	$ -	$ 1,737	$ 2,795
Non-Residential	793	-	793	1,824
Consumer	42	-	42	120
Commercial	322	-	322	423
	$ 2,894	$ -	$ 2,894	$ 5,162

The gross interest income that would have been recorded in the year, if the nonaccrual loans at December 31, 2023 and 2022, 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, 2023 and 2022, was $103,387 and $120,666, respectively. The Bank had no loan commitments to borrowers in non-accrual status at December 31, 2023.

The following table represents the accrued interest receivables written off by reversing interest income during the year ended December 31, 2023 (In thousands):

	For the Year Ended December 31, 2023
Residential	$ 4
Non-Residential	13
Consumer	4
Commercial	2
	$ 23

NOTE D - ALLOWANCE FOR CREDIT LOSSES (Continued)

The Bancorp designates individually evaluated loans on nonaccrual status as collateral dependent loans, as well as other loans that management designates as having higher risk. Collateral dependent loans are loans for which the repayment is expected to be provided substantially through the operation or sale of the collateral and the borrower is experiencing financial difficulty. These loans do not share common risk characteristics and are not included within the collectively evaluated loans for determining the allowance for credit losses. Under CECL, for collateral dependent loans, the Bancorp has adopted the practical expedient to measure the allowance for credit losses based on fair value of collateral. The allowance for credit losses is calculated on an individual loan basis based on the shortfall between the fair value of the loan's collateral, which is adjusted for liquidation costs, and amortized cost. If the fair value of the collateral exceeds the amortized cost, no allowance is required.

The following table presents an analysis of the amortized cost of collateral dependent loans of the Bancorp as of December 31, 2023 (In thousands):

	Residential Property	Commercial Property	Business Assets	Total
Residential Real Estate	$ 1,984	$ 413	$ -	$ 2,397
Non-Residential Real Estate	-	166	-	166
Commercial	-	-	412	412
Total	$ 1,984	$ 579	$ 412	$ 2,975

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, 2023:						
Residential real estate	$ 668	$ -	$ 1,737	$ 2,405	$162,395	$ 164,800
Non-residential real estate	1	-	793	794	182,493	183,287
Commercial	274	-	322	596	64,877	65,473
Consumer	114	-	42	156	8,449	8,605
Other	-	-	-	-	663	663
Total	$ 1,057	$ -	$ 2,894	$ 3,951	$418,877	$ 422,828

NOTE D - ALLOWANCE FOR CREDIT LOSSES (Continued)

	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, 2022:						
Residential real estate	$ 1,097	$ -	$ 2,795	$ 3,892	$161,069	$ 164,961
Non-residential real estate	946	-	1,824	2,770	159,322	162,092
Commercial	804	-	423	1,227	61,886	63,113
Consumer	131	-	120	251	10,614	10,865
Other	-	-	-	-	324	324
Total	$ 2,978	$ -	$ 5,162	$ 8,140	$393,215	$ 401,355

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.

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.

NOTE D - ALLOWANCE FOR CREDIT LOSSES (Continued)

From time-to-time, the Bancorp may modify certain loans to borrowers who are experiencing financial difficulty. In some cases, these modifications may result in new loans. Loan modifications to borrowers experiencing financial difficulty may be in the form of a principal forgiveness, an interest rate reduction, an other-than-insignificant payment delay, a term extension, or a combination thereof, among other things.

The following table presents the amortized cost of loans modified to borrowers experiencing financial difficulty disaggregated by portfolio segment and type of modification as of December 31, 2023 ($ in thousands). The percentage of the amortized cost basis of loans that were modified to borrowers in financial distress as compared to the amortized cost basis of each portfolio segment of loans is also presented below ($ in thousands):

	Term Extensions	Percentage of Total Loans
December 31, 2023		
Residential	$ 54	0.033%
Non-residential	4	0.002%
Consumer	18	0.194%
Total	$ 76	0.018%

The financial effect of the loan modifications to borrowers experiencing financial difficulty presented above resulted in extended maturity dates of, at a minimum, twenty-four months.

The Bancorp had no unused commitments on modified loans to borrowers experiencing financial difficulty at December 31, 2023.

During the years ended December 31, 2023 and 2022, the Bancorp did not perform any loan modifications to borrowers experiencing financial difficulty.

NOTE D - ALLOWANCE FOR CREDIT LOSSES (Continued)

The following table presents loans by credit quality indicator by vintage year at December 31, 2023 (In thousands):

	Term Loans Amortized Cost Basis by Origination Year				Revolving Loans Amortized Cost Basis	Total
	2023	2022	2021	Prior		
Residential Real Estate:						
Risk Rating:						
Pass	$ 38,038	$ 18,593	$ 24,738	$ 30,183	$ 11,746	$ 123,298
Special Supervision	10,786	22,498	1,537	2,055	1,303	38,179
Special Mention	69	101	369	748	160	1,447
Substandard	-	273	342	1,082	77	1,774
Doubtful	-	-	-	102	-	102
Loss	-	-	-	-	-	-
Total Residential Real Estate	$ 48,893	$ 41,465	$ 29,986	$ 34,170	$ 13,286	$ 164,800
Current period gross charge-offs	$ -	$ -	$ -	$ 19	$ -	$ 19
Non-Residential Real Estate:						
Risk Rating						
Pass	$ 12,151	$ 24,885	$ 31,139	$ 48,518	$ -	$ 116,693
Special Supervision	2,602	40,053	15,164	7,895	-	65,714
Special Mention	-	-	-	160	-	160
Substandard	-	-	158	334	-	492
Doubtful	-	-	-	228	-	228
Loss	-	-	-	-	-	-
Total Non-Residential Real Estate	$ 14,753	$ 64,938	$ 46,461	$ 57,135	$ -	$ 183,287
Current period gross charge-offs	$ -	$ -	$ -	$ -	$ -	$ -

NOTE D - ALLOWANCE FOR CREDIT LOSSES (Continued)

	Term Loans Amortized Cost Basis by Origination Year				Revolving Loans Amortized Cost Basis	Total
	2023	2022	2021	Prior		
Commercial:						
Risk Rating:						
Pass	$ 14,278	$ 7,214	$ 13,819	$ 14,003	$ -	$ 49,314
Special Supervision	4,575	6,238	2,163	2,332	-	15,308
Special Mention	225	184	18	363	-	790
Substandard	-	-	44	15	-	59
Doubtful	-	-	-	2	-	2
Loss	-	-	-	-	-	-
Total Commercial	$ 19,078	$ 13,636	$ 16,044	$ 16,715	$ -	$ 65,473
Current period gross charge-offs	$ -	$ -	$ 5	$ 191	$ -	$ 196
Consumer and Other:						
Risk Rating:						
Pass	$ 3,518	$ 2,443	$ 846	$ 1,200	$ 1,146	$ 9,153
Special Supervision	-	-	-	60	-	60
Special Mention	-	-	-	21	-	21
Substandard	-	7	-	7	-	14
Doubtful	-	-	-	20	-	20
Loss	-	-	-	-	-	-
Total Consumer and Other	$ 3,518	$ 2,450	$ 846	$ 1,308	$ 1,146	$ 9,268
Current period gross charge-offs	$ 2	$ 44	$ 25	$ 33	$ 278	$ 382
Total Loans:						
Risk Rating:						
Pass	$ 67,985	$ 53,135	$ 70,542	$ 93,904	$ 12,892	$ 298,458
Special Supervision	17,963	68,789	18,864	12,342	1,303	119,261
Special Mention	294	285	387	1,292	160	2,418
Substandard	-	280	544	1,438	77	2,339
Doubtful	-	-	-	352	-	352
Loss	-	-	-	-	-	-
Total Loans	$ 86,242	$122,489	$ 90,337	$109,328	$ 14,432	$ 422,828
Current period gross charge-offs	$ 2	$ 44	$ 30	$ 243	$ 278	$ 597

NOTE D - ALLOWANCE FOR CREDIT LOSSES (Continued)

As of December 31, 2022, 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, 2022							
Residential real estate	$ 119,162	$ 41,009	$ 2,299	$ 2,366	$ 125	$ -	$ 164,961
Non-residential real estate	125,520	33,592	2,325	469	186	-	162,092
Commercial	48,395	13,881	492	336	9	-	63,113
Consumer	10,569	139	48	36	73	-	10,865
Other	324	-	-	-	-	-	324
Total	$ 303,970	$ 88,621	$ 5,164	$ 3,207	$ 393	$ -	$ 401,355

NOTE E - PROPERTY AND EQUIPMENT, NET

Property and equipment as of December 31, 2023 and 2022, are stated at cost less accumulated depreciation as follows (In thousands):

	2023	2022
Land and buildings	$ 35,628	$ 30,700
Furniture and equipment	9,246	8,365
Leasehold improvements	579	550
	45,453	39,615
Accumulated depreciation	(18,699)	(18,035)
	26,754	21,580
Construction in process	59	2,104
Net property and equipment	$ 26,813	$ 23,684

Depreciation expense for the years ended December 31, 2023 and 2022, amounted to $1,581,309 and $1,627,574.

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, 2023 and 2022, were as follows (In thousands):

	2023	2022
Deferred tax assets:		
Allowance for loan losses	$ 2,076	$ 934
Deferred compensation	731	867
Loan origination costs	391	231
Interest on nonaccrual loans	177	213
Tax credit carry forward	(3)	24
Losses on defined benefit plan assets	1,271	1,523
Unrealized loss on securities available-for-sale	2,847	3,354
Net operating loss carryforward	-	393
Other	140	71
Gross deferred tax asset	7,630	7,610
Deferred tax liabilities:		
Property and equipment	(1,479)	(1,375)
Core deposit intangible	(119)	(97)
Prepaid pension obligation	(1,064)	(1,226)
Prepaid expenses	(259)	(137)
Unrealized gain on equity securities	(92)	(69)
Other	(94)	(59)
Gross deferred tax liability	(3,107)	(2,963)
Net deferred tax asset	$ 4,523	$ 4,647

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, 2023 and 2022 (In thousands):

	2023	2022
Currently payable (receivable)	$ 838	$ (90)
Deferred	553	79
Total income tax expense (benefit)	$ 1,391	$ (11)

NOTE F - INCOME TAXES (Continued)

Income taxes were computed by applying the U.S. Federal income tax rate of 21% to income before taxes for the years ended December 21, 2023 and 2022. The reasons for the differences for the years ended December 31, 2023 and 2022, are as follows ($ in thousands):

	2023		2022	
	Amount	Percent	Amount	Percent
Taxes computed at statutory rate	$ 1,560	21.0	$ 622	21.0
Increase/(decrease) in taxes resulting from:				
Tax-exempt life insurance income				
(net of expense)	(83)	(1.1)	(256)	(8.6)
Tax-exempt interest income	(299)	(4.0)	(254)	(8.6)
State income tax expense	213	2.9	55	1.9
Other, net	-	0.0	(178)	(6.0)
Total	$ 1,391	18.8	$ (11)	(0.3)

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, 2023 and 2022, had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

NOTE G - DEPOSITS

Deposit account balances at December 31, 2023 and 2022, are summarized as follows (In thousands):

	2023	2022
Non-interest bearing demand	$ 128,906	$ 135,287
Interest bearing demand	235,524	258,951
Savings	93,626	99,085
Certificates of deposit	40,938	59,327
Total deposits	$ 498,994	$ 552,650

NOTE G - DEPOSITS (Continued)

Certificates of deposit by contractual maturity as of December 31, 2023, were as follows (In thousands):

2024	$ 31,613
2025	5,265
2026	1,966
2027	1,133
2028	937
Thereafter	24
Total	$ 40,938

Certificates of deposit in excess of $250,000 aggregated approximately $7,520,000 and $14,897,000 at December 31, 2023 and 2022, respectively.

Overdrawn demand deposits, reclassified as loans, totaled approximately $663,000 and $324,000 at December 31, 2023 and 2022, respectively.

NOTE H - BORROWINGS

At December 31, 2023 and 2022, borrowed funds consisted of the following:

	2023	2022
Federal Reserve Bank Term Funding Program Advance – Maturity December 13, 2024, fixed rate 4.93%	$50,000,000	$ -

The Bancorp has established various lines of credit with financial institutions, allowing for maximum borrowings of $191,105,723 at rates determined by the lender when borrowed. At December 31, 2023 and 2022, the Bancorp had an undisbursed direct standby letter of credit with the Federal Home Loan Bank in the amount of $30,000,000. At December 31, 2023 and 2022, there were no federal funds purchased, which would consist of short-term borrowings from other financial institutions.

NOTE I - BALANCE SHEET OFFSETTING AND REPURCHASE AGREEMENTS

Certain financial instruments, including repurchase agreements, may be eligible for offset in the consolidated balance sheets and/or subject to master netting arrangement or similar agreements. Nonetheless, the Bancorp does not generally offset such financial instruments for financial reporting purposes.

The following tables summarize information about financial instruments that are eligible for offset in the consolidated balances sheets as of December 31, 2023 and 2022:

December 31, 2023:

	Gross Amount Recognized	Gross Amount Offset	Net Amount Recognized	Gross Amount Not Offset: Financial Instruments	Gross Amount Not Offset: Collateral	Net Amount
Securities sold under repurchase agreements	$3,631,491	$ -	$3,631,491	$ -	$(3,631,491)	$ -

December 31, 2022:

	Gross Amount Recognized	Gross Amount Offset	Net Amount Recognized	Gross Amount Not Offset: Financial Instruments	Gross Amount Not Offset: Collateral	Net Amount
Securities sold under repurchase agreements	$4,167,435	$ -	$4,167,435	$ -	$(4,167,435)	$ -

Securities sold under repurchase agreements are utilized to facilitate the needs of our customers and to facilitate secured short-term funding needs. Securities sold under repurchase agreements are stated at the amount of cash received in connection with the transaction. The Bancorp monitors collateral levels on a continuous basis. Securities pledged as collateral under repurchase agreements are maintained with our safekeeping agents.

NOTE I - BALANCE SHEET OFFSETTING AND REPURCHASE AGREEMENTS (Continued)

The remaining contractual maturity of repurchase agreements in the consolidated balance sheets as of December 31, 2023 and 2022, is presented in the following tables:

December 31, 2023

	Overnight and Continuous	Up to 30 Days	30-90 Days	Greater than 90 Days	Total
Repurchase agreements:					
Mortgage-backed securities	$ 2,293,193	$ -	$ -	$ -	$ 2,293,193
State, county and municipal securities	1,338,298	-	-	-	1,338,298
Total borrowings	$ 3,631,491	$ -	$ -	$ -	3,631,491
Gross amount of recognized liabilities for repurchase agreements					3,631,491
Amounts related to agreements not included in offsetting disclosures above					$ -

December 31, 2022

	Overnight and Continuous	Up to 30 Days	30-90 Days	Greater than 90 Days	Total
Repurchase agreements:					
Mortgage-backed securities	$ 2,503,715	$ -	$ -	$ -	$ 2,503,715
State, county and municipal securities	1,663,720	-	-	-	1,663,720
Total borrowings	$ 4,167,435	$ -	$ -	$ -	4,167,435
Gross amount of recognized liabilities for repurchase agreements					4,167,435
Amounts related to agreements not included in offsetting disclosures above					$ -

NOTE J - 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, 2023 and 2022, follows (In thousands):

	2023	2022
Reconciliation of benefit obligation:		
Projected benefit obligation at beginning of period	$ 14,922	$ 18,770
Interest cost	708	499
Actuarial gain	(21)	(3,346)
Distributions	(1,029)	(954)
Curtailments, settlement acquisition	(2)	(47)
Projected benefit obligation at end of period	14,578	14,922
Reconciliation of plan assets:		
Fair value of plan assets at beginning of period	13,745	19,746
Actual return on plan assets	1,033	(5,000)
Benefit payments	(1,029)	(954)
Settlements	(2)	(47)
Fair value of plan assets at end of period	13,747	13,745
Funded status, included in other liabilities	$ (831)	$ (1,177)
Net periodic pension expense:		
Interest cost	$ 708	$ 499
Return on plan assets	(720)	(1,051)
Amortization of loss	673	233
Net periodic pension expense (credit)	$ 661	$ (319)

NOTE J - EMPLOYEE BENEFIT PLANS (Continued)

The accumulated benefit obligation for the defined benefit plan was $14,578,185 and $14,922,100 at December 31, 2023 and 2022, respectively.

	2023	2022
Rate assumptions:		
Discount rate	4.96%	2.75%
Long-term rate of investment return	5.50%	5.50%
Rate of compensation increase	N/A	N/A
Amortization period	6.85	7.11

The investment portfolio objective is to seek a balance of investment risk and return by investing in fixed income and equities using tactical asset allocation. In addition, the portfolio seeks to meet current beneficiary liabilities while at the same time grow the principal of the portfolio through price appreciation, dividend income and interest income. The Pension Plan Investment Committee, in establishing these objectives, acknowledges that any investment, other than cash, entails a risk of loss of principal value, but expects the evaluation of the risk to the potential return to be a significant factor in the selection of the investment assets. The Pension Plan's asset allocation targets are 80% fixed income and 20% equity, with no more than 5% of the total equity investment concentrated in international investments.

The fair values of the pension plan assets at December 31, 2023 and 2022, by asset category were as follows (In thousands):

	Total	Level 1	Level 2	Level 3
December 31, 2023:				
Asset category:				
Cash and cash equivalents	$ 207	$ 207	$ -	$ -
Mutual funds:				
Collective fund – U.S. equity	292	-	292	-
Other equity	2,377	2,377	-	-
Fixed income	10,871	10,871	-	-
Total pension plan assets	$ 13,747	$ 13,455	$ 292	$ -

NOTE J - EMPLOYEE BENEFIT PLANS (Continued)

	Total	Level 1	Level 2	Level 3
December 31, 2022:				
Asset category:				
Cash and cash equivalents	$ 226	$ 226	$ -	$ -
Mutual funds:				
Collective fund – U.S. equity	347	-	347	-
Other equity	2,540	2,540	-	-
Fixed income	10,632	10,632	-	-
Total pension plan assets	$ 13,745	$ 13,398	$ 347	$ -

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

2024	$ 1,338,429
2025	1,306,894
2026	1,268,928
2027	1,256,764
2028	1,238,108
2029 - 2033	5,887,859

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 $353,072 and $279,123, for the years ended December 31, 2023 and 2022, 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 $6,500 and $62,000 for the years ended December 31, 2023 and 2022, respectively.

NOTE K - 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, 2023 and 2022, 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, 2023 and 2022, 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, 2023 and 2022. The Bancorp's and the Bank's regulatory capital ratios are set forth below.

NOTE K - REGULATORY CAPITAL (Continued)

The Bank's actual and required capital amounts and ratios as of December 31, 2023 and 2022, are as follows ($ in thousands):

	Actual		Minimum Capital Requirement		Minimum To Be Well-Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2023						
Common Equity Tier 1 Capital:						
Consolidated	$ 80,883	15.67%	$ 23,232	4.50%	N/A	N/A
Merchants & Marine Bank	98,592	19.10%	22,232	4.50%	$ 33,558	6.50%
Total Capital to Risk Weighted Assets:						
Consolidated	137,931	26.72%	41,302	8.00%	N/A	N/A
Merchants & Marine Bank	105,068	20.35%	41,302	8.00%	51,627	10.00%
Tier 1 Capital to Risk Weighted Assets:						
Consolidated	131,478	25.47%	30,976	6.00%	N/A	N/A
Merchants & Marine Bank	98,592	19.10%	30,976	6.00%	41,302	8.00%
Tier 1 Capital to Average Assets:						
Consolidated	131,478	20.10%	26,169	4.00%	N/A	N/A
Merchants & Marine Bank	98,592	15.07%	26,169	4.00%	32,712	5.00%
December 31, 2022						
Common Equity Tier 1 Capital:						
Consolidated	$ 80,442	15.62%	$ 23,172	4.50%	N/A	N/A
Merchants & Marine Bank	98,008	19.03%	23,172	4.50%	$ 33,471	6.50%
Total Capital to Risk Weighted Assets:						
Consolidated	134,770	26.17%	41,195	8.00%	N/A	N/A
Merchants & Marine Bank	101,761	19.76%	41,195	8.00%	51,493	10.00%
Tier 1 Capital to Risk Weighted Assets:						
Consolidated	131,017	25.44%	30,896	6.00%	N/A	N/A
Merchants & Marine Bank	98,008	19.03%	30,896	6.00%	41,195	8.00%
Tier 1 Capital to Average Assets:						
Consolidated	131,017	18.98%	27,617	4.00%	N/A	N/A
Merchants & Marine Bank	98,008	14.20%	27,617	4.00%	34,521	5.00%

NOTE L - 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 $1,786,000 and $317,000 at December 31, 2023 and 2022, respectively. In addition to these loans, the Bank has commitments to extend credit to these related parties, which amounted to approximately $1,678,000 and $4,101,000 at December 31, 2023 and 2022, respectively. The following is a summary of activity in related party loans:

	2023	2022
Balance, beginning of year	$ 316,526	$ 903,892
Advances	2,136,324	210,821
Effect of changes in composition of related parties	-	(70,103)
Repayments	(667,093)	(728,084)
Ending balance	$ 1,785,757	$ 316,526

Deposits from related parties held by the Bank at December 31, 2023 and 2022, totaled approximately $11,787,000 and $8,996,000, 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, 2023 and 2022, the Bank paid $180,666 and $211,119, respectively, in fees to a law firm of which one of the partners is a member of the Bank's Board of Directors.

NOTE M - 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 M - 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, 2023 and 2022 (In thousands):

	Total	Level 1	Level 2	Level 3
Assets at December 31, 2023:				
Debt securities available-for-sale:				
U.S. Government Agency Funds	$ 4,950	$ -	$ 4,950	$ -
U.S. Treasuries	-	-	-	-
Mortgage-backed securities	46,208	-	46,208	-
State, county and municipal securities	51,624	-	51,624	-
	$ 102,782	$ -	$ 102,782	$ -

	Total	Level 1	Level 2	Level 3
Assets at December 31, 2022:				
Debt securities available-for-sale:				
U.S. Government Agency Funds	$ 2,642	$ -	$ 2,642	$ -
U.S. Treasuries	66,713	-	66,713	-
Mortgage-backed securities	48,675	-	48,675	-
State, county and municipal securities	50,144	-	50,144	-
	$ 168,174	$ -	$ 168,174	$ -

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 2023 or 2022.

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

Available-for-sale debt 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, 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, 2023 and 2022 (In thousands):

	Total	Level 1	Level 2	Level 3
Assets at December 31, 2023:				
Impaired loans	$ 2,894	$ -	$ -	$ 2,894
Other real estate owned	22	-	-	22
Assets at December 31, 2022:				
Impaired loans	$ 5,709	$ -	$ -	$ 5,709
Other real estate owned	-	-	-	-

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 2023 or 2022.

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 3 of the fair value hierarchy.

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

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 3 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.

Fair Value of Financial Instruments

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 a recurring basis or non-recurring basis.

The carrying amounts and estimated fair values of financial instruments at December 31, 2023 and 2022 were as follows (In thousands):

	December 31, 2023		December 31, 2022	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Level 2 Inputs:				
Cash and due from banks	$ 65,963	$ 63,963	$ 26,381	$ 26,381
Federal funds sold	157	157	3,625	3,625
Time deposits due from banks	5,449	5,449	2,453	2,453
Accrued income	2,509	2,509	2,936	2,936
FHLB stock	937	937	894	894
Level 3 Inputs:				
Loans, net	418,008	414,184	398,820	397,423
Financial liabilities				
Level 2 Inputs:				
Deposits	498,994	425,321	552,650	507,437
Borrowed funds	50,000	50,000	-	-
Securities sold under agreements to repurchase	3,631	3,631	4,167	4,167
Interest payable	151	151	75	75

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

Fair Value of Financial Instruments (Continued)

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:

Cash and due from banks, time deposits due from banks, accrued income, FHLB stock, borrowed funds, 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 N - 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, 2023, of approximately $1,183,000.

NOTE O - 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.

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, 2023 and 2023 (In thousands):

	2023	2022
Commitments to extend credit	$ 83,586	$ 97,447
Standby letters of credit	3,876	3,851

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 P - ALLOWANCE FOR OFF-BALANCE SHEET CREDIT EXPOSURES

The Bancorp maintains an allowance for off-balance sheet credit exposures such as unfunded balances for existing lines of credit, commitments to extend future credit, as well as standby letters of credit when there is a contractual obligation to extend credit when this extension of credit is not unconditionally cancellable. The allowance for off-balance sheet credit exposures is adjusted as a provision for credit loss expense. The estimate includes consideration of the likelihood that funding will occur, which is based on historical funding activity derived from internal information, and an estimate of expected credit losses on commitments expected to be funded over its estimated life, which are the same loss rates that are used in computing the allowance for credit losses on loans. The allowance for credit losses for unfunded loan commitments of $622,000 and $186,289 at December 31, 2023 and 2022, respectively, is separately classified on the balance sheet within other liabilities.

The following table presents the balance and activity in the allowance for credit losses for unfunded loan commitments for the year ended December 31, 2023 (In thousands):

	ACL on Unfunded Commitments
Balance, December 31, 2022	$ 186
Impact of adopting ASC 326	436
Provision for unfunded commitments	-
Balance, December 31, 2023	$ 622

NOTE Q - 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.

NOTE R - OPERATING LEASES

On January 1, 2019, The Bancorp adopted Accounting Standards Update ("ASU") 2016-02 *Leases,* which required the recognition of certain operating leases on the balance sheet as lease right-of-use assets and related lease liabilities. See Note A - Summary of Significant Accounting Policies. Rent expense totaled $230,778 and $160,087 in 2023 and 2022, 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 $4,901 and $4,728 in 2023 and 2022, respectively.

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

Lease payments under operating leases that were applied to our operating lease liability totaled $162,216 and $119,851 during 2023 and 2022, 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, 2023.

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

2024	$ 220,584
2025	197,536
2026	110,779
2027	78,281
2028	-
Thereafter	-
Total undiscounted cash flows	607,180
Discount on cash flows	(24,550)
Total operating lease liability included in the accompanying balance sheet	$ 582,630
Weighted-average remaining lease term in years	3.02
Weighted-average discount rate	2.86%

NOTE S - REVENUE FROM CONTRACTS WITH CUSTOMERS

Substantially all of the Bancorp's revenue from contracts with customers within the scope of FASB ASC 606 is included in the core banking segment and is recognized within noninterest income. The following table presents the Bancorp's sources of noninterest income for the years ended December 31, 2023 and 2022 (In thousands):

	Year Ended December 31,	
	2023	2022
Service charges on deposit accounts	$ 2,951	$ 2,851
Other service charges, commissions, and fees	2,457	2,397
Gain on sale of other real estate owned	37	156
Income from loan fees	904	765
Other	55	57
Revenue from contracts with customers	6,404	6,226
Income from bank owned life insurance, net of premiums	395	332
CDFI Fund Award	4,156	171
Other	730	1,206
Other noninterest income	5,281	1,709
Total noninterest income	$ 11,685	$ 7,935

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

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

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

NOTE S - REVENUE FROM CONTRACTS WITH CUSTOMERS (Continued)

***Gains on Sales of Other Real Estate Owned*:** The Bancorp records a gain from the sale of other real estate owned when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. When the Bancorp finances the sale of other real estate owned to the buyer, the Bancorp assesses whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the other real estate asset is derecognized and the gain on sale is recorded upon the transfer of control of the property to the buyer. In determining the gain on the sale, the Bancorp adjusts the transaction price and related gain on sale if a significant financing component is present.

Income from Mortgage Loan Fees: The Bancorp earns fees for originating mortgage loans. The originated loans are pre-sold into the secondary market; therefore, the Bancorp recognizes these fees at the point in time when the loans are originated.

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

NOTE T - SENIOR PREFERRED STOCK

On December 27, 2020, the Consolidated Appropriations Act of 2021 (Act) was signed into law and added a new section 104A to the Community Development Banking and Financial Institutions Act of 1994. Section 104A authorized the United States Department of the Treasury (Treasury) to establish the Emergency Capital Investment Program (ECIP), through which the Treasury can make capital investments to certain low and moderate-income community financial institutions. The Act states that the purpose of these capital investments is to support the efforts of low and moderate-income community financial institutions to, among other things, provide loans, grants, and forbearance for small businesses, minority-owned businesses, and consumers in low-income and underserved communities, including persistent poverty counties, which may be disproportionately impacted by the economic effects of the COVID-19 pandemic. Under ECIP, a financial institution is generally eligible to receive capital investments from the Treasury if it is a low and moderate-income community financial institution, which is defined by the Act to include any financial institution that is (1) a community development financial institution (CDFI) or minority depository institution, and (2) an insured depository institution, bank holding company, savings and loan holding company, or federally insured credit union. Under ECIP, the Treasury can acquire senior preferred stock (Senior Preferred Stock) from eligible banking organizations. If the Treasury determines that an eligible banking organization cannot feasibly issue preferred stock, such as banks organized as S-Corporations or mutual banking organizations, the Treasury can acquire subordinated debt instruments. In 2022 the Bancorp issued 50,595 shares of $1,000 par non-cumulative senior preferred stock in exchange for ECIP funds totaling $50,595,000.

NOTE T - SENIOR PREFERRED STOCK (Continued)

The Senior Preferred Stock will pay quarterly non-cumulative dividends based on an increase in qualified lending compared to a baseline. An increase in qualified lending of less than 200% of the capital investment will yield a dividend of 2.00%. An increase between 200% and 400% of the capital investment will yield a dividend of 1.25%. An increase in qualified lending greater than 400% of the capital investment will yield a dividend of 0.05%. No dividends will accrue or be due for the first 24 months following the capital investment. Dividends will begin to accrue on the 2-year anniversary of the investment date. Dividends will be payable quarterly in arrears on March 15, June 15, September 15 and December 15. The first quarterly payment will be due on the first dividend payment date following the 2-year anniversary of the investment date. Following the 2-year anniversary of the investment date, if dividends are not declared, the Chief Executive Officer and Chief Financial Officer of the Bancorp will be required to provide written notice, no later than three business days prior to the payment date, informing the Treasury that dividends will not be declared and the rationale of the Bancorp's Board of Directors for not declaring dividends.

If dividends on the Senior Preferred Stock have not been declared and paid in full for five quarterly dividend periods or more, whether or not consecutive, Treasury will have the right, but not the obligation, to appoint a representative to serve as an observer on the Bancorp's Board of Directors. This right will end when full dividends have been paid for four consecutive subsequent dividend periods. If dividends on the Senior Preferred Stock have not been declared and paid in full for six quarterly dividend periods or more, whether or not consecutive, Treasury will have the right to elect two directors to the Bancorp's Board of Directors. The right to elect directors will end when the full dividends have been paid for four consecutive subsequent dividend periods.

NOTE U - SUBSEQUENT EVENT - PENDING ACQUISITION

On September 19, 2023, the Bancorp entered into an agreement to acquire Mississippi River Bank (MRB). Pursuant to this agreement, MRB will be merged into the Bank. The Bancorp will acquire 100% of the common stock of MRB in exchange for cash consideration equal to the sum of (i) MRB's Adjusted Tangible Shareholders' Equity plus (ii) $10,000,000. The term "Adjusted Tangible Shareholders' Equity" is defined as the consolidated shareholders' equity of MRB, determined in accordance with GAAP, consistently applied, and as of a date that is ten business days prior to the closing date, excluding all intangible assets, but including the effect of any unrealized gains or losses on MRB's investment securities (regardless of accounting designation as available-for-sale or held-to-maturity), and after giving effect to the payment or accrual of all customary costs and expenses of MRB and its affiliates related to or associated with the merger. MRB is headquartered in Belle Chasse, Louisiana, with an additional branch office in Port Sulphur, Louisiana. MRB had total assets of $117,669,000 and total liabilities of $98,722,000 at December 31, 2023. This transaction is subject to approval by the shareholders of MRB and approval by appropriate regulatory agencies. It is anticipated that this transaction will be completed during the second quarter of 2024.

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

The Company is reporting Net Income of $6,032, or $4.53 per share, for the 12 months ended December 31, 2023 compared to $2,972, or $2.23 per share, for the 12 months ended December 31, 2022. Return on average assets totaled 0.91% and 0.42% for the years ended December 31, 2023, and December 31, 2022, respectively. Return on average common equity for the 12 months ended December 31, 2023 and December 31, 2022, totaled 8.77% and 4.13%, respectively.

The Company's net interest margin is a prime indicator of its profitability. The net interest margin (tax equivalent basis) reflects the spread between interest-earning asset yields and interest-bearing liability costs, and the percentage of interest-earning assets funded by interest-bearing liabilities. The Company's net interest margin (tax equivalent) improved to 4.82% at December 31, 2023, from 3.49% in the same period in 2022. Ongoing enhancement of pricing strategies, paired with the company's liquidity position and low dependency on certificates of deposit served to hold average funding costs to 0.29% in 2023 from 0.19% in 2022.

Average assets totaled $663,584 for the year ended December 31, 2023, a decrease of $48,122, or 6.76%, from $711,706 through the year ended December 31, 2022. Average net loans totaled $405,555 during 2023, an increase of $39,627, or 10.83%, from 2022. The company experienced significant loan growth in 2023, with gross loans at fiscal year-end (FYE) standing at $415,144, an increase of $17,356, or 4.36%, from the FYE 2022 level of $397,788.

Average total deposits contracted by $59,725, or 9.73%, to $553,993 in 2023, while averaging $613,718 during 2022. While deposit decreases have been seen widely in the banking industry economy as the Federal Reserve continues to effect monetary tightening, the bulk of the deposit decline experienced in 2023 was the result of the company's limited dependence on time deposits as a funding source. As market rates and duration of these products increased during 2023, management elected to focus more heavily on non-maturity core deposits to fund its assets. The company also has zero bid-term municipal deposits on the balance sheet.

Total non-performing assets, including non-accrual loans, accruing loans past due over 90 days, and other real estate owned, totaled $2,916 and $5,162 in 2023 and 2022, respectively, representing a significant improvement in asset quality year-over-year. Non-performing loans, as a percentage of net loans, were 0.69% as of December 31, 2023, and 1.30% as of December 31, 2022.

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 2023 were 26.72%, 15.67%, 25.47% and 20.10% compared to 26.17%, 15.62%, 25.44% and 18.98% for 2022, respectively. The Company's strong capital base not only protects the bank against risks presented by the industry and the economy, but also positions the company to take advantage of growth and expansion opportunities as they arise.

Stockholders' equity (inclusive of preferred stock) to total assets for 2023 and 2022 was 18.04% and 17.61%, respectively. Common equity to total assets stood at 10.66% and 10.24% for the same periods.

OTHER INFORMATION

Information Relating to Common Stock

At December 31, 2023, 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, 2023, the common stock of the Company was held of record by 879 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 2023 and 2022.

Stock Prices

2023	High	Low
1st Quarter	$40.95	$36.53
2nd Quarter	41.50	35.05
3rd Quarter	45.00	37.00
4th Quarter	51.50	43.00

2022	High	Low
1st Quarter	$40.80	$36.50
2nd Quarter	40.00	37.30
3rd Quarter	38.50	36.56
4th Quarter	39.00	36.25

During each quarter of 2023 and 2022, cash dividends on common stock were paid as follows:

	2023	2022
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 2024, subject to the discretion of the Board of Directors.

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

BOARD OF DIRECTORS

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

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

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

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

Clayton Legear
President and Chief Executive Officer
Merchants & Marine Bancorp, Inc., and
Merchants & Marine Bank

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

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

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

Alan K. Sudduth
Corporate Affairs Manager
Chevron Pascagoula Refinery

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

Thomas B. Van Antwerp
Trustee
The Hearin-Chandler Foundation

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

SENIOR ADVISORY DIRECTOR

Jerry St. Pé
President
St. Pé & Associates

ADVISORY DIRECTOR

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

DIRECTOR EMERITUS

Lynda J. Gautier
Retired Certified Public Accountant

MERCHANTS & MARINE BANCORP, INC.
Officers as of December 31, 2023

Clayton L. Legear*
President and Chief Executive Officer

W. Greg Hodges*
Chief Banking Officer

Jeffery S. Trammell*
Chief Operations Officer

Antonio J. Davis*
Chief Risk Officer

Casey B. Hill*
Chief Financial Officer

Jackie E. Skelton
Secretary to the Board

**Executive Officers*

MERCHANTS & MARINE BANK
Executive Leadership Team

Clayton L. Legear*
President and Chief Executive Officer

Jimmy Conyers
Alabama Market President

W. Greg Hodges*
Chief Banking Officer

Grant Walker
Pine Belt Market President

Kristi Maxwell
Chief Administrative Officer

David Thomas
Director Retail Banking

Mack Rushing
Coastal Mississippi Market President

**Executive Officers*

CANVAS MORTGAGE
A division of Merchants & Marine Bank
Executive Leadership Team

Jonathan Shows
President

Terry LeBlanc
Sales Development Officer

Joe McNeese
Director of Mortgage Operations

CANNAFIRST FINANCIAL
A division of Merchants & Marine Bank
Executive Leadership Team

Jeffery S. Trammell
Managing Director

Jon Parker
Director of Sales

Kia Mallety
Director of Operations

VOYAGER LENDING

A division of Merchants & Marine Bank

Executive Leadership Team

Matthew McElveen
President

Kailynn Summers
Director of Credit

JoAnn Hill
Director of Operations

COMMUNITY OF RESOURCES

A division of Merchants & Marine Bank

Executive Leadership Team

Rita Bailey
Controller and Cashier

Michelle Baldwin
Credit Manager

Riece Fleming
Bank Secrecy Act Officer

Kelly Green
Deposit Operations Manager

Kim Johnson
Audit Manager and Information Security Officer

Lisa Jones
Director of Lending Services

Stacey McElroy
Information Technology Operations Manager

Stephanie Spring
Compliance Manager

David Thomas
Director Retail Banking

Sheryl Wolfe
Human Resources Director

(This page intentionally left blank)

(This page intentionally left blank)

Our journey...

1899
First charter for Merchants & Marine Bank of Pascagoula is approved

1932
Recapitalized and reopened under existing Merchants & Marine Bank of Pascagoula flag

1956
Name is changed to Merchants & Marine Bank

2001
Expanded into the George County, MS market

2005
Hurricane Katrina recovery & rebuilding

2007
Merchants & Marine Bank opened its new headquarters in downtown Pascagoula

2011
Expanded into Baldwin County, AL market

2015
Certified as a Community Development Financial Institution (CDFI)

2020
Expanded into Mobile County, AL and the Hattiesburg, MS markets

2021
Canvas Mortgage launches

2022
CannaFirst Financial launches

2022
Community of Resources (COR) launches

2023
Voyager Lending launches

2023
Acquisition of Mississippi River bank announced

...is just getting started.

MERCHANTS & MARINE BANCORP, INC.

mandmbank.com/investor-relations