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| <b>B #:</b>       | 15805-21  |
| <b>Date:</b>      | 09/03/2021  |
| <b>To:</b>        | All Participants  |
| <b>Category:</b>  | Dividends   |
| <b>From:</b>      | Supervisor, Stock Dividend Department   |
| <b>Attention:</b> | Dividend Managers, Cashiers, and Reorganization Managers  |
| <b>Subject:</b>   | <b>Rights Offering: Marine Bancorp of Florida, Inc.</b><br><b>CUSIP: 56813P103</b><br><b>Record Date: 08/27/2021 Rights Expire: 10/01/2021 5:00 PM Eastern Time</b><br><b>Rate: One (1) Right will be issued for every 5 Common shares held</b> |
|                   |   |

\*\*\*\*\*WARNING TIME CRITICAL\*\*\*\*\*

Marine Bancorp Florida, Inc., is offering non-transferable rights to its shareholders as of close of business August 27, 2021 (the Record Date). Each holder is entitled one (1) right for every 5 common share of Marine Bancorp Florida, Inc. held. All fractions are dropped. The rights will expire on 10/01/2021 at 5:00 P.M. Eastern Time.

DTC will **not** be making any allocation of the rights to DTC participant’s accounts. The rights offering will be handle outside of DTC, directly with the company.

Please find attached, the materials that were provided by the company.

Upon completion of the instructions, your Subscription Agreement, Investor Questionnaire, and payment must be delivered to:

**Marine Bancorp of Florida, Inc.**  
**Attention: William J. Penney**  
**Chairman, Chief Executive Officer, and President**  
**571 Beachland Boulevard**  
**Vero Beach, Florida 32963**  
[BPenney@marinebank.bank](mailto:BPenney@marinebank.bank)  
**(772) 231-6611**

DTCC offers enhanced access to all important notices via a Web-based subscription service The notification system leverages RSS Newsfeeds, providing significant benefits including real-time updates and customizable delivery. To learn more and to set up your own DTCC RSS alerts, visit [http://www.dtcc.com/subscription\\_form.php](http://www.dtcc.com/subscription_form.php).

**B#: 15805-21**

**Any questions or requests for assistance may be directed to the Company at the contact information set out below:**

**William J Penney**  
**Chairman, Chief Executive Officer, and President**  
**at [bpenny@marinebank.bank](mailto:bpenny@marinebank.bank) or (772) 231-6611**

**RECORD DATE POSITION INFORMATION SHOULD BE CONFIRMED THROUGH THE CA WEB.**

If participants have any questions regarding this Important Notice, they may contact DTC's Customer Help Center at (888) 382-2721.

***Important Legal Information:** The Depository Trust Company ("DTC") does not represent or warrant the accuracy, adequacy, timeliness, completeness or fitness for any particular purpose of the information contained in this communication, which is based in part on information obtained from third parties and not independently verified by DTC and which is provided as is. The information contained in this communication is not intended to be a substitute for obtaining tax advice from an appropriate professional advisor. In providing this communication, DTC shall not be liable for (1) any loss resulting directly or indirectly from mistakes, errors, omissions, interruptions, delays or defects in such communication, unless caused directly by gross negligence or willful misconduct on the part of DTC, and (2) any special, consequential, exemplary, incidental or punitive damages. To ensure compliance with Internal Revenue Service Circular 230, you are hereby notified that: (a) any discussion of federal tax issues contained or referred to herein is not intended or written to be used, and cannot be used, for the purpose of avoiding penalties that maybe imposed under the Internal Revenue Code; and (b) as a matter of policy, DTC does not provide tax, legal or accounting advice and accordingly, you should consult your own tax, legal and accounting advisor before engaging in any transaction.*

**MARINE BANCORP OF FLORIDA, INC.**  
**INVESTOR SUITABILITY QUESTIONNAIRE**

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**ALL INFORMATION PROVIDED IN THIS QUESTIONNAIRE  
WILL BE TREATED CONFIDENTIALLY**

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You must complete and sign either Part I or Part II of the following Investor Suitability Questionnaire depending on which part is applicable to you. Everyone must complete Part III of the Investor Suitability Questionnaire and the Subscription Agreement.

Please print or type your answers. If the answer to any question is “Not Known” or “Not Applicable,” please so state. Please provide information for every person that wishes to subscribe for Shares (as defined below), using a separate questionnaire for each. If your spouse is not intended to be a co-subscriber and you have listed property, held in joint tenancy or tenancy-in-common, please indicate your share of such property. Please do not confuse individual assets or income with assets or income of a trust, corporation or partnership in which you have an interest; do, however, list the value of your interest in such entities.

The following information is being furnished to the Company to enable the Company to determine whether the offer and sale by the Company of shares of its stock (the “Shares”), may be made to the undersigned pursuant to exemptions from the registration requirements of the Securities Act of 1933, as amended (the “Act”), and the applicable securities laws of the state where the undersigned resides or is domiciled. The undersigned understands that this Investor Suitability Questionnaire is not an offer of the Shares or any other securities to the undersigned.

Your answers will at all times be kept confidential. However, by signing this Investor Suitability Questionnaire you agree that the Company and its management may present this Investor Suitability Questionnaire to such parties as they deem appropriate to establish the availability under federal or state securities laws of an exemption from registration of the offer and sale of the Shares.

FOR INDIVIDUALS, GRANTOR REVOCABLE TRUSTS AND SELF-DIRECTED IRAs: please complete Part I, and read, complete and sign Part III.

FOR CORPORATIONS, LLCs, TRUSTS (OTHER THAN GRANTOR REVOCABLE TRUSTS) OR OTHER ENTITIES, please complete Part II, and read, complete and sign Part III.

To help the government fight the funding of terrorism and money laundering activities, Federal law requires all financial institutions to obtain, verify, and record information that identifies each person who opens an account or invests in an offering. What this means for you: we will ask for your name, address, date of birth, and other information that will allow us to identify you. We will also ask to see your driver’s license or other identifying documents.

**PART I**  
**TO BE COMPLETED BY INDIVIDUALS, GRANTOR REVOCABLE TRUSTS**  
**AND SELF-DIRECTED IRAs**

**ALL QUESTIONS MUST BE ANSWERED.**

1. Name: \_\_\_\_\_  
Social Security No./Tax Identification No.: \_\_\_\_\_  
If co-subscribing with spouse, list name of spouse: \_\_\_\_\_  
If co-subscribing with spouse, list spouse's Social Security No.: \_\_\_\_\_  
Are you a United States citizen? YES \_\_\_\_\_ NO \_\_\_\_\_  
Telephone: \_\_\_\_\_  
Email: \_\_\_\_\_
2. I am purchasing the Shares on behalf of (please check one):  
\_\_\_ myself, individually;  
\_\_\_ myself together with my spouse, jointly;  
\_\_\_ a revocable living trust for which I am the grantor and the trustee, the full legal name of such trust is:  
\_\_\_\_\_  
\_\_\_ a self directed individual retirement account (IRA), the name of which is:  
\_\_\_\_\_  
Please list the custodian of such IRA: \_\_\_\_\_
3. Permanent principal residence address (other than Post Office Box) and telephone number:  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
4. The undersigned hereby represents and warrants to the Company and its directors, officers and affiliates that the undersigned is an "Accredited Investor" as defined in subparagraph (a) of Rule 501 of Regulation D under the Act by virtue of the fact that the undersigned is (check all that apply):
- Individual \$1,000,000 Net Worth Test.**<sup>1</sup> A natural person whose net worth, or joint net worth with my spouse, exceeds \$1,000,000.
- Individual \$200,000 Income Test.** A natural person who had an individual annual income in excess of \$200,000 in each of the two most recent years or a joint annual income with my spouse in excess of \$300,000 in each of those years, and I have a reasonable expectation of reaching the same income level in the current year.
- Insider Test.** A director or executive officer of the Company.

<sup>1</sup> Note: The value of your personal residence is to be excluded in determining your net worth; provided, however, if the indebtedness on your personal residence exceeds the value of your home, such excess amount should be considered a liability and deducted from your net worth. Indebtedness secured by your primary residence (i) in excess of the estimated fair market value of the residence and (ii) up to the estimated fair market value of the residence to the extent that such indebtedness exceeds the indebtedness securing your primary residence at any time within the 60 day period prior to the date on which you purchase any Shares in this offering (other than as a result of the acquisition of your primary residence) should be considered a liability and deducted from your net worth.

**PART II  
TO BE ANSWERED BY  
CORPORATIONS, LLCs, TRUSTS (OTHER THAN GRANTOR REVOCABLE TRUSTS-SEE PART I ABOVE) OR  
OTHER ENTITIES**

**ALL QUESTIONS MUST BE ANSWERED.**

1. Name of Entity: \_\_\_\_\_
2. Type of Entity: \_\_\_\_\_
3. Date of Organization: \_\_\_\_\_
4. State of Organization: \_\_\_\_\_
5. Taxpayer Identification No: \_\_\_\_\_
6. Principal Business Address: \_\_\_\_\_
7. Telephone: \_\_\_\_\_
8. Email: \_\_\_\_\_
9. Send Mail to: \_\_\_\_\_
10. The undersigned hereby represents and warrants to the Company and its directors, officers and affiliates that the undersigned is an “Accredited Investor” within the meaning of that phrase as used in subparagraph (a) of Rule 501 of Regulation D under the Act by virtue of the fact that the undersigned is (check all that apply):

***Institutional Test.*** (Check One)

- a bank as defined in Section 3(a)(2) of the Act or any savings and loan association or other institution as defined in Section 3(a)(5)(A) of the Act whether acting in its individual or fiduciary capacity;
- a broker or dealer registered pursuant to Section 15 of the Securities Exchange Act of 1934, as amended;
- an insurance company as defined in Section 2(a)(13) of the Act;
- an investment company registered under the Investment Company Act of 1940, as amended (the “Investment Company Act”) or a business development company as defined in Section 2(a)(48) of the Investment Company Act;
- a Small Business Investment Company licensed by the U.S. Small Business Administration under Section 301(c) or (d) of the Small Business Investment Act of 1958, as amended;
- an employee benefit plan within the meaning of Title I of the Employee Retirement Income Security Act of 1974, as amended (“ERISA”) where the investment decision is made by a plan fiduciary, as defined in Section 3(21) of ERISA, which is either a bank, savings and loan association, insurance company, or registered investment advisor, or where the employee benefit plan has total assets in excess of \$5,000,000 or, if a self-directed plan, with decisions made solely by persons that are accredited investors;
- a private business development company as defined in Section 202(a)(22) of the Investment Advisers Act of 1940, as amended;

- a charitable organization described in Section 501(c)(3) of the Internal Revenue Code, as amended, a corporation, a Massachusetts or similar business trust, a limited liability company or a partnership not formed for the specific purpose of acquiring the Shares, with total assets in excess of \$5,000,000; or
- a plan established and maintained by a state, its political subdivisions, or any agency or instrumentality of a state or its political subdivisions, for the benefit of its employees, with total assets in excess of \$5,000,000.
- \$5,000,000 Trust Test.*** A trust, with total assets in excess of \$5,000,000, not formed for the specific purpose of acquiring the Shares, whose purchase is directed by a sophisticated person as described in §506(b)(2)(ii) of Regulation D under the Act.
- Entities With All Accredited Owners.*** An entity in which each equity owner is an Accredited Investor. Each equity owner must satisfy any of the criteria set forth in this Item 10 or any of the criteria listed in Item 4(a) of Part I, and must fill out and return to the Company Parts I or II of this questionnaire, as applicable, and Part III of this questionnaire.

11. If you did not check any of the boxes in Item 10, you are not an Accredited Investor, and therefore we may not offer you Shares in the Placement. If you did check a box in Item 10, then proceed to read, complete and sign Part III.

### **PART III**

#### **REPRESENTATIONS AND WARRANTIES**

The undersigned understands and acknowledges the Company and its directors, officers, representatives and agents will rely upon the accuracy and completeness of the undersigned's responses to the foregoing questions and the undersigned represents and warrants to the Company and its managers, officers, representatives and agents as follows:

(a) The answers to the above questions are complete and correct and may be relied upon by the Company and its directors, officers, representatives and agents in determining whether the offering in which the undersigned proposes to participate is exempt from registration under the Act and applicable state securities laws.

(b) The undersigned will immediately notify the Company of any material change in any statement made herein occurring prior to the issuance of any Shares by the Company to the undersigned, including without limitation to any change in principal residential address for individuals or any change in principal business address for non-individuals.

[remainder of page intentionally left blank; signature page to follow]

**IN WITNESS WHEREOF**, the undersigned has executed, or has caused to be executed by its duly authorized officers, partners or other representatives, this Investor Suitability Questionnaire this \_\_\_ day of \_\_\_\_\_, 2021, and declare that it is truthful and correct.

INDIVIDUAL:

NON-INDIVIDUAL:

\_\_\_\_\_  
PRINT Name

\_\_\_\_\_  
PRINT Name

\_\_\_\_\_  
Signature\*

\_\_\_\_\_  
Signature and Title of Trustee  
or Other Representative

\_\_\_\_\_  
PRINT Name of Spouse  
(if intending to co-invest for the Shares with spouse)

\_\_\_\_\_  
PRINT Name of Trustee or  
Other Representative\*

\_\_\_\_\_  
Signature of Spouse\*  
(if intending to co-invest for the Shares with spouse)

\_\_\_\_\_  
Residence Address  
(please print or type):

\_\_\_\_\_  
Office Address  
(please print or type):

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Mailing Address if  
other than Residence or Office Address  
(please print or type):

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**\* FOR COMPLIANCE PURPOSES, PLEASE ATTACH/ENCLOSE WITH THIS INVESTOR SUITABILITY QUESTIONNAIRE A PHOTOCOPY OF EACH ABOVE SIGNATORY'S STATE-ISSUED DRIVER'S LICENSE OR PHOTO IDENTIFICATION CARD.**





## MARINE BANCORP OF FLORIDA, INC. SUBSCRIPTION AGREEMENT

### -PLEASE READ CAREFULLY-

This Subscription Agreement (the “Subscription Agreement”) should be completed in accordance with these instructions and returned, along with a photocopy of each undersigned’s state-issued driver’s license or photo identification card, to:

Marine Bancorp of Florida, Inc. (the “Company”)  
Attention: William J. Penney  
Chief Executive Officer  
571 Beachland Boulevard  
Vero Beach, Florida 32963  
[BPenney@marinebank.bank](mailto:BPenney@marinebank.bank)  
(772) 231-6611

Payment is to be made by wire transfer or by personal check or cashier’s check made payable to “Marine Bancorp of Florida, Inc.”

This Subscription Agreement is made by and between the Company, and the undersigned who is subscribing for shares of common stock of the Company pursuant to a private placement by the Company (the “Placement”).

In consideration of the Company’s agreement to issue shares to the undersigned, upon the terms and conditions set forth herein, the undersigned agrees and represents as follows:

1. The undersigned hereby irrevocably subscribes for and irrevocably agrees to purchase, and the Company agrees to issue and sell to the undersigned if the Company accepts this subscription, the number of shares of common stock (the “Shares”), set forth on the signature page hereof, at a price of \$27.50 per Share payable by wire transfer, personal check or cashier’s check. The undersigned agrees to execute and deliver to the Company any other documents reasonably requested by the Company to substantiate satisfaction by the undersigned of the terms and conditions established for investors as conditions precedent to the purchase of Shares in the Placement and any other documents required by any state securities commission or authority or management of the Company. Subject to Section 2 of this Subscription Agreement, if the foregoing subscription is accepted by the Company, the undersigned acknowledges that the undersigned will be issued the Shares.

2. The undersigned understands that there are no closing conditions of the Placement. Any payment accompanying this Subscription Agreement will be held by the Company, and that the undersigned may become a shareholder at any time thereafter at the discretion of the Company, at which time the undersigned’s subscription funds and other documents, if any, will be released for use by the Company. The undersigned hereby acknowledges receipt of a copy of the Private Placement Memorandum delivered with this Subscription Agreement.

3. The undersigned understands, acknowledges and agrees that:

- (a) This subscription may be accepted or rejected in whole or in part by the Company in the Company’s sole and absolute discretion. This Subscription Agreement will not be effective until accepted by the Company. Subject to Section 2 of this Subscription Agreement, acceptance of the Company shall occur upon delivery of an “Acceptance by Company,” in the form attached hereto, signed by an officer of the Company and delivered to the undersigned.
- (b) If this subscription is accepted, the Shares purchased pursuant hereto will be owned only in the name of the undersigned as indicated on the signature page below.
- (c) Except as provided under applicable state securities laws, this subscription is and shall be irrevocable, except that the undersigned shall have no obligations hereunder in the event that this subscription is for any reason rejected or the Placement is for any reason terminated.
- (d) **The Shares are not deposit accounts and are not insured by the Federal Deposit Insurance Corporation or any other governmental agency. Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or**

**accuracy of the any information contained in the Private Placement Memorandum. Any representation to the contrary is a criminal offense.**

- (e) The Shares are being purchased for the undersigned's own account for investment and not for distribution or resale to others. The undersigned agrees that the undersigned will not resell or otherwise transfer the undersigned's Shares unless such sale or transfer is registered under the Securities Act of 1933 (the "Act") and applicable state securities laws or an exemption from registration under the Act and such laws is available. The undersigned understands that the Company is under no obligation to register the resale of the Shares on behalf the undersigned or to assist the undersigned in complying with any exemption from registration. The undersigned represents that the undersigned has adequate means of providing for the undersigned's current needs and possible personal contingencies and that the undersigned has no need for liquidity in this investment. It is understood that all documents, records and books pertaining to this investment have been made available for inspection by the undersigned and as requested by any of the undersigned's attorney, accountant and purchaser representative (as such term is defined in Rule 501(i) of Regulation D under the Act).
- (f) The undersigned agrees to furnish an opinion of counsel acceptable to the Company to the effect that any proposed assignment, sale, transfer, exchange or other disposition of the Shares complies with applicable federal and state securities laws and regulations and applicable federal and state banking laws and regulations (collectively, the "Securities Laws").
- (g) The undersigned hereby acknowledges and agrees that except as described herein, this Subscription Agreement may not be canceled, revoked or withdrawn by the undersigned, and that this Subscription Agreement and the documents submitted herewith shall survive the death or disability of the undersigned.
- (h) The undersigned understands and acknowledges that the Company is relying on representations, warranties and agreements made by the undersigned to the Company herein and in the Investor Suitability Questionnaire delivered herewith by the undersigned to the Company (the "Investor Suitability Questionnaire") and, therefore, hereby agrees to indemnify the Company and Skyway and their directors, officers, affiliates, employees, agents and attorneys, and hold each of them harmless against any and all loss, damage, liability or expense, including reasonable attorneys' fees, which they or any of them may suffer, sustain or incur by reason of or in connection with any misrepresentation or breach of warranty or agreement made by the undersigned under this Subscription Agreement, the Investor Suitability Questionnaire or in connection with the sale or distribution by the undersigned of the Shares purchased by the undersigned pursuant hereto in violation of any of the Act, the Securities Laws or any other applicable law.
- (i) The undersigned understands that any certificates representing the Shares will contain a legend substantially in the following form:

**THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR UNDER THE APPLICABLE SECURITIES LAWS OF ANY OTHER STATE OR JURISDICTION (THE "STATE ACTS"). ACCORDINGLY, THE SECURITIES REPRESENTED BY THIS CERTIFICATE MAY NOT BE SOLD, ASSIGNED, PLEDGED, EXCHANGED, HYPOTHECATED, TRANSFERRED OR OTHERWISE DISPOSED OF UNLESS REGISTERED UNDER THE SECURITIES ACT AND THE STATE ACTS, EXCEPT UPON DELIVERY TO THE COMPANY OF (A) AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY TO THE EFFECT THAT REGISTRATION IS NOT REQUIRED FOR SUCH TRANSFER, OR (B) EVIDENCE SATISFACTORY TO THE COMPANY TO THE EFFECT THAT ANY SUCH TRANSFER WILL NOT BE IN VIOLATION OF THE SECURITIES ACT, THE STATE ACTS, OR ANY RULE OR REGULATION PROMULGATED THEREUNDER.**

4. The undersigned hereby further represents, warrants and agrees that:

- (a) The undersigned is an “Accredited Investor” as defined in subparagraph (a) of Rule 501 of Regulation D under the Act and as set forth in the undersigned’s Investor Suitability Questionnaire and has such knowledge and experience in financial and business matters that he is capable of evaluating the merits and risks of the prospective investment in the Shares.
- (b) The undersigned is acquiring the Shares for the undersigned’s own account solely for investment, not for the account of any other person and not with a view to distribution, assignment or resale, and no other person has or will have a direct or indirect beneficial interest in any Shares so acquired; and agrees not to sell, hypothecate or otherwise dispose of all or any part of the Shares representing the undersigned’s Shares unless: (i) the offer and sale or transfer of the Shares have been registered under the Act and applicable state securities laws or, in the opinion of counsel acceptable to the Company, an exemption from registration under the Act and such laws is available; and (ii) such transfer will not, in the opinion of counsel acceptable to the Company, cause the Company to violate any of the Securities Laws.
- (c) The undersigned’s overall commitment to investments that are not readily marketable is not disproportionate to the undersigned’s net worth and the undersigned’s investment in the Shares will not cause such overall commitment to become excessive.
- (d) The undersigned has adequate net worth and means of providing for the undersigned’s current needs and personal contingencies necessary to sustain a complete loss of the undersigned’s investment in the Company and the undersigned has no need for liquidity in this investment in the Shares.
- (e) The undersigned, either alone or with a purchaser representative as defined above, has such knowledge and experience in financial and business matters in general and in particular with respect to this type of investment that the undersigned is capable of evaluating the merits and risks of an investment in the Company.
- (f) The undersigned has carefully read and understands the Private Placement Memorandum. The Company has made available to the undersigned and, as requested, to any of the undersigned’s attorney, accountant or other professional advisors, all documents that the undersigned or any of the foregoing has requested relating to an investment in the Company and has provided satisfactory answers to all of the undersigned’s questions concerning the Placement, the information in the Private Placement Memorandum and the Company. In evaluating the suitability of an investment in the Company and acquiring the Shares, the undersigned has not been furnished with or relied upon any representations or other information (whether oral or written) other than as set forth in the Private Placement Memorandum.
- (g) The undersigned recognizes, understands and has evaluated all of the risk factors related to the purchase of Shares, including, but not limited to, those set forth in the Private Placement Memorandum. The undersigned is willing and able to bear the economic risk of an investment in the Shares of the size contemplated, including, but not limited to, the risk of losing his, her or its entire investment in the Company. In making this statement, consideration has been given to whether the undersigned can afford to hold the investment for an indefinite period of time and whether the undersigned can afford a complete loss of investment in the Shares. The undersigned offers as evidence of any ability to bear the economic risk the information contained in this Investor Suitability Questionnaire.
- (h) The undersigned confirms that the undersigned is not relying on any communication (written or oral) of the Company, Skyway, or any of their affiliates, agents or representatives, as investment advice or as a recommendation to purchase the Shares. It is understood that neither the Company, Skyway, nor any of their affiliates, agents or representatives, is acting or has acted as an advisor to the undersigned in deciding to invest in the Shares. The undersigned acknowledges that neither the Company nor Skyway, nor any of their affiliates, agents or representatives, has made any representation regarding the proper characterization of the Shares for purposes of determining the undersigned’s authority to invest in the Shares.

- (i) The undersigned understands that: (i) any estimates or projections concerning the expected performance of the Company, by their nature, constitute “forward-looking statements” (for purposes of the Securities Laws) and involve significant elements of subjective judgment and analysis that may or may not be correct; (ii) there can be no assurances that any such projections or goals will be attained; and (iii) any such projections and estimates should not be relied on as a promise or representation of the Company’s future performance.
- (j) The undersigned is not relying on any information, written or oral, provided by or on behalf of the Company with respect to the tax consequences of an investment in the Company or the suitability of this investment for the undersigned, but is relying on its own evaluation and that of its own professional, legal, tax and financial advisors to make such determinations based on the undersigned’s particular circumstances.
- (k) The undersigned is a *bona fide* resident of the state set forth in the undersigned’s address below and agrees that, in the event the undersigned’s principal residence is changed prior to his, her or its purchase of the Shares, the undersigned will promptly notify the Company, and if the change is to a state in which offers and/or sales of Shares in the manner contemplated by the Placement is prohibited by applicable law, that any offer to sell the Shares to him, her or it prior to notification of the changes shall be deemed retracted and the undersigned shall no longer be entitled to purchase Shares.
- (l) All information that the undersigned has provided to the Company concerning the undersigned and the undersigned’s financial position and business experience, including, but not limited to, in the Investor Suitability Questionnaire, is true, correct and complete as of the date set forth below, and shall be true, correct and complete as of the date of the acceptance hereof by the Company and the issuance of the Shares to the undersigned. If there should be any material change in such information prior to the issuance to the undersigned by the Company of the Shares, the undersigned will immediately furnish such revised or corrected information to the Company.
- (m) The undersigned has not distributed the Private Placement Memorandum or any other materials furnished to the undersigned by the Company pursuant to the Placement to anyone other than the undersigned’s professional advisors.
- (n) The undersigned and his, her or its advisor(s) have neither relied upon nor seen any advertisement, article, notice or other communication published in any newspaper, magazine or similar media or broadcast over television or radio, or any solicitation of a subscription by a person other than a representative of the Company, including Skyway. The undersigned has attended no seminar or meeting in connection with the offering of the Shares, and the undersigned is aware of no such seminar or meeting attended by others, except for meetings of one or more potential subscribers with representatives of the Company for the purpose of responding to inquiries as provided in Section 4(f) above.
- (o) The foregoing representations, warranties and agreements, together with all other representations and warranties made or given by the undersigned to the Company in any other written statement or document delivered in connection with the transactions contemplated hereby, shall be true and correct in all respects on and as of the purchase of the Shares as if made on and as of such date and shall survive such date. If more than one person is signing this Subscription Agreement, each representation, warranty and undertaking hereby shall be the joint and several representation, warranty and undertaking of each such person. If the undersigned is subscribing for the Shares subscribed for hereby in a representative or fiduciary capacity, the representations and warranties contained herein (and in any other written statement or document delivered to the Company in connection herewith) shall be deemed to have been made on behalf of the person or persons for whom such Shares are being purchased.

5. If the undersigned is an individual, (i) the undersigned is at least 18 years of age, a citizen and resident of the United States of America and of sufficient legal capacity to execute the Subscription Agreement, (ii) the undersigned has the full right, power and authority to execute the Subscription Agreement and to perform his or her obligations hereunder and thereunder, (iii) the Subscription Agreement has been duly executed and delivered by the undersigned and constitute valid and binding obligations of the undersigned, and (iv) the execution and delivery by the undersigned of the Subscription Agreement, and the performance by the undersigned of its obligations hereunder and thereunder, do not and will not violate or conflict with the terms of any agreement or instrument to which the undersigned is a party or by which it is bound.

6. If the undersigned is a corporation, trust, partnership, limited liability company or other entity, (i) the undersigned has the full right, power and authority to execute and deliver the Subscription Agreement and to perform its obligations hereunder, (ii) the Subscription Agreement has been duly executed and delivered by the undersigned and constitutes a valid and binding obligation of the undersigned, (iii) the execution and delivery by the undersigned of the Subscription Agreement and the performance by the undersigned of its obligations hereunder does not and will not violate or conflict with the terms of any agreement or instrument to which the undersigned is a party or by which it is bound, and (iv) unless the prior written approval of the Company has been obtained, the undersigned was not organized for the specific purpose of acquiring the Shares. The undersigned has reviewed all corporate charter documents, bylaws, or other organizational documents necessary to confirm the representations and warranties made in the previous sentence, and, upon the request of the Company, the undersigned will deliver copies of all such documents to the Company.

7. If the undersigned is acting on behalf of an “employee benefit plan” as defined in and subject to the Employment Retirement Income Security Act of 1974, as amended (“ERISA”), or any “plan” as defined in Section 4975 of the Internal Revenue Code of 1986, as amended (the “Code”) (each such “employee benefit plan” or “plan” being referred to herein as a “Plan”), the individual signing this Subscription Agreement on behalf of the undersigned, in addition to the representations and warranties herein and in the Investor Suitability Questionnaire, hereby further represents and warrants as, or on behalf of, the fiduciary of the Plan responsible for purchasing the Shares (the “Plan Fiduciary”) that: (a) the Plan Fiduciary has considered an investment in the Company in light of the risks relating thereto; (b) the Plan Fiduciary has determined that, in view of such considerations, the investment in the Company is consistent with the Plan Fiduciary's responsibilities under ERISA; (c) the Plan's investment in the Company does not violate and is not otherwise inconsistent with the terms of any legal document constituting the Plan or any trust agreement thereunder; and (d) the Plan Fiduciary (i) is responsible for the decision to invest in the Shares, including the determination that such investment is consistent with the requirement imposed by Section 404 of ERISA that Plan investments be diversified so as to minimize the risks of large losses, (ii) is independent of the Company, any selling agent or any of their respective affiliates, (iii) is qualified to make such investment decision, and (iv) in making such decision, the Plan Fiduciary has not used as a primary basis any advice or recommendation of any of the parties listed in clause (ii) of this sentence or any of their respective employees. Such individual will, at the request of the Company, furnish the Company with such information as the Company may reasonably require to establish that the purchase of the Shares by the Plan does not violate any provision of ERISA or the Code, including without limitation, those provisions relating to “prohibited transactions” by “parties in interest” or “disqualified persons” as defined therein.

8. The undersigned hereby certifies under the penalties of perjury that the social security or tax identification number provided below is true, correct and complete and the undersigned is not subject to back-up withholding provisions of Section 3406 of the Internal Revenue Code of 1986, as amended.

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Taxpayer Identification Number or  
Social Security Number

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If subscribing for Shares with spouse, list spouse's  
Social Security Number

9. Each of the acknowledgments, covenants, representations, warranties, certifications, conditions and restrictions in the Subscription Agreement shall be deemed to have been restated at and as of the date of the acceptance of the subscription and the sale of the Shares subscribed for hereunder. If in any respect such representations, warranties or information shall not be true and accurate at any time prior to the undersigned taking possession of the Shares, the undersigned will give written notice of such fact to the Company, specifying which representations, warranties or information are not true and accurate and the reasons therefor.

10. All statements, representations, warranties, covenants and agreements in this Subscription Agreement shall be binding on the parties hereto and shall inure to the benefit of the respective successors and permitted assigns of each party hereto. Nothing in this Subscription Agreement shall be construed to create any rights or obligations except among the parties hereto, and no person or entity shall be regarded as a third-party beneficiary of this Subscription Agreement. All representations and warranties made by the parties hereto in this Subscription Agreement or in any other agreement, certificate or instrument provided for or contemplated hereby, shall survive: (a) the execution and delivery hereof; (b) any investigations made by or on

behalf of the parties; and (c) the closing of the transaction contemplated hereby, and shall remain in full force and effect for the respective statutes of limitations applicable to claims of the type described therein.

11. All pronouns and any variations thereof used herein shall be deemed to refer to the masculine, feminine, neuter, singular or plural as the identity of the person or persons may require. The parties hereto acknowledge and agree that: (a) each party has reviewed the terms and provisions of this Subscription Agreement; (b) the rules of construction to the effect that any ambiguities are resolved against the drafting party shall not be employed in the interpretation of this Subscription Agreement; and (c) the terms and provisions of this Subscription Agreement shall be construed fairly as to the parties hereto and not in favor of or against any party, regardless of which party was generally responsible for the preparation of this Subscription Agreement.

12. This Subscription Agreement shall be enforced, governed and construed in all respects in accordance with the internal laws of the State of Florida. This Subscription Agreement and the rights, powers and duties set forth herein shall be binding upon the undersigned, the undersigned's heirs, estate, legal representatives, successors and assigns and shall inure to the benefit of the Company, its successors and assigns. In the event that any provision of this Subscription Agreement is invalid or unenforceable under any applicable statute or rule of law, then such provision shall be deemed inoperative to the extent that it may conflict therewith and shall be deemed modified to conform with such statute or rule of law. Any provision hereof which may prove invalid or unenforceable under any law shall not affect the validity or enforceability of any other provision hereof. The terms and provisions of this Subscription Agreement may be modified or amended only by written agreement executed by the parties hereto.

13. For Purchases in Florida Only. The Shares are offered under Section 517.061(11)(A)(5) of the Florida Securities and Investor Protection Act. If sales are made to five or more persons in Florida, all persons purchasing Shares in Florida will have the right to void their purchase within three days after the first tender of consideration is made to us or within three days after the availability of this right is communicated to you, whichever occurs later. To accomplish this withdrawal, it is sufficient for you to send a letter to us within this three-day period indicating your intention to withdraw. Your letter must be sent and postmarked prior to the end of the third day or received within the period ending on the third day. If you send a letter, we suggest you send it by certified mail, return receipt requested, to ensure that it is received and also to evidence when it was mailed. Should you make the request orally, you should ask for written confirmation that your request has been received.

[remainder of page intentionally left blank; signature page to follow]

**IN WITNESS WHEREOF**, the undersigned has executed, or has caused to be executed by its duly authorized representatives, this Subscription Agreement this \_\_\_\_\_ day of \_\_\_\_\_, 2021, and declare that it is truthful and correct.

Number of Shares subscribed for at \$27.50 per Share: \_\_\_\_\_

Amount paid in cash herewith (\$27.50 per Share): \$ \_\_\_\_\_

**INDIVIDUAL SUBSCRIBER:**

**NON-INDIVIDUAL SUBSCRIBER:**

\_\_\_\_\_  
PRINT Name of Subscriber

\_\_\_\_\_  
PRINT Name of Subscriber

\_\_\_\_\_  
Signature of Subscriber

\_\_\_\_\_  
Signature and Title of Trustee  
or Other Representative

\_\_\_\_\_  
PRINT Name of Co-Subscriber  
(for example, subscriber's spouse)

\_\_\_\_\_  
PRINT Name of Trustee or Other  
Representative

\_\_\_\_\_  
Signature of Co-Subscriber

\_\_\_\_\_  
Individual Subscriber's  
Principal Residence Address  
(please print or type):

\_\_\_\_\_  
Non-Individual Subscriber's  
Principal Business Address  
(please print or type):

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

\_\_\_\_\_  
Individual Subscriber's  
Email Address  
(please print or type):

\_\_\_\_\_  
Non-Individual Subscriber's  
Email Address  
(please print or type):

\_\_\_\_\_

\_\_\_\_\_

ACCEPTANCE BY THE COMPANY

This subscription for the Shares contained in the foregoing Subscription Agreement is hereby accepted by the Company subject to the terms and conditions set forth therein and in reliance upon the representations, warranties, covenants, agreements and statements of such Subscriber contained therein and in the Subscriber's Investor Suitability Questionnaire.

**MARINE BANCORP OF FLORIDA, INC.**

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Dated: \_\_\_\_\_, 2021



**FINRA Affiliation** (This section only applies to those individuals who meet the delineated criteria)

Check here if you are a member of the Financial Industry Regulatory Authority (“FINRA”), a person associated with a FINRA member, a member of the immediate family of any such person to whose support such person contributes, directly or indirectly, or the holder of an account in which a FINRA member or person associated with a FINRA member has a beneficial interest. To comply with conditions under which an exemption from FINRA’s interpretation with respect to free-riding and withholding is available, you agree, if you have checked the FINRA affiliation box: (1) not to sell, transfer, or hypothecate the shares subscribed for herein for a period of three months following the issuance, and (2) to report this subscription in writing to the applicable FINRA member within one day of the payment therefore.

**Acknowledgments**

By signing below:

1. I acknowledge receipt of the Private Placement Memorandum dated September 1, 2021. I understand that I may not change or revoke my order once it is received by the Company. I also certify that this subscription is for my own account and not for resale.
2. I certify that:
  - (i) the social security number or taxpayer identification number given herein is correct; and
  - (ii) I am not subject to backup withholding.

If you have been notified by the Internal Revenue Service that you are subject to backup withholding because of under-reporting interest or dividends on your tax return, you must cross out Item (ii) above.

3. I acknowledge that I have not waived any rights under the Securities Act of 1933 or the Securities Exchange Act of 1934.
4. I acknowledge that the Company has the right to accept or reject this Subscription Agreement in whole or part, in its absolute discretion, except to the extent I am exercising my subscription rights, unless the offering is terminated in its entirety.

**THIS FORM MUST BE SIGNED AND DATED. THIS ORDER IS NOT VALID IF THE SUBSCRIPTION AGREEMENT IS NOT SIGNED. YOUR ORDER WILL BE FILLED AS PROVIDED BY THE PRIVATE PLACEMENT MEMORANDUM.**

**All purchasers must sign this form. When purchasing as a custodian, etc., include your full title.**

| Signature | Title (if applicable) | Date |
|-----------|-----------------------|------|
| 1. _____  |                       |      |
| 2. _____  |                       |      |
| 3. _____  |                       |      |

**THE SHARES OF COMMON STOCK OFFERED HEREBY ARE NOT DEPOSITS AND ARE NOT INSURED OR GUARANTEED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION OR ANY OTHER GOVERNMENTAL AGENCY.**

RETURN THIS FORM TO:

Marine Bancorp of Florida, Inc. (the “Company”)  
 Attention: William J. Penney  
 Chief Executive Officer  
 571 Beachland Boulevard  
 Vero Beach, Florida 32963  
 BPenney@marinebank.bank  
 (772) 231-6611

# MARINE BANCORP OF FLORIDA, INC.

## INSTRUCTIONS

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### Instructions

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**Items 1 and 2** – Fill in the number of shares that you wish to purchase and the total payment due. The amount due is determined by multiplying the number of shares by the purchase price of \$27.50 per share.

The Company has reserved the right to reject any subscription received in the offering, in whole or in part, in its absolute discretion, except to the extent that a current shareholder is exercising subscription rights, unless the offering is terminated in its entirety.

**Item 3** - Payment for shares may be made by check or money order made payable to “**Marine Bancorp of Florida, Inc.**” PLEASE DO NOT MAIL CASH.

**Item 4** – If purchasing through a broker/dealer, please list the name, address, and phone number in this box.

**Item 5** – The stock transfer industry has developed a uniform system of shareholder registrations that we will use in the issuance of shares of Company common stock. Print the name(s) in which you want the shares registered and the mailing address of the registration. Include the first name, middle initial, and last name of the shareholder. Avoid the use of two initials. Please omit words that do not affect ownership rights, such as “Mrs.,” “Mr.,” “Dr.,” “special account,” etc.

**PLEASE DATE AND SIGN THE SUBSCRIPTION AGREEMENT WHERE INDICATED ON THE BACK.**

**PLEASE SEE YOUR LEGAL OR FINANCIAL ADVISOR IF YOU ARE UNSURE ABOUT THE CORRECT REGISTRATION OF YOUR STOCK.**

**Individual** – The shares are to be registered in an individual’s name only. You may not list beneficiaries for this ownership.

**Tenants in Common** – Tenants in common may identify two or more owners. When shares are held by tenants in common, upon the death of one co-tenant, ownership of the shares will be held by the surviving co-tenant(s) and by the heirs of the deceased co-tenant. All parties must agree to the transfer or sale of shares held by tenants in common. You may not list beneficiaries for this ownership.

**Uniform Transfer or Gift to Minors** – For residents of many states, shares may be held in the name of a custodian for the benefit of a minor under the Uniform Transfers to Minors Act. For residents in other states, shares may be held in a similar type of ownership under the Uniform Gift to Minors Act of the individual states. For either type of ownership, the minor is the actual owner of the shares with the adult custodian being responsible for the investment until the child reaches legal age.

On the first line, print the first name, middle initial, and last name of the custodian, with the abbreviation “CUST” and “Unif Tran Min Act” or “Unif Gift Min Act” after the name. Print the first name, middle initial, and last name of the minor on the second “NAME” line. Standard U.S. Postal Service state abbreviations should be used to describe the appropriate state. For example, shares held by John Doe as custodian for Susan Doe under the Florida Transfer to Minor Act will be abbreviated John Doe, CUST Susan Doe Unif Tran Min Act. FL. **Use the minor’s Social Security Number.** Only one custodian and one minor may be designated.

**Joint Tenants** – Joint Tenants with right of survivorship identifies two or more individuals. When shares are held by joint tenants with rights of survivorship, ownership automatically passes to the surviving joint tenant(s) upon the death of any joint tenant. You may not list beneficiaries for this ownership.

**Tenants by the Entireties** – Husband and wife only. Essentially the same as Joint Tenants.

**Fiduciary/Trust** – Generally, fiduciary relationships (such as trusts, estates, guardianships, etc.) are established under a form of trust agreement or pursuant to a court order. Without a legal document establishing a fiduciary relationship, your shares may not be registered in a fiduciary capacity. Any trust ownership shall be subject to review and approval by legal counsel for the corporation.

On the first “NAME” line, print the first name, middle initial, and last name of the fiduciary if the fiduciary is an individual. If the fiduciary is a corporation, list the corporate title on the first “NAME” line. Following the name, print the fiduciary “title” such as trustee, executor, personal representative, etc.

On the second “NAME” line, print either the name of the maker, donor, or testator OR the name of the beneficiary. Following the name, indicate the type of legal document establishing the fiduciary relationship (agreement, court order, etc.). In the blank after “Under Agreement Dated,” fill in the date of the document governing the relationship. The date of the document need not be provided for a trust created by a will.

An example of fiduciary ownership of stock in the case of a trust is: “John D. Smith, Trustee for Thomas A. Smith Trust Under Agreement Dated June 9, 2017.”

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### **Definition of Associate**

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A person’s associates consist of the following: (1) any corporation or other organization (other than the Company) of which such person is a director, officer, or partner or is directly or indirectly the beneficial owner of 10% or more of any class of equity securities; (2) any trust or other estate in which such person has a substantial beneficial interest or as to which such person serves as trustee or in a similar fiduciary capacity; provided, however, that such term shall not include any tax-qualified employee stock benefit plan of the Company in which such person has a substantial beneficial interest or serves as a trustee or in a similar fiduciary capacity; and (3) any relative or spouse of such person, or any relative of such person, who either has the same home as such person or who is a director or officer of the Company.

**MARINE BANCORP OF FLORIDA, INC.  
PRIVATE PLACEMENT MEMORANDUM**

**Up to 363,636 Shares of Common Stock  
\$27.50 per Share  
\$10,000,000.00 Approximate Aggregate Offering Size**

Marine Bancorp of Florida, Inc. is the parent holding company for Marine Bank & Trust Company, Vero Beach, Florida. We are offering for sale up to 363,636 shares of common stock at \$27.50 per share. There is no minimum amount we must raise in this offering. The offering is limited to “accredited investors” as defined in the Securities and Exchange Commission’s Regulation D.

The offering period began on September 1, 2021, and will terminate on October 29, 2021, unless terminated earlier, or extended until no later than February 28, 2022, by us.

During the first 30 days of the offering period, our current accredited investor shareholders will have the right to purchase one share of stock for every five shares of stock they owned on September 1, 2021. Therefore, for every 100 shares owned, the shareholder will have the right to purchase 20 shares.

During those 30 days, we will also accept subscriptions from other accredited investors for up to 72,727 shares. We reserve the right to reject any subscription, in whole or in part, from any such investor in order to preserve the availability of our offering exemptions, or for any other reason. We also reserve the right, in our sole discretion, to accept or reject any such subscription, in whole or in part.

Following the initial 30 day period, we will continue to accept subscriptions from current shareholders and other investors at our discretion. During this period, we will accept subscriptions for shares not subscribed for by our shareholders pursuant to their subscription rights.

The minimum subscription we will accept, other than subscriptions from current shareholders exercising their subscription rights, is for 1,000 shares, or \$27,500 and the maximum subscription we will accept is for 5,500 shares, or \$151,250. However, we reserve the right to waive these requirements.

**This is a risky investment. These securities are subject to investment risk, including the possible loss of principal. Some of the risks of this investment are described under “Risk Factors,” beginning on Page 6.**

**NEITHER THE FEDERAL DEPOSIT INSURANCE CORPORATION (“FDIC”), THE SECURITIES AND EXCHANGE COMMISSION (“SEC”) NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES, OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS PRIVATE PLACEMENT MEMORANDUM. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.**

The following table summarizes the offering and the amounts we expect to receive.

|   | Per Share | Aggregate Offering |
|---|-----------|--------------------|
| Offering price.....                                 | \$27.50   | \$9,999,990        |
| Placement agent commissions .....                   | \$0.00    | \$0.00             |
| Proceeds to us before expenses <sup>(1)</sup> ..... | \$27.50   | \$9,999,990        |

<sup>(1)</sup> We estimate that the expenses of the offering payable by us will total approximately \$35,000. See “Use of Proceeds.”

**These securities are not savings accounts, deposits or other obligations of a bank. These securities are not insured by the FDIC or any other governmental agency, and are subject to investment risk, including the possible loss of your entire investment.**

**The date of this Private Placement Memorandum is September 1, 2021.**

## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Private Placement Memorandum contains forward-looking statements that are subject to risks and uncertainties. These forward-looking statements include information about possible or assumed future results of our operations or performance after the offering. Also, when we use any of the words “believes,” “expects,” “anticipates,” “intends,” “may,” or similar expressions, we are making forward-looking statements. Many possible events or factors could affect our future financial results, and could cause those results or performances to differ materially from those expressed in our forward-looking statements. These possible events or factors include:

- the factors described under the heading “Risk Factors” beginning on page 6;
- general economic conditions;
- legislative/regulatory changes;
- monetary and fiscal policies of the U.S. Government;
- the quality and composition of our loan or investment portfolios;
- demand for loan products;
- deposit flows;
- competition;
- demand for financial services in our primary trade area;
- litigation, tax, and other regulatory matters;
- accounting principles and guidelines; and
- other economic, competitive, governmental, regulatory, and technological factors affecting our operations, pricing, and services.

You should also recognize that all forward-looking statements are necessarily speculative and speak only as of the date made. You should also recognize that various risks and uncertainties, such as those described above, could cause actual results for future periods to differ materially. Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can give no assurance that any expectations will prove to be correct. We discuss what we believe are the most significant of these risks, uncertainties, and other factors under the heading “Risk Factors” beginning on page 6 of this Private Placement Memorandum. We urge you to carefully consider these factors prior to making an investment.

## REFERENCES

*In this Private Placement Memorandum, we frequently use the terms “we,” “our,” “us,” and the “Company” which refer to Marine Bancorp of Florida, Inc. Unless we indicate otherwise, the information in this Private Placement Memorandum assumes the sale of all 363,636 shares.*

## PRIVATE PLACEMENT MEMORANDUM SUMMARY

*This summary highlights specific information contained elsewhere in this Private Placement Memorandum. Because this is a summary, it may not contain all of the information that is important to you. Therefore, you should read carefully the more detailed information set forth in this Private Placement Memorandum and in our consolidated financial statements before making a decision to invest in our common stock.*

### ***Marine Bancorp of Florida, Inc.***

The Company was incorporated under the laws of the State of Florida on March 16, 2016. On the same date, we entered into an Agreement and Plan of Share Exchange with Marine Bank & Trust Company (“Marine” or the “Bank”). Pursuant to the Share Exchange, on April 3, 2017, we acquired all of the issued and outstanding shares of Marine capital stock. Our audited consolidated financial statements for the years ended December 31, 2020 and 2019, are included with this Private Placement Memorandum as Appendix A. Our unaudited consolidated balance sheet at June 30, 2021 and income statement for the six month periods ended June 30, 2021 and June 30, 2020, are included as Appendix B.

The Bank offers personalized service, local decisions, and custom solutions typically expected from a community bank, combined with the high-tech conveniences offered by larger banks. Marine operates from its main office on the island of Vero Beach, and three branch offices in mainland Vero Beach, Sebastian, and Melbourne. The Bank offers wealth management services through Warren Capital Management, Vero Beach, Florida.

### ***Management and Board of Directors***

Our officers have substantial banking experience, which is an asset in providing products and services designed to meet the needs of our customer base. In addition, our directors are active members of the business communities in our markets and their continued active community involvement provides an opportunity to promote our Bank and its products and services.

Our executive management team is led by our Chief Executive Officer and President, William J. Penney, who has more than 43 years of banking experience, including approximately 11 years as Chief Executive Officer of banks in Florida. In addition to Mr. Penney, the Company’s Board of Directors is comprised of eight individuals with diverse business backgrounds. Our directors are:

| <b><u>Name of Director</u></b> | <b><u>Principal Occupation</u></b>                  |
|--------------------------------|---|
| Wilton R. (Rusty) Banack       | President, Quality Caretaking of Indian River, Inc. |
| David S. Croom                 | President, Croom Construction Company               |
| Kevin J. Given                 | Partner & COO, Quail Valley Golf & River Clubs      |
| Erin K. Grall                  | Shareholder, Grall Law Group                        |
| Kenneth R. Lehman              | Bank Investor                                       |
| Richard L. Lynch               | Managing Partner, Lynch, Johnson & Long, LLC CPAs   |
| William J. Penney              | Chairman, Chief Executive Officer and President     |
| Daniel R. Richey               | President & CEO, Riverfront Packing Company         |
| J. Hal Roberts                 | Retired Regional President of CenterState Bank      |

Our executive management team also includes Charles J. Gisler, Jr., our Executive Vice President, Chief Financial Officer, and Chief Operating Officer. Other members of our senior management team are Jo-Ann L. Copeland (SVP, Chief Compliance Officer), Brian C. Fowler (SVP, Chief Credit Officer), Leslie W. Stokes (SVP, Director of Retail Banking), Shaun E. Williams, (SVP, Chief Lending Officer), and Sandra D. Creyaufmiller (VP, Director of Human Resources).

***No Recommendation***

No recommendation is being made as to whether you should purchase shares in this offering. Investors should consult their own financial advisors prior to purchasing shares in this offering.

***Dividend Policy***

We do not intend to pay dividends on shares of our common stock for the foreseeable future. We intend to use all available earnings to fund the continued operation and growth of the Bank and the Company.

(Remainder of this page intentionally left blank)

## SELECTED FINANCIAL DATA

The following tables summarize our financial data. The financial data has been derived from our financial statements included elsewhere in this private placement memorandum. Our historical results are not necessarily indicative of the results that may be expected in the future. You should read the following summary consolidated financial data and other data below in conjunction with the section titled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our financial statements and related notes. The selected financial data is not all-inclusive and does not purport to contain all of the financial information that you may desire, or should consider, in determining whether to make an investment. Our historical results are not necessarily indicative of results to be expected in future periods (Dollars in thousands, except per share amounts).

|  | (unaudited)                              |           |  |           |
|--|--|-----------|--|-----------|
|  | At or For the Periods<br>Ending June 30, |           | At or For the Years<br>Ending December 31, |           |
|  | 2021                                     | 2020      | 2020                                       | 2019      |
| <b>Balance Sheet Data:</b>                         |  |           |  |           |
| Total assets                                       | \$488,289                                | \$376,432 | \$425,319                                  | \$286,129 |
| Loans held for sale                                | 2,052                                    | 562       | 1,154                                      | 219       |
| Total loans, net                                   | 324,656                                  | 318,722   | 325,233                                    | 239,291   |
| Total deposits                                     | 451,460                                  | 345,394   | 391,412                                    | 256,321   |
| Total stockholders’ equity                         | 28,607                                   | 24,361    | 26,053                                     | 22,767    |
| Common stockholders’ equity                        | 28,607                                   | 24,361    | 26,053                                     | 22,767    |
| Loan to deposit ratio                              | 71.91%                                   | 92.28%    | 83.09%                                     | 93.36%    |
| <b>Income Statement Data:</b>                      |  |           |  |           |
| Net interest income                                | \$7,830                                  | \$5,665   | \$12,305                                   | \$10,164  |
| Provision for loan losses                          | 280                                      | 685       | 980  | 256       |
| Non-interest income                                | 1,234                                    | 893       | 1,960                                      | 1,154     |
| Non-interest expense                               | 5,429                                    | 4,234     | 9,372                                      | 8,902     |
| Income taxes                                       | 788                                      | 398       | 946  | 546       |
| Net income   | \$2,567                                  | \$1,241   | \$2,967                                    | \$1,614   |
| Net income available to common stockholders        | \$2,567                                  | \$1,241   | \$2,967                                    | \$1,614   |
| <b>Common Share Data<sup>(*)</sup>:</b>            |  |           |  |           |
| Basic and diluted earnings per common share        | \$1.86                                   | \$0.90    | \$2.16                                     | \$1.18    |
| Book value per common share                        | \$20.70                                  | \$17.73   | \$18.96                                    | \$16.68   |
| Tangible book value per common share               | \$20.68                                  | \$17.69   | \$18.94                                    | \$16.64   |
| Common shares outstanding                          | 1,382,080                                | 1,374,076 | 1,374,076                                  | 1,364,632 |
| Weighted average common shares outstanding         | 1,376,518                                | 1,372,571 | 1,373,328                                  | 1,364,632 |
| <b>Performance Ratios:</b>                         |  |           |  |           |
| Return on average assets                           | 1.06%                                    | 0.67%     | 0.70%                                      | 0.57%     |
| Return on average common equity                    | 18.28%                                   | 10.43%    | 12.13%                                     | 7.43%     |
| Net interest margin                                | 3.55%                                    | 3.69%     | 3.63%                                      | 3.93%     |
| Efficiency ratio                                   | 59.90%                                   | 64.56%    | 65.70%                                     | 78.65%    |
| <b>Asset Quality Ratios:</b>                       |  |           |  |           |
| ALLL to total loans                                | 1.20%                                    | 1.04%     | 1.10%                                      | 1.09%     |
| ALLL to nonperforming loans                        | 5835.29%                                 | N/A       | 2956.91%                                   | N/A       |
| Nonperforming loans to total loans                 | 0.02%                                    | 0%        | 0.04%                                      | 0%        |
| Nonperforming assets to total assets               | 0.01%                                    | 0%        | 0.03%                                      | 0%        |
| Net charge-offs (recoveries) to average loans      | -0.02%                                   | -0.53%    | 0.00%                                      | -0.01%    |
| <b>Capital Ratios:</b>                             |  |           |  |           |
| Total equity to total assets                       | 5.86%                                    | 6.47%     | 6.13%                                      | 7.96%     |
| Total equity to total assets (excluding PPP loans) | 6.29%                                    | 7.72%     | 6.89%                                      | 7.96%     |
| Total risk-based capital ratio (Bank)              | 13.76%                                   | 13.71%    | 13.60%                                     | 13.96%    |
| Tier 1 risk-based capital ratio (Bank)             | 12.50%                                   | 12.46%    | 12.35%                                     | 12.71%    |

|  |        |        |        |        |
|--|--------|--------|--------|--------|
| Tier 1 leverage capital ratio (Bank)                     | 6.99%  | 7.53%  | 7.34%  | 8.90%  |
| Common equity Tier 1 capital ratio (Bank)                | 12.50% | 12.46% | 12.35% | 12.71% |
| Total equity to total assets (Bank)                      | 6.86%  | 7.21%  | 7.25%  | 8.89%  |
| Total equity to total assets (Bank, excluding PPP loans) | 7.36%  | 8.66%  | 8.16%  | 8.89%  |

**Other Data:**

|  |    |    |    |    |
|--|----|----|----|----|
| Number of full-time equivalent employees | 79 | 62 | 69 | 60 |
| Number of full-service banking centers   | 4  | 4  | 4  | 4  |

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## THE OFFERING

|   |   |
|---|---|
| <b>Securities Offered</b> .....         | A maximum of 363,636 shares of common stock.  |
| <b>Offering Price</b> .....             | \$27.50 per share.  |
| <b>Purchaser Requirements</b> .....     | This offering is open only to “accredited investors” (as defined by Securities and Exchange Commission regulations). We may also accept subscriptions from a limited number of other investors.   |
| <b>Subscription Privilege</b> .....     | During the first 30 days of the offering period, we will accept subscriptions from our current shareholders. For each five shares of stock owned by a shareholder, that shareholder will have the right to purchase one share. If shares are held in an IRA, trust, or similar account, we will permit the beneficiary or an affiliated account to exercise the subscription right. Similarly, if shares are owned individually, we will permit an affiliated IRA, trust, or similar entity to exercise that individual’s subscription rights.  |
| <b>Other Subscriptions</b> .....        | During that period, we will also accept subscriptions from other investors for up to a total of 72,727 shares. We reserve the right to reject or accept any subscription in excess of a subscription privilege or from a new shareholder, in whole or in part. Following the initial 30 day period, we will continue to accept subscriptions, in our discretion, from shareholders and new investors. During this period, we will accept subscriptions for shares not subscribed for by our shareholders pursuant to their subscription rights. |
| <b>Subscription Requirements</b> .....  | Other than subscriptions from current shareholders exercising their subscriptions rights, the minimum subscription we will accept is for 1,000 shares, or \$27,500 and the maximum subscription we will accept is for 5,500 shares, or \$151,250. However, we reserve the right to waive these requirements. We will also accept subscriptions of at least four from our employees.   |
| <b>No Escrow of Subscriptions</b> ..... | We will not place subscription funds in an escrow account. We will hold such funds in a segregated Marine account pending periodic closings, at which time we will issue shares.  |
| <b>Best Efforts Offering</b> .....      | The shares in this offering are being offered on a “best efforts” basis through our directors and executive officers.   |

|   |  |
|---|--|
| <b>Offering Period</b> .....                | The offering will expire on October 29, 2021, at 5:00 p.m., Eastern Time, or earlier in our sole discretion. We have the right, however, to extend the offering until no later than February 28, 2022, without notice to subscribers.  |
| <b>Purchase Limitations</b> .....           | Shares will not be issued, without prior approval, to any person who, in our opinion, would be required to obtain prior approval from any state or federal regulatory authority to own or control our securities.  |
| <b>Market for Our Securities</b> .....      | Our stock is listed on the OTCQB under the symbol “MBOF.” However, there is not a materially active market for our stock and we do not expect that one will develop or be sustained after the offering. The over-the-counter market lacks the depth, liquidity, and order volumes necessary to maintain a liquid market in our common stock.     |
| <b>Use of Proceeds</b> .....                | The net proceeds of this offering will be used primarily to support the future growth of Marine.   |
| <b>Placement Agent Fees</b> .....           | While we do not intend to pay a placement agent or brokerage fee or commission on any shares sold, we have reserved the right to retain a broker dealer to assist in this offering. In such case, we do not expect the total compensation paid to such broker dealer to exceed 6% of the dollar amount of shares sold by any such broker dealer. |
| <b>Risk Factors</b> .....                   | You should carefully read the “Risk Factors” section beginning on page 6 of this Private Placement Memorandum before making any investment decision or purchasing any shares of common stock.  |
| <b>Information about the Offering</b> ..... | Questions concerning this offering should be directed to our Chairman, Chief Executive Officer, and President William J. Penney at <a href="mailto:bpenny@marinebank.bank">bpenny@marinebank.bank</a> or (772) 231-6611.   |

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## PROCEDURE FOR PURCHASING SHARES

Except for shares purchased pursuant to our current shareholders' rights to purchase one share for every five shares they currently own, we reserve the right to accept or reject any subscription, in whole or in part. To subscribe for shares, a subscriber must complete the accompanying Subscription Agreement and Investor Questionnaire, and mail or deliver them to us, along with full payment for the shares to be purchased by making a check or bank draft drawn on a U.S. bank, a cashier's check or money order, or funds transferred via wire transfer made payable to "**Marine Bancorp of Florida, Inc.**"

Your Subscription Agreement, Investor Questionnaire, and payment must be delivered to:

Marine Bancorp of Florida, Inc.  
Attention: William J. Penney  
Chief Executive Officer  
571 Beachland Boulevard  
Vero Beach, Florida 32963

For a current shareholder to exercise that shareholder's purchase rights, that shareholder's subscription must be received by October 1, 2021. All other subscriptions must be received not later than 5:00 p.m., Eastern Time, on December 17, 2021, unless we choose, without notice and in our sole discretion, to shorten the offering period, or, alternatively, to extend the offering period until no later than February 28, 2022. If you have any questions about how to subscribe, including wire instructions, please call or email William J. Penney our Chairman, Chief Executive Officer and President at 772-231-6611 or [bpenny@marinebank.bank](mailto:bpenny@marinebank.bank).

If the amount you send with your Subscription Agreement and Investor Questionnaire is not the exact amount required to purchase the number of shares that you indicate are being subscribed for, or if you do not specify the number of shares to be purchased, then you will be deemed to have subscribed to purchase shares to the full extent of the payment tendered (subject to reduction to the extent necessary to comply with any regulatory limitation or conditions we impose in connection with the offering).

Failure to include the full subscription price with your subscription may cause us to reject your subscription order. The method of delivery of the Subscription Agreement, Investor Questionnaire, and payment of the subscription price will be at your election and risk. If you send your subscription by mail, we recommend that you use registered or express mail, return receipt requested. If you wish to pay by uncertified personal check, please note that the funds may take at least five business days to clear.

We will decide all questions concerning the timeliness, validity, form, and eligibility of Subscription Agreements and Investor Questionnaires, and our decisions will be final and binding. In our sole discretion, we may waive any defect or irregularity in any subscription, may permit any defect or irregularity to be corrected within such time as we may allow, or may reject any purported subscription. Subscription Agreements will not be deemed to have been received or accepted until all irregularities have been waived or cured within the allotted time. There is no duty to give a subscriber notice of any defect or irregularity in a Subscription Agreement submitted, and no liability will be incurred for failure to give such notice.

Subscriptions may not be revoked by subscribers, except as permitted by law. You should not subscribe unless you are certain you wish to acquire shares. If the offering terminates for any reason before the issuance of shares, all proceeds will promptly be returned to the subscribers, with interest and without any deduction for expenses. Prior to accepting any subscription, the Company will determine if an investment in Company stock is suitable for an investor. In doing so, the Company must conclude that

it has reasonable grounds for believing that the investment is suitable for such investor upon the basis of the facts disclosed by the investor in his or her Subscription Agreement and Investor Questionnaire as to his or her other security holdings and as to his or her financial situation and needs.

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## **RISK FACTORS**

*Investing in our securities involves significant risks, including the risks described below. You should carefully consider the following information about these risks, together with the other information contained in this Private Placement Memorandum and the information incorporated by reference into this Private Placement Memorandum before purchasing shares. The risks that we have highlighted here are not the only ones that we face. For example, additional risks presently unknown to us or that we currently consider immaterial or unlikely to occur could also impair our operations. In addition, there are risks beyond our control. If any of these risks actually occurs, our business, financial condition or results of operations could be negatively affected, and you could lose part or all of your investment.*

### ***RISKS RELATED TO OUR PROPOSED BUSINESS OPERATIONS***

***We may not succeed in implementing our business strategy.***

We may not be able to achieve the rapid execution necessary to maintain and increase profitability. We may not succeed in implementing our business strategy and, even if we do succeed, our strategy may not have the favorable impact on operations that we anticipate. If we are unable to manage growth effectively, or to otherwise implement our business strategy, our business and the value of your investment could be materially adversely affected.

***If we cannot attract quality loans and deposits, we will not be able to grow.***

Our ability to increase our assets depends in large part on our ability to attract additional deposits at competitive rates. Furthermore, we must be able to attract quality loans to fund with our deposits. If we are not successful in attracting deposits or loans, we will not be able to grow. This will likely serve to impact our level of profitability.

***We may not be able to compete with our competitors for larger customers, because our lending limits are lower than theirs.***

As a smaller financial institution, our lending limits are significantly less than those of many of our competitors. This may adversely affect our ability to establish loan relationships with larger businesses in our primary market.

***Some of our borrowers may not repay their loans, and losses from loan defaults may exceed the allowance we establish for that purpose, which may have an adverse effect on our business.***

Some of our borrowers inevitably will not repay loans that we make to them. This risk is inherent in the banking business. The risk of credit losses on loans varies with, among other things, general economic conditions, the type of loan being made, the creditworthiness of the borrower over the term of the loan and, in the case of a collateralized loan, the value and marketability of the collateral for the loan. If a significant number of loans are not repaid, it will have an adverse effect on our earnings and overall financial condition.

***Our allowance for loan losses may not be sufficient to absorb loan defaults and nonperformance.***

We maintain an allowance for loan losses to account for possible loan defaults and nonperformance. The allowance for loan losses reflects our best estimates of probable losses in the loan portfolio at the relevant time. These evaluations are based primarily on: a review of historical loan loss experience as adjusted for certain qualitative factors; known risks contained in the loan portfolio; known

risks for each segment of the loan portfolio; composition and growth of the loan portfolio; and certain economic factors. The determination of an appropriate level of loan loss allowance is an inherently difficult process and is based on numerous assumptions and estimations. As a result, our allowance for loan losses may not be adequate to cover our actual losses, and future provisions for loan losses may adversely affect our earnings.

***Our Internet-based systems and online commerce activities are subject to security threats that could adversely affect our business.***

Third party, or internal, systems and networks may fail to operate properly or become disabled due to deliberate attacks or unintentional events. Our operations are vulnerable to disruptions from human error, natural disasters, power loss, computer viruses, spam attacks, denial of service attacks, unauthorized access, and other unforeseen events. Undiscovered data corruption could render our customer information inaccurate. These events may obstruct our ability to provide services, underwrite loans, and process transactions. Any such incident could put customer confidential information at risk, which may result in significant liability to us, subject us to additional regulatory scrutiny, damage our reputation, result in a loss of customers, cause us to incur significant expense to remediate any damage and inhibit current and potential customers from using our online banking services, any or all of which could have a material adverse effect on our results of operations and financial condition.

On March 15, 2021, the Bank detected unauthorized access to its computer network. Upon learning of the issues, the Bank contained and secured the threat. We then began an investigation with the assistance of outside cybersecurity experts who regularly investigate and analyze such situations. Our investigation determined that unauthorized individuals had access to, and potentially removed customer information from, our computer network. At this time we do not know if any customer information has been misused or if any customers will pursue actions against the Bank. Therefore, it is not possible to determine whether the Bank will incur any further expenses or losses due to this incident.

***The Bank's PPP loans carry possible undesirable interest rate impact and possible credit risk.***

PPP loans are fixed, low interest rate loans that are guaranteed by the Small Business Administration ("SBA") and subject to numerous other regulatory requirements, and a borrower may apply to have all or a portion of the loan forgiven. If PPP borrowers fail to apply or qualify for loan forgiveness, the Bank faces a heightened risk of holding these loans at unfavorable interest rates for an extended period of time. While the PPP loans are guaranteed by the SBA, various regulatory requirements will apply to the Bank's ability to seek recourse under the guarantees, and related procedures are currently subject to uncertainty.

The Bank also has credit risk on PPP loans if a loan is not forgiven and the SBA determines that the Bank did not originate, close, or service a loan in accordance with legal standards. In the event the SBA dishonors its guarantee for one of those reasons, the Bank may be forced to hold the loan and may incur a loss if the borrower does not perform as agreed.

***Changes in business and economic conditions, in particular those of the Florida markets in which we will operate, could lead to lower asset quality and lower earnings.***

Unlike larger national or regional banks that are more geographically diversified, our business and earnings are closely tied to general business and economic conditions, particularly the economy of Indian River and Brevard counties. The local economy is heavily influenced by education, real estate, and other service-based industries. Factors that could affect the local economy include declines in real estate values, higher energy costs, reduced consumer or corporate spending, natural disasters or adverse

weather. A sustained economic downturn could adversely affect the quality of our assets, credit losses, and the demand for our products and services, which could lead to lower revenue and lower earnings.

***Our operations are growing and our training programs and operational protocols may lag behind our growth.***

Our branch network and lending operations are expanding. As a result, we may not be able to provide comprehensive or timely training to new staff or employees who are promoted. We may also not develop appropriate operational protocols as quickly as we expand our products and services. If we fail to do so, our employees may not have a set of standards and expectations pursuant to which they perform their assigned duties. If we are not able to fully and promptly provide training to our employees, or develop appropriate protocols, our employees may be susceptible to making mistakes, failing to recognize fraud or other weaknesses in our operations, or failing to recognize or mitigate other risks.

***Changes in interest rates will affect our profitability and assets.***

Our profitability depends to a large extent on Marine's net interest income, which is the difference between income on interest-earning assets such as loans and investment securities, and expenses on interest-bearing liabilities such as deposits and borrowings. We are unable to predict changes in market interest rates, which are affected by many factors beyond our control including inflation, economic recession, unemployment, money supply, domestic and international events, and changes in the United States and other financial markets.

***Liquidity risk could impair our ability to fund operations and jeopardize our financial condition.***

Liquidity is essential to our business. An inability to raise funds through deposits, borrowings, or other sources, could have a negative effect on our liquidity. Factors that could negatively impact our access to liquidity sources include a decrease of business activity as a result of a downturn in the markets in which our loans are concentrated, adverse regulatory action, or our inability to attract and retain deposits. Our ability to borrow could be impaired by factors that are not specific to us, such as a disruption in financial markets and diminished expectations or growth in the financial services industry.

***Our loan portfolio includes commercial, real estate, consumer, and other loans that may have higher risks.***

Commercial loans and commercial real estate loans generally carry larger balances and can involve a greater degree of financial and credit risk than other loans. As a result, banking regulators continue to give greater scrutiny to lenders with a high concentration of commercial real estate loans in their portfolios. Such lenders are expected to implement stricter underwriting standards, internal controls, risk management policies, and portfolio stress testing, as well as higher capital levels and loss allowances. The increased financial and credit risk associated with these types of loans are a result of several factors, including the concentration of principal in a limited number of loans and borrowers, the size of loan balances, the effects of general economic conditions on income-producing properties, and the increased difficulty of evaluating and monitoring these types of loans.

***Changes in the laws or regulations governing our SBA and other government guaranteed lending activities and our mortgage lending business may adversely affect our ability to operate them profitably.***

Our SBA and other government lending programs and our mortgage lending activities are subject to laws and regulations administered by government agencies such as the SBA, the United States

Department of Housing and Urban Development, and the United States Department of Agriculture. If any of these laws or regulations, or the policies and practices of these agencies change, such changes may impact our ability to offer such products in a profitable manner, or at all. If we are unable to profitably offer these products, our net income will likely decrease and our financial condition and performance will likely deteriorate.

***Our credit quality may be less favorable than reported because of certain loan payments being temporarily made by the SBA and loan deferrals.***

A portion of our loan portfolio consists of SBA loans, most of which have received payments from the SBA under the CARES Act. In addition, we have granted borrowers payment deferrals and may continue to do so. Because of these actions, our asset quality trends may appear more favorable than they otherwise would without such payments or deferrals. If our borrowers are unable to make their loan payments after the expiration of the SBA's payment support or our deferrals, we may experience loan defaults or other deterioration in our credit quality. This may result in higher provisions to our loan loss reserve or loan defaults. Such events could lead to lower earnings or losses.

***We may not be able to retain or grow our core deposit base, which could adversely impact our funding costs.***

We rely on client deposits as our primary source of funding for our lending activities. Our future growth will largely depend on our ability to retain and grow our core deposit base. Our retention and acquisition of customer deposits are subject to potentially dramatic fluctuations in availability or price due to certain factors outside of our control, such as increasing competitive pressures for deposits, changes in interest rates and returns on other investment classes, client perceptions of our financial health and general reputation, or a loss of confidence by clients in us or the banking sector generally. Such factors could result in significant outflows of deposits within short periods of time or significant changes in pricing necessary to maintain current client deposits or attract additional deposits. Additionally, any such loss of funds could result in lower loan originations, which could have a material adverse effect on our business, financial condition and results of operations.

***We may be subject to losses due to fraudulent and negligent acts on the part of loan applicants, mortgage brokers, other vendors and our employees.***

When we originate loans, we rely heavily upon information supplied by loan applicants and third parties, including the information contained in the loan application, property appraisal, title information, and employment and income documentation provided by third parties. If any of this information is misrepresented and such misrepresentation is not detected prior to loan funding, we generally bear the risk of loss associated with the misrepresentation.

***Our use of appraisals in deciding whether to make a loan secured by real property or how to value the loan in the future may not accurately describe the net value of the collateral that we can realize.***

In considering whether to make a loan secured by real property, we generally require an appraisal of the property. However, an appraisal is only an estimate of the value of the property at the time the appraisal is made, and, as real estate values may fluctuate over short periods of time, especially in times of heightened economic uncertainty, this estimate might not accurately describe the value of the real property collateral after the loan has been closed. If the appraisal does not reflect the amount that may be obtained upon any foreclosure sale of the property, we may not realize an amount equal to the indebtedness secured by the property. In addition, we rely on appraisals and other valuation techniques to establish the value of our foreclosed real estate and to determine certain loan impairments. If any of these

valuations are inaccurate, our financial statements may not reflect the correct value of our foreclosed upon real estate, and our ALLL may not accurately reflect loan impairments. Inaccurate valuations of the properties securing the loans in our portfolio may negatively impact the continuing value of those loans and could materially adversely affect our business, results of operations and financial condition.

***A significant portion of our loan portfolio is secured by real estate in our geographic markets and events that negatively impact the real estate market in our primary market could hurt our business.***

Our interest-earning assets are heavily concentrated in loans secured by real estate, particularly real estate located in Indian River, Brevard, and St. Lucie counties, Florida. Real estate collateral generally provides an alternate source of repayment in the event of default by the borrower. However, the value of the collateral may decline during the time the credit is extended. Real estate values and real estate markets are generally affected by a variety of factors including changes in economic conditions; fluctuations in interest rates; the availability of credit; changes in tax laws and other governmental statutes, regulations, and policies; and acts of nature. If we are required to liquidate collateral securing a loan during a period of reduced real estate values to satisfy the debt, our earnings and capital could be adversely affected.

***The COVID-19 pandemic may adversely impact our business and financial results, and the ultimate impact will depend on future developments, which are highly uncertain and cannot be predicted, including the scope and duration of the pandemic and actions taken by governmental authorities in response to the pandemic.***

The COVID-19 pandemic has negatively impacted the global economy, disrupted global supply chains, lowered equity market valuations, created significant volatility and disruption in financial markets, and significantly increased unemployment levels. In addition, the pandemic has resulted in temporary closures of many businesses and the institution of social distancing and sheltering-in-place requirements in many states and communities. As a result, the demand for our products and services may be significantly impacted, which could adversely affect the implementation of our growth strategy. Furthermore, the pandemic could cause the recognition of credit losses or other impairments in our loan portfolios and increases in our allowance for loan losses, particularly if businesses remain closed, the impact on the global economy worsens, or more clients draw on their lines of credit or seek additional loans to help finance their businesses. Similarly, because of changing economic and market conditions affecting issuers, we may be required to recognize further impairments on the securities we hold as well as reductions in other comprehensive income. Our business operations may also be disrupted if significant portions of our workforce are unable to work effectively, because of illness, quarantines, government actions, or other restrictions in connection with the pandemic. The extent to which the COVID-19 pandemic impacts our business, results of operations, and financial condition, as well as our regulatory capital and liquidity ratios, will depend on future developments, which are highly uncertain and cannot be predicted, including the scope and duration of the pandemic and actions taken by governmental authorities and other third parties in response to the pandemic.

***The effects of future widespread public health emergencies may negatively affect our local economies or disrupt our operations, which would have an adverse effect on our business or results of operations.***

Widespread health emergencies, such as the recent global COVID-19 pandemic, can disrupt our operations through their impact on our employees, clients and their businesses, and the communities in which we operate. Disruptions to our clients could result in increased risk of delinquencies, defaults, foreclosures and losses on our loans, negatively impact regional economic conditions, result in a decline in local loan demand, loan originations and deposit availability and negatively impact the implementation

of our growth strategy. Any one or more of these developments could have a material adverse effect on our business, financial condition and results of operations.

***We face additional risks due to our mortgage banking activities that could negatively impact net income and profitability.***

Residential mortgage lending is a portion of our business. We sell approximately 50% to 70% of the mortgage loans that we originate. The sale of these loans is expected to generate noninterest income and be a source of liquidity. Disruption in the secondary market for residential mortgage loans could result in our inability to sell mortgage loans, which could negatively impact our liquidity and earnings. In addition, declines in real estate values or increases in interest rates could reduce the potential for robust mortgage originations, which could negatively impact our earnings. As we sell mortgage loans, we also face the risk that such loans may have been made in breach of our representations and warranties to buyers and we could be forced to repurchase such loans or pay damages.

***The development of our mortgage lending business depends on our ability to attract and retain effective loan origination officers and other sources of mortgage loan referrals.***

The mortgage lending business is highly dependent on being able to successfully originate a consistent volume of loans. The primary ways we intend to do this is through the personal sales efforts of our mortgage lending officers and our development of loan referral sources, such as real estate brokers. If we are unable to attract and retain a productive team of such officers or develop an effective network of referral sources, we will likely be unable to generate a volume of mortgage loans to produce sufficient revenue for this line of business to be profitable. If we cannot operate this line of business in a profitable manner, we will likely incur losses due to expenses associated with attempting to establish the line of business.

***We have pledged the outstanding shares of the Bank to secure a loan and if we cannot repay the loan or continue to refinance the loan, the lender may foreclose on the loan and take ownership of the Bank.***

We have pledged 100% of the outstanding shares of the Bank's capital stock to secure a line of credit with another financial institution with a balance of \$2,000,000 as of June 30, 2021. If we do not have cash available at the Company or we are unable to fund dividends from the Bank to the Company, we will not be able to make principal or interest payments due on the loan. If we cannot repay or refinance the loan on or prior to maturity, the lender may foreclose on the pledged stock and take ownership of the Bank. In which case, we will not have any source of revenue and it would be unlikely that we would continue to operate.

***Reputational risk and social factors may impact our results.***

Our ability to originate and maintain deposit accounts and loans is highly dependent upon client and community perceptions of our business practices and our financial health. Adverse perceptions regarding those factors could damage our reputation in our markets, leading to difficulties in generating and maintaining deposit and loan client relationships. Adverse developments with respect to the consumer or other external perceptions regarding the practices of our competitors, or our industry as a whole, may also adversely impact our reputation. Adverse impacts on our reputation, or the reputation of our industry, may also result in greater regulatory or legislative scrutiny, which may lead to laws, regulations or regulatory actions that may change or constrain the manner in which we engage with our clients and the products we offer. Adverse reputational impacts or events may also increase our litigation risk.

***Management has broad discretion concerning the use of our capital.***

We use our capital to maintain liquidity and to continue to support the growth of the Bank. This growth may include the opening of branch offices, increasing the size and volume of loans, or other such activities that may require additional capital. The additional capital may also be used to service our outstanding debt. Our management may determine that it is in the best interest of the Company or the Bank to apply our capital in a manner that is inconsistent with a shareholder's wishes. Failure to use such funds effectively might harm your investment.

***We are dependent on key executive officers, the loss of which may be detrimental to our operations.***

We are dependent on certain executive officers for their leadership and oversight of our operations and the unexpected loss of any of them could adversely affect our operations. Such adverse effects may be magnified if they were to become employed with a competitor of ours.

***LEGAL AND REGULATORY RISKS***

***We are subject to government regulation and monetary policy that could constrain our growth and profitability.***

We are subject to extensive federal government supervision and regulations that impose substantial limitations with respect to lending activities, purchases of investment securities, the payment of dividends, and many other aspects of the banking business. Many of these regulations are intended to protect depositors, the public, and the FDIC's Deposit Insurance Fund, but not our shareholders. The banking industry is heavily regulated. We are subject to examinations, supervision and comprehensive regulation by federal and state agencies. Our compliance with these regulations is costly and restricts certain of our activities. The burden imposed by federal and state regulations puts banks at a competitive disadvantage compared to less regulated competitors such as finance companies, mortgage banking companies and leasing companies. Federal economic and monetary policy may also affect our ability to attract deposits, make loans, and achieve our planned operating results.

***Legislation and regulatory proposals enacted in response to market and economic conditions may materially adversely affect our business and results of operations.***

Changes in the laws, regulations, and regulatory practices affecting the banking industry may increase our costs of doing business or otherwise adversely affect us and create competitive advantages for others. Such changes may impact the profitability of our business activities, require changes to our business practices, or otherwise adversely affect our business, as would other regulatory initiatives. Any such changes may also require us to invest significant management attention and resources to evaluate and make any changes necessary to comply with new statutory and regulatory requirements. They may also require us to hold higher levels of regulatory capital and/or liquidity and cause us to adjust our business strategy and limit our future business opportunities. We cannot predict the effects of future legislation and the corresponding regulations on us, our competitors, or on the financial markets and economy, although it may significantly increase costs and impede efficiency of internal business processes.

***Our information systems may experience an interruption or security breach.***

We rely heavily on communications and information systems to conduct our business. We also provide our clients the ability to bank electronically through mobile and online banking. The secure transmission of confidential information over the internet is a critical element of banking online. Our

network could be vulnerable to unauthorized access, computer viruses, phishing schemes, and other security problems. Any failure, interruption, or breach in the security of these systems could result in disruptions in our client relationship management, general ledger, deposit, loan, and other systems. There can be no assurance that any such failure, interruption or security breach will not occur or, if they do occur, that they will be adequately addressed. The occurrence of any failure, interruption, or security breach of our information systems could damage our reputation, result in a loss of client business, subject us to additional regulatory scrutiny, or expose us to civil litigation and possible financial liability.

***Florida financial institutions face a higher risk of noncompliance and enforcement actions with the Bank Secrecy Act and other Anti-Money Laundering statutes and regulations.***

Banking regulators focus intensely on Anti-Money Laundering and Bank Secrecy Act compliance requirements, particularly the Anti-Money Laundering provisions of the USA PATRIOT Act. They also intensely scrutinize compliance with the rules enforced by the Office of Foreign Assets Control. Both federal and state banking regulators and examiners have been extremely aggressive in their supervision and examination of financial institutions located in the State of Florida with respect to institutions' Bank Secrecy Act and Anti-Money Laundering compliance. If our policies, procedures, and systems are deemed deficient, then we may be subject to liability, including fines and regulatory actions such as restrictions on our ability to pay dividends and the necessity to obtain regulatory approvals to proceed with certain aspects of our business plan.

***Higher FDIC deposit insurance premiums and assessments could adversely affect our financial condition.***

The deposits of Marine are insured by the FDIC up to legal limits and, accordingly, subject the bank to the payment of FDIC deposit insurance assessments. Marine's regular assessments are determined by its risk classification, which are based on regulatory capital levels and the level of supervisory concern. Any increases in assessment rates or special assessments which may occur in the future could reduce our profitability or limit our ability to pursue certain business opportunities, which could materially and adversely affect our business, financial condition, results of operations, and prospects.

***It may be difficult for you to sell your shares in the future.***

The shares issued in this offering will be restricted securities and may not be resold without being registered under the Securities Act of 1933, as amended, or pursuant to an exemption from such registration. In addition, we do not intend to seek a stock market or exchange listing for the shares of our common stock following this offering. A public market having depth and liquidity depends on having enough buyers and sellers at any given time. Without an active trading market, shareholders may find it difficult to find buyers for their shares. Investors should be aware that they may be required to bear the financial risks of this investment for an indefinite period of time.

***The offering price may exceed the fair market value of our shares. This would cause an immediate decrease in the value of your investment.***

The offering price has been arbitrarily set and bears no relationship to typical criteria of value of us. The price may exceed the fair market value of our shares and the price at which you may be able to sell shares after the offering. Consequently, you may lose a portion of your investment simply as a result of our inaccurate determination of the offering price.

***We may need to raise additional capital in the future, which could dilute your ownership interest if the sale of our shares is at a price less than the price per share in the this offering.***

We may need to raise capital in the future to support our business, expand our operations, or maintain minimum capital levels required by our regulators. If we do sell additional shares of stock to raise capital, we may sell shares at a price less than what is being paid in this offering, which would dilute your ownership interest. Such dilution could be substantial.

***Our directors will have substantial control after the offering, which could delay or prevent a change of control favored by our other shareholders.***

Our directors, if acting together, may be able to significantly influence all matters requiring approval by our shareholders, including election of directors and the approval of mergers or other business combination transactions. Our directors own 650,270 shares, representing 47% of the total number of shares outstanding. The interest of these shareholders may differ from the interests of other shareholders and these shareholders, acting together, will be able to influence significantly all matters requiring approval by shareholders. As a result, they could approve or cause us to take actions of which you disapprove or that may be contrary to your interests and those of other investors.

***Investing in this offering will not give you the right to participate in any future offerings of our capital stock and your ownership could be diluted.***

As a shareholder, you will not be automatically entitled to purchase additional shares of common stock in future issuances of our common stock. Therefore, you may not be able to maintain your current percentage of ownership in the Company. If we decide to issue additional shares of common stock or conduct an additional offering of stock, your ownership in the Company could be diluted and your potential share of future profits may be reduced.

***We face restrictions on our ability to pay dividends.***

Florida state law places significant restrictions on a bank's ability to pay dividends to its shareholders. The Company's ability to pay dividends depends on its receipt of dividends from our bank. Furthermore, we do not expect to pay dividends for the foreseeable future. Rather, we intend to retain our earnings to support our future growth. Investors should not expect to receive cash dividends for a number of years, if ever.

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## TERMS OF OFFERING

### *General*

The offering period began on September 1, 2021, and will terminate on October 29, 2021, unless terminated earlier, or extended until no later than February 28, 2022, by us.

During the first thirty days of the offering period, we will accept subscriptions from our current shareholders. For each five shares of stock owned by a shareholder, that shareholder will have the right to purchase one share. If shares are held in an IRA, trust, or similar account, we will permit the beneficiary or an affiliated account to exercise the subscription right. Similarly, if shares are owned individually, we will permit an affiliated IRA, trust, or similar entity to exercise that individual's subscription rights.

During those thirty days, we will also accept subscriptions from other accredited investors for up to a total of 72,727 shares. We reserve the right to reject any subscription, in whole or in part, from any such investor in order to preserve the availability of our offering exemptions, or for any other reason. We also reserve the right, in our sole discretion, to accept or reject any such subscription, in whole or in part.

Following the initial 30 day period, we will continue to accept subscriptions from current shareholders and new investors, up to the offering maximum of 363,636 shares. Current shareholders who desire to purchase more shares than they have the initial right to may indicate their oversubscription intent on their Subscription Agreements. During this period, we will accept subscriptions for shares not subscribed for by our shareholders pursuant to their subscription rights.

Other than subscriptions from our current shareholders exercising their subscription rights, the minimum subscription we will accept is for 1,000 shares, or \$27,500 and the maximum subscription we will accept is for 5,500 shares, or \$151,250. However, we reserve the right to waive these requirements. We will also accept subscriptions of at least four shares from our employees.

### *Sale without Registration*

The shares have not been registered with the SEC or the Florida Office of Financial Regulation ("OFR"), Division of Securities, or any other state securities agency and are being offered in reliance upon certain exemptions from federal and state securities laws requiring registration. In addition to requiring that all investors be "accredited," we will only accept subscriptions from investors we determine to be sophisticated in our sole judgment. Notwithstanding the foregoing, we may accept subscriptions from up to 35 subscribers who are not "accredited" investors. These securities will be sold without Florida registration pursuant to the private placement exemption in Section 517.061(11), *Florida Statutes*. ***Pursuant to Florida law, under the private placement exemption, sales of these securities are voidable at the election of the purchaser if such election is made within 3 days after payment is tendered for such securities.***

Each subscriber must represent to the Company in the Subscription Agreement and Investor Questionnaire, among other things, that the subscriber is an accredited investor as that term is defined in Rule 501(a) of Regulation D promulgated under the Securities Act and/or that the subscriber, either alone or with their purchaser representative(s), has such knowledge and experience in financial and business matters that they are capable of evaluating the merits and risks of an investment in our common stock in this offering.

To qualify as an accredited investor, a purchaser must represent in writing that at least one of the following is true:

- such person is a natural person whose individual net worth or joint net worth together with that person's spouse, excluding the value of that person's primary residence (and any debt secured by such residence that is less than the value of such residence and not incurred within 60 days of the purchase), at the time of his or her acquisition of the shares exceeds \$1,000,000;
- such person is a natural person who has had an individual income in excess of \$200,000 in each of the two most recent years or joint income with that person's spouse in excess of \$300,000 in each of those years, and has a reasonable expectation of reaching the same level of income in the current year;
- such person is a director or executive officer of the Company;
- it is a trust that is qualified as an accredited investor, in that it has net assets in excess of \$5,000,000, was not formed specifically for the purpose of acquiring the shares in the offering, and the purchase of the shares is directed by a sophisticated investor, or if the trust is a grantor trust, the grantor would qualify as an accredited investor under the standards applicable to a natural person; or
- it is a charitable organization, corporation, or partnership with greater than \$5,000,000 in assets.

In addition to the representations regarding net worth, annual income, asset owned, or financial and business sophistication, each subscriber will be required to represent that: (i) he or she knows that the common stock has not been registered under the Securities Act, and that he or she has no right to require such registration; (ii) he or she is purchasing the common stock for his or her own account for investment and not for resale or distribution; (iii) he or she understands that his or her right to transfer the common stock will be restricted and that the common stock may not be transferred, unless such transfer is in compliance with a registration exemption and is not in violation of the Securities Act or applicable state securities laws (including investment suitability standards under applicable state law); and (iv) he or she is willing and able to bear the economic risk of his or her investment in the Company, has no need for liquidity in such investment and is able to sustain a complete loss of his or her investment.

### ***Resale of Restricted Securities***

As noted above, the common stock is being offered without registration under the Securities Act and state securities laws pursuant to exemptions provided by such act and laws. Investors will, therefore, only be able to resell the shares purchased in the offering under an exemption from the registration requirements of the Securities Act and applicable state laws, unless we register the securities for resale, which we have no obligation or intention to do. Under Rule 144 of the Securities Act, for example, non-affiliates of the Company may resell the shares of common stock sold in the offering after holding such shares for one year.

In that regard, the following restrictive language will be placed on the book entry shares representing the shares issued in the offering:

**THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR UNDER THE APPLICABLE SECURITIES LAWS OF ANY OTHER STATE OR JURISDICTION (THE "STATE ACTS"). ACCORDINGLY, THE SECURITIES REPRESENTED BY THIS CERTIFICATE MAY NOT BE SOLD, ASSIGNED, PLEDGED, EXCHANGED, HYPOTHECATED, TRANSFERRED OR OTHERWISE DISPOSED OF UNLESS REGISTERED UNDER THE SECURITIES ACT AND THE STATE ACTS, EXCEPT UPON DELIVERY TO THE COMPANY OF (A) AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY TO THE EFFECT**

**THAT REGISTRATION IS NOT REQUIRED FOR SUCH TRANSFER, OR (B) EVIDENCE SATISFACTORY TO THE COMPANY TO THE EFFECT THAT ANY SUCH TRANSFER WILL NOT BE IN VIOLATION OF THE SECURITIES ACT, THE STATE ACTS, OR ANY RULE OR REGULATION PROMULGATED THEREUNDER.**

***Issuance of Shares***

All subscription funds tendered by prospective investors will be placed in an account with Marine. Subscription funds will be taken into capital and we will issue shares at periodic closings, as determined by us at our sole discretion.

***Purchase Limitations***

Shares will not be issued to any person who, in our opinion, would be required to obtain prior clearance or approval from any state or federal regulatory authority to own or control such securities until such clearance has been obtained. This restriction applies to individual investors, as well as to investors who would be presumed to be acting in concert with each other.

Under federal regulations, a rebuttable presumption of concerted action will arise under the following circumstances:

- a person will be presumed to be acting in concert with the members of the person's immediate family (which includes a person's spouse, father, mother, step-parent, children, step-children, brothers, step-brothers, sisters, step-sisters and grandchildren; the father, mother, brothers, and sisters of the person's spouse; and the spouses of all of the foregoing);
- In addition, the following persons will be presumed to be acting in concert:
  - a company and any controlling shareholder, partner, trustee, or management official of that company, if both the company and the person own voting securities of the Company;
  - companies under common control;
  - persons that are parties to any agreement, contract, understanding, relationship, or other arrangement, whether written or otherwise, regarding the acquisition, voting, or transfer of control of voting securities of a bank or bank holding company, other than through a revocable proxy as described in Section 255.42(a)(5) of Regulation Y;
  - persons that have made, or propose to make, a joint filing under Sections 13 or 14 of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78n), and the rules promulgated thereunder by the SEC; and
  - a person and any trust for which the person serves as trustee.

***Suitability Standards***

In determining whether to accept a subscription, in whole or in part, we may take into account a subscriber's potential to do business with, or to direct customers to, the Company. The requested size of a proposed subscription may also cause us to seek further information concerning the subscriber's net worth, potential for income production, experience in making investment decisions and primary investment objectives. The satisfaction of any such inquiry does not necessarily mean that an investment in the shares is suitable or that a subscription by a particular subscriber to invest will be accepted. Because of the probable lack of any significant public market for the shares for an indefinite period following their issuance, a subscriber should consider an investment in the shares to be an illiquid and

long-term investment. Also, due to the nature of the investment, an early sale of the shares could result in a loss to the selling shareholder of some part or all of his or her initial investment.

### **USE OF PROCEEDS**

The proceeds of this offering will be used to support Marine’s future growth and pay Company expenses. We will have broad discretion over the use of the net proceeds of this offering and may not allocate the proceeds in the most profitable manner.

### **DIVIDEND POLICY**

Historically, we have not paid any cash dividends on our common stock. We do not intend to pay cash dividends on our common stock in the foreseeable future. Rather, we intend to retain our earnings to support our current and expected future growth. Future dividends may be declared subject to the sole discretion of the Board of Directors. The Board of Directors will consider, among other factors, our actual and projected earnings, financial condition, and regulatory capital requirements (including applicable statutory and regulatory restrictions on the payment of dividends) in determining whether to declare a dividend. However, we do not anticipate paying dividends on shares of our common stock for the foreseeable future.

Our ability to pay dividends on shares of our common stock is essentially contingent upon the Bank’s ability to pay dividends to the Company. Pursuant to Florida law, a state bank may not pay dividends from its capital stock. All dividends must be paid out of current net profits then on hand plus retained net profits of the preceding two years, after deducting bad debts, depreciation and other worthless assets, and after making provision for reasonably anticipated future losses on loans and other assets. Finally, a state bank may not declare a dividend which would cause the Bank’s capital accounts to fall below the minimum amount required by law or banking regulations.

### **CAPITALIZATION**

The following table sets forth the pro forma capitalization of the Company, assuming all 363,636 shares are sold in the offering and deducting \$35,000 in estimated offering expenses (dollars in thousands except per share values).

|  | <b>June 30, 2021</b> | <b>Adjusted for the Sale<br/>of 363,636 Shares</b> |
|--|----------------------|--|
| <b>Stockholders’ Equity</b>  |                      |  |
| Preferred stock, \$5.00 par value per share,<br>5,000,000 shares authorized and none issued<br>and outstanding   | \$ -                 | \$ -   |
| Common stock, \$1.50 par value per share,<br>20,000,000 shares authorized, 1,382,080<br>issued and outstanding at June 30, 2021, and<br>1,745,716 issued and outstanding following<br>the offering | 2,073                | 2,619  |
| Additional paid-in capital   | 17,156               | 26,575   |
| Retained earnings  | 9,078                | 9,078  |
| Accumulated other comprehensive income   | 300                  | 300  |
| <b>Total Capitalization</b>  | <b>28,607</b>        | <b>38,572</b>                                      |
| Book value per share   | \$20.70              | \$22.10  |

## DILUTION

Based on the \$27.50 per share offering price, the issuance of common stock in this offering is expected to result in an immediate dilution in the net book value per share with respect to purchasers of common stock in this offering. The following table illustrates the per share dilution to purchasers in this offering.

|  | <b>Pro Forma<br/>Adjusted for Sale<br/>of 363,636 Shares</b> |
|--|--|
| Offering price per share                             | \$27.50  |
| Pro forma book value per share after the offering    | \$22.10  |
| Dilution per share to shareholders purchasing shares | \$5.41   |

## MARKET FOR SECURITIES

Our common stock is listed on the OTCQB under the symbol "MBOF." However, there is not a materially active market for our stock and we do not expect that one will develop or be sustained after the offering. The over-the-counter market lacks the depth, liquidity, and order volumes necessary to maintain a liquid market in our common stock.

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## OUR BUSINESS

### *General*

We conduct our operations through the Bank. The Bank was incorporated under the laws of the State of Florida and opened for business on July 1, 1997. It is the only independent bank in Indian River County. The Bank was founded by George R. Slater, a 30-plus year veteran of the banking industry.

As an independent financial institution, decisions are made locally at our main office on the island of Vero Beach, and three branch offices in mainland Vero Beach, Sebastian, and Melbourne. The Bank offers wealth management services through Warren Capital Management, Vero Beach, Florida. We strive to meet the individual needs of our customers by providing excellent personal service and competitive products. We are dedicated to the growth and development of our employees and to providing a fair return to our shareholders. As a true community bank, the success of the Bank is closely tied to the success of the community, its residents, and its businesses.

We offer a full range of interest bearing and non-interest bearing deposit accounts, including personal and business checking accounts, personal savings accounts, money market accounts, individual retirement accounts, certificates of deposit, and health savings accounts. The sources of deposits are local residents, businesses, and employees of businesses within our market area, obtained through the personal solicitation of our officers and directors, direct mail solicitation and advertisements published in the local media. We pay competitive interest rates on time and savings deposits. In addition, we have a service charge fee schedule competitive with other financial institutions in our market area covering such matters as maintenance fees on certain accounts, per item processing fees, and returned check charges.

Our efforts are focused on serving the growing needs of small businesses and residents throughout east central Florida, commonly known as the Space Coast and the Treasure Coast. As part of this focus, we continue to add new products to our financial offerings. All of this is done while maintaining the high caliber of personal service that is the hallmark of the Bank.

We believe that we can effectively compete with larger financial institutions by offering our local residents and business owners personalized services that are more readily provided by a financial institution that is locally owned and operated. All of the decisions affecting our customers are made locally. We continue to evaluate new products and services that help meet the changing needs of our customers. We endeavor to use the most modern technology possible.

### *Lending Activities*

**General.** We consider the maintenance of a well-underwritten and diversified loan portfolio to be a prudent and profitable method of employing funds raised through deposits. Our objective is to maintain a high quality, diversified credit portfolio consisting of commercial loans, consumer loans and mortgage loans. We offer loan products and programs that we believe are responsive to the business community's financial requirements. Our borrowers are generally located within our primary market area, with a small portion of our lending business occurring in neighboring counties, and other areas.

**Loan Approval and Review.** Loan approval policies provide our lenders with the discretion necessary to accomplish our lending objectives while assuring compliance with banking regulations. Marine's Board's Loan Committee is responsible for ensuring the soundness of Marine's credit policy, adherence to lending policies and compliance with applicable laws, rules, and regulations. To fulfill these responsibilities, the Loan Committee reviews the adequacy of Marine's credit policy on at least an annual basis, reviews all large loans, and monitors the performance of the loan portfolio on an ongoing basis.

***Lending Limits and Loan Approval Authority.*** Our lending activities are subject to a variety of lending limits imposed by state and federal law. In general, Marine is subject to a legal limit on secured loans to a single borrower equal to 25% of the bank's capital accounts. Different limits may also apply based on the type of loan or the nature of the borrower, including the borrower's relationship to Marine. These limits will increase or decrease as our capital increases or decreases. Unless Marine is able to sell participations in loans to other financial institutions, the Bank will not be able to meet the continuing lending needs of loan customers requiring aggregate extensions of credit above these limits.

Our Board of Directors approves all loans made to insiders. The full Board and its Loan Committee have loan approval authority up to our legal lending limit. Certain of our lending officers also have individual lending limits.

***Credit Risk.*** The principal credit risk associated with each category of loans is the creditworthiness of the borrower. Borrower creditworthiness is affected by general economic and real estate conditions and the strength of the manufacturing, services, and retail market segments. General economic factors affecting a borrower's ability to repay include interest, inflation, and employment rates and the strength of the local and national economy, as well as other factors affecting a borrower's customers, suppliers, and employees.

***Commercial Real Estate Loans.*** We originate mortgage loans for the acquisition and refinancing of commercial real estate properties. The majority of our commercial real estate loans are secured by developed and undeveloped land, office buildings, manufacturing facilities, distribution/warehouse facilities and retail centers, which are generally located in our local market area.

Our commercial real estate loans generally have terms of five to seven years, although payments may be amortized over 20 years. These commercial real estate loans include various types of loans secured by nonresidential commercial real estate. Inherent in commercial real estate loans' credit risk is the risk that the primary source of repayment, the operating company, will be insufficient to service the debt. If a real estate loan is in default, we also run the risk that the value of a secured commercial real estate loan's collateral will decrease, and thereby be insufficient to satisfy the loan. To mitigate these risks, we evaluate each borrower on an individual basis and attempt to determine its business risks and credit profile.

We attempt to reduce credit risk in the commercial real estate portfolio by emphasizing loans on owner-occupied office and retail buildings where the loan-to-value ratio is established by independent appraisals. Appraisals are performed by an independent appraiser selected by us. All appraisals are reviewed by our management team. We consider the quality and location of the real estate, the credit of the borrower, the project's cash flow and the quality of management involved with the property.

Loan-to-value ratios on our commercial real estate loans vary by collateral type. The policy maximum loan-to-value ratio of any one commercial real estate loan is 85%. As part of the criteria for underwriting commercial real estate loans, we generally impose a debt coverage ratio (the ratio of net operating income before payment of debt service compared to debt service) of not less than 1.0. We also typically require personal guarantees from the principals of our corporate borrowers on our commercial real estate loans.

Loans secured by commercial real estate typically have higher balances and are more difficult to evaluate and monitor and, therefore, involve a greater degree of credit risk than other types of loans. If the estimate of value proves to be inaccurate, the property may not provide us with full repayment in the event of default and foreclosure. Because payments on these loans are often dependent on the successful

development, operation and management of the properties, repayment of these loans may be affected by adverse conditions in the real estate market or the economy. We seek to minimize these risks by limiting the maximum loan-to-value ratio and strictly scrutinizing the financial condition of the borrower, the quality of the collateral and the management of the property securing the loan.

**Commercial Loans.** Part of our loan portfolio includes commercial loans to members of the business community in order to provide funds for such purposes as financing business equipment. Risks of these types of loans include the general conditions of the local economy and borrowers' ability to conduct their businesses to generate sufficient profits to repay their loans under the agreed upon terms and conditions. Guarantees are typically obtained from the principals of business borrowers and third parties to support the borrowers' ability to service debt and reduce risk of non-payment.

Commercial loans are typically either short term (one year or less) or intermediate term (three to five years) in nature and may be secured, unsecured or partially secured. Maturities are structured in relation to the economic purpose of the loan, conforming to the anticipated source of repayment. Interest rates are originated on a fixed and floating rate basis, typically tied to the prime rate. The basis upon which we set interest rates relative to the prime rate is based upon the risk of the credit facility. Floors and pre-payment penalties are established whenever possible. In addition, we attempt to originate fees on each loan closed through Marine.

Term loans are those having an anticipated final maturity of more than one year from the initial funding date. Amortization schedules on term loans which are secured by collateral other than real estate typically reflect a complete payout within seven years of the funding date.

Demand notes are used in connection with certain secured commercial loan transactions where the nature of the transactions suggest that such structure is clearly preferable; however, time notes are used as a matter of routine.

We offer the following types of credit, subject to adequate available resources to monitor and service such credit:

- term loans secured by machinery and equipment (terms of such loans must be consistent with the purpose, cash flow capacity, and economic life of collateral); and
- credit lines for short-term working capital requirements. Credit lines are typically subject to review at least annually and generally carry a requirement for a minimum 30 consecutive day annual out-of-debt period.

**Residential Mortgage Loans.** We offer mortgage loan programs to provide financing primarily for the acquisition or construction of single-family, owner-occupied primary residences. All loans will be structured with an amortization schedule not exceeding 30 years. Adjustable rate loans are maintained in our loan portfolio and fixed rate loans are typically sold in the secondary market, in order to generate fee income.

Normally, the loan-to-value ratio of each conventional mortgage does not exceed 80%. However, we may participate with private mortgage insurance companies for the purpose of providing loans with a loan-to-value ratio of up to 97%. We offer revolving lines of credit and closed end loans secured by second mortgages on individuals' homes, primarily within our market area. We typically extend credit up to 80% of a home's value and primarily underwrite these loans based on a borrower's cash flow and creditworthiness. The risk of these loans include the frequency of interest rate changes, the financial stability of borrowers and the ability to liquidate foreclosed real estate to produce sufficient revenue to prevent a loss.

**Consumer Loans.** Consumer loans are made to individuals for household, family, and personal expenditures. Consumer loans generally involve more risk than mortgage loans because the collateral for a defaulted loan may not provide an adequate source of repayment of the principal. This risk is due to the potential for damage to the collateral or other loss of value and the fact that any remaining deficiency often does not warrant further collection efforts. The performance of a consumer loan also depends on the borrower's continued financial stability and is, therefore, more likely to be adversely affected by job loss, divorce, illness, or personal bankruptcy. Generally, consumer loans and non-real estate secured loans have a maturity of no longer than six years. The primary type of consumer lending is for the financing of boats and automobiles, personal lines of credit, home improvements, and education. We also make loans secured by second mortgages on real estate and other collateral, as well as unsecured loans.

**Construction Loans.** We offer loans to developers and to individuals to finance the costs of houses and commercial properties. These loans are typically extended to customers with a history of satisfactory credit and successful experience in their line of business. Loan advance ratios typically include a hard cash equity requirement and preleasing for non-owner occupied real estate.

## **Deposit Services**

We offer a broad range of interest bearing and non-interest bearing deposit accounts, including commercial and retail checking accounts, money market accounts, individual retirement accounts, regular interest-bearing savings accounts and certificates of deposit with fixed rates and a range of maturity date options. Our sources of deposits include residents, businesses, and employees of businesses within our market area obtained through the personal solicitation of our officers and directors, direct-mail solicitation, and advertisements published in the local media. We pay competitive interest rates on our time and savings deposits. In addition, we maintain a service charge fee schedule which is competitive with other financial institutions in our market area, covering such matters as maintenance fees on checking accounts, per-item processing fees on checking accounts, and returned-check charges.

We compete aggressively for deposits in our primary market area. Among our product offerings are a full suite of treasury management services, online business banking, remote deposit capture, checking accounts, cash management services, safe deposit boxes, direct deposit of payroll and social security checks, wire transfers, and automatic drafts. Based on experience, our management believes these accounts and products are profitable when considering the entire potential customer relationship, which may include other deposit accounts, loans, and sources of fee income.

We occasionally offer certificate of deposit promotions designed to attract customers to whom we intend to cross-sell other services, including loan products. Our goal is to attract customers who will become permanent customers due to more responsive, more personalized, and faster service. We also seek to accumulate as much zero interest or low cost deposits as possible.

We offer a tiered, money market/savings product, whereby we pay higher rates on higher-deposit balances. We believe this deposit vehicle permits Marine to compete with money market mutual funds.

We focus on relationship banking. Typically, customer relationships become more profitable as the number of services they utilize increases, and the balance in each individual account increases as the total number of accounts increase.

We occasionally participate in the IntraFi Network, LLC ("IntraFi") who maintains the IntraFi Network Deposits (formerly known as Certificate of Deposit Account Registry Service ("CDARS")) and Insured Cash Sweep ("ICS"), permitting us to accept CD and Money Market deposits which would otherwise be too large for full FDIC insurance coverage and reciprocally place portions of such CDs with

other banks thereby obtaining additional insurance coverage. These programs are expected to attract accounts with higher average balances.

### ***Investments***

We primarily invest in direct obligations of the United States, obligations guaranteed as to principal and interest by the United States and obligations of agencies of the United States, municipalities and corporations. In addition, we own stock in the Federal Home Loan Bank of Atlanta. We also enter into federal funds transactions with our principal correspondent banks, and primarily act as a net seller of such funds. The sale of federal funds is essentially a short-term loan from us to another bank, usually overnight. Marine also invests funds overnight with the Federal Reserve, and with the Federal Home Loan Bank of Atlanta.

### ***Asset/Liability Management***

Our objective is to manage assets and liabilities to provide a satisfactory, consistent level of profitability within the framework of established cash management, loan, investment, borrowing and capital policies. Designated bank officers are responsible for monitoring policies and procedures designed to ensure an acceptable composition of the asset/liability mix, stability and leverage of all sources of funds while adhering to prudent banking practices. It is our overall philosophy to support asset growth primarily through growth of core deposits, which include deposits of all categories made by individuals, partnerships and corporations. We invest the largest portion of our assets in commercial, consumer and real estate loans.

Our asset/liability mix is monitored on a daily basis with a regular report reflecting interest-sensitive assets and interest-sensitive liabilities to be prepared and presented to our Board of Directors. The objective of this policy is to control interest-sensitive assets and liabilities so as to minimize the impact of substantial movements in interest rates on our earnings.

### ***Correspondent Banking***

Correspondent banking involves the provision of services by one bank to another bank which cannot provide that service for itself from an economic or practical standpoint. Marine purchases correspondent services offered by larger banks, including check collections, purchase and sale of federal funds, securities safekeeping, investment services, coin and currency supplies, over line or limit and liquidity loan participations and sales of loans to or participations with correspondent banks. As compensation for services provided by a correspondent, we maintain certain balances with such correspondents in non-interest bearing accounts.

### ***Data Processing and Information Technology***

We obtain data processing from an outside service bureau, from which we receive a full range of data processing services, including an automated general ledger, deposit accounting, commercial, real estate and installment loan processing, central information file, ATM processing, bill payment, and internet banking services.

On March 15, 20021, the Bank detected unauthorized access to its computer network. Upon learning of the issues, the Bank contained and secured the threat. We then began an investigation with the assistance of outside cybersecurity experts who regularly investigate and analyze such situations. Our investigation determined that unauthorized individuals had access to, and potentially removed customer information from, our computer network. At this time we do not know if any customer information has

been misused or if any customers will pursue actions against the Bank. Therefore, it is not possible to determine whether the Bank will incur any further expenses or losses due to this incident.

*Employees*

We maintain a comprehensive employee benefits program providing, among other group benefits, health insurance, long-term disability insurance, term life insurance, a 401(k) retirement savings plan, and a stock option plan. We believe our employee benefits program is generally competitive with employee benefits provided by other financial services employers in our local market area.

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## MANAGEMENT AND BOARD OF DIRECTORS

Our Board of Directors is composed of nine directors, each of whom also serves as a Director of the Bank: Wilton R. Banack, Erin K. Grall, Kenneth R. Lehman, David S. Croom, Kevin J. Given, Richard L. Lynch, William J. Penney, Daniel R. Richey, and Hal. J. Roberts.



**WILTON R. (RUSTY) BANACK**

Mr. Banack (Age 59) is a lifetime resident of Vero Beach. He is a graduate of Vero Beach High School and Florida Southern College. He is President of Quality Caretaking of Indian River, Inc. and Owner/President of Quality Fruit Packers of Indian River, Inc. He serves as co-chair of the United Way Agribusiness Division and is on the board of directors of the Indian River Citrus League.



**DAVID S. CROOM**

Mr. Croom (Age 74) has been in the construction industry for over 48 years and is the President of Croom Construction Company of Vero Beach, which was founded in 1978. He has served as Chairman of the Board of Trustees of St. Edwards School, Chairman of the Vero Beach Planning and Zoning Board, President of the Kiwanis Club of Vero Beach and President of the 100 Club of Vero Beach. He was re-elected in 2006 to serve on the Board of Trustees of St. Edwards School as Vice-Chairman of the Board. Mr. Croom received a degree in Industrial Engineering from the University of Georgia and an MBA from the University of Miami.



**KEVIN J. GIVEN**

Mr. Given (Age 54) brings over 35 years of experience in the luxury resort and private club/real estate development management. He is a partner in the Quail Valley Golf & River Clubs and serves as the Chief Operating Officer. He is also a general partner in several real estate holdings and developments. He is a graduate of Concord University in Athens, West Virginia with a major in Hotel Management and Minor in Business Administration.



**ERIN K. GRALL**

Ms. Grall (Age 43) is a Vero Beach native. She is a shareholder of Grall Law Group and specializes in personal injury and wrongful death litigation. In 2016, Ms. Grall was elected to the Florida House of Representatives. She is committed to community service and is active in many aspects of the Treasure Coast. She has served as President of the Indian River County Bar Association and spent many years serving on the county's Children's Services Advisory Committee. She is a past president of the Exchange Club of the Treasure Coast and in 2008 served as District Director on the state board. Ms. Grall led the Childcare Resources of Indian River Board as President for three years, served as President of the Junior League of Indian River and played an active role in leadership on the Board of the United Way of Indian River County. Ms. Grall graduated *cum laude* from Wake Forest University and earned her Juris Doctor at Marquette University.



**KENNETH R. LEHMAN**

Mr. Lehman (Age 62) is a private investor and former banking and securities attorney. Over the last nine years, Mr. Lehman has served as a director of several banks and bank holding companies including three publicly-traded (i.e., registered under Section 12 of the Securities Exchange Act of 1934) companies: First Capital Bancorp, Inc., where he served as a director from 2012 through January 2016, Virginia Commerce Bancorp, Inc., where he served as a director from November 2009 through January 2014, and Tower Bancorp, Inc., where he served as a director from March 2009 through February 2012.



### **RICHARD L. LYNCH**

Mr. Lynch (Age 62) is managing partner of the accounting firm Lynch, Johnson & Long, LLC, located in Fort Pierce. After graduating from Stetson University in 1981, Rick moved to the Treasure Coast area. In 1985 he started his own accounting practice which has evolved to the firm he now leads. Rick, with his wife Robbin, have two grown sons, Rick, Jr. and Robbie. Throughout his professional career, Rick has been active with the local community. This includes twenty-six years of participation with Treasure Coast Hospice and twenty-one years with the A.E. Bean Backus Gallery. He is currently the chairman of the Treasure Coast Hospice Foundation and past chairman of Treasure Coast Hospice Operating Board. Rick previously served as a director of Harbor Community Bank and its holding company, HCBF Holding Company. He served as chairman of that bank's audit committee. Rick also held similar board positions with Harbor Federal Savings Bank.



### **WILLIAM J. PENNEY**

Mr. Penney (Age 65) has been a commercial banker for over 43 years and is the Chairman, Chief Executive Officer and President of the Company and the Bank. He is a native Floridian and a 37-year resident of Vero Beach. He has served as Chief Lending Officer in four different banking institutions over the past 31 years. His specialty is providing commercial banking services to business owners and investors and assisting them in growing their businesses profitably. During his career he has developed talented and successful bankers. Mr. Penney became the Executive Vice President and Chief Lending Officer of the Bank in March 2004. In February 2010 Mr. Penney was promoted to President and Chief Executive Officer to replace the retiring C. Andrew Lawrence. In November 2013 Mr. Penney was elected Chairman of the Board of Directors. Mr. Penney has been actively involved on several community and professional boards including the United Way of Indian River County, Alzheimer's & Parkinson's Association of Indian River County, Ocean Research & Conservation Association, the Indian River County Economic Development Council, the Indian River County Chamber of Commerce and the Florida Bankers Association.



**DANIEL R. RICHEY**

Mr. Richey (Age 63) is President and CEO of Riverfront Packing Company in Vero Beach. Dan has served in many different capacities in the Citrus/Agricultural industry, including Chairman of the Florida Citrus Commission, President of the Indian River Citrus League, Board member of the Florida Fruit and Vegetable Association and Dan is currently serving as an appointed advisor to the U.S. Trade Representative and U.S. Secretary of Agriculture regarding international trade issues. Dan previously served as Director for Indian River National Bank, Gulfstream Business Bank and most recently, CenterState Bank.

[NO PHOTO AVAILABLE]

**J. HAL ROBERTS, Jr.**

Mr. Roberts (Age 73) is the former president of Port St. Lucie National Bank, Enterprise National Bank, and Harbor Federal. Hal also served as the north-central market president for PNC. As president and CEO of Harbor Community Bank, Mr. Roberts was instrumental in growing the bank to 46 branch locations in 19 Florida counties with assets of \$1.9 billion before it was sold to CenterState Bank in 2017. In 2019, Mr. Roberts retired as Treasure Coast regional president of CenterState Bank.

***Other Non-Director Executive Officer***

**Charles J. Gisler, Jr.** (Age 54) is the Chief Financial Officer, Executive Vice President, and Chief Operating Officer of the Company and the Bank. Mr. Gisler joined the Bank in 2011. Prior to joining the Bank, Mr. Gisler was the Executive Vice President and Chief Financial Officer of the Bank of Naples from 2006 to 2011. He also served as the Chief Financial Officer and Executive Vice President of the Edison National Bank from 2003 to 2006, and from 1991 to 2003 he served as a Vice President of Riverside National Bank. Mr. Gisler serves on the Board of Directors of Senior Resource Association, Inc. and BancServ Inc. Mr. Gisler is a native of Vero Beach. He graduated from Appalachian State University and also the Florida Institute of Technology.

***Beneficial Stock Ownership of Directors and Executive Officers***

The following table shows, as of the date of this Private Placement Memorandum, the number of shares of common stock of the Company owned by each of our directors and executive officers:

| <b><u>Directors and Executive Officers</u></b>         | <b><u>Position</u></b> | <b><u>Number of Shares Owned<sup>(1)</sup></u></b> |
|--|------------------------|--|
| Wilton R. (Rusty) Banack                               | Director               | 9,365  |
| David S. Croom   | Director               | 5,381  |
| Kevin J. Given   | Director               | 4,478  |
| Erin K. Grall  | Director               | 1,427  |
| Kenneth R. Lehman                                      | Director               | 604,664  |
| Richard L. Lynch                                       | Director               | 1,444  |
| Daniel R. Richey                                       | Director               | 0  |
| Hal J. Roberts   | Director               | 0  |
| William J. Penney                                      | Chairman/CEO/President | 23,511   |
| Charles J. Gisler, Jr.                                 | EVP/CFO/COO            | 8,721  |
| <b>All directors and executive officers as a group</b> |                        | <b><u><u>658,991</u></u></b>                       |

(1) Includes shares for which the named person: (i) has sole voting and investment power; (ii) has shared voting and investment power; or (iii) holds in an IRA or other retirement plan or program, unless otherwise indicated in these footnotes.

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## COMPENSATION

### *Employment Agreements*

We have entered into an employment agreement with our Chief Executive Officer and President William J. Penney. The contract automatically renews each March 1, so that at the time of each renewal, there will be two years remaining on the agreement's term. Any party to the agreement can terminate the automatic renewals by giving notice prior to the renewal date.

If Mr. Penney terminates his employment for good reason or if we terminate his employment without cause (as each term is defined in the agreement), he will be entitled to a severance payment equal to the base salary due for the remainder of the term of the contract and any accrued bonus. In addition, he will be permitted to continue to participate in employee benefit plans for a year after his termination. In the event of a change in control (as defined in the agreement), he will be entitled to a cash payment equal to twice his average annual base salary and cash bonus (excluding any cash paid for any equity bonus plan) for the most recent three years and he shall be permitted to participate in employee benefit plans for a year after the change in control. In addition, if Mr. Penney is not offered an executive officer position following a change in control and he terminates his employment, he shall be entitled to a cash payment equal to his average annual base salary and cash bonus (excluding any cash paid for any equity bonus plan) for the most recent three years. The agreement also provides for non-competition and non-solicitation prohibitions following his termination of employment.

As of June 30, 2021, Mr. Penney was receiving an annual salary of \$288,000. Equity stock award granted to Mr. Penney in 2020 and 2021 totaled 2,569 and 2,670 shares, respectively.

We have also entered into change in control agreement with four members of our senior management team.

The agreement with our Executive Vice President, Chief Financial Officer and Chief Operations Officer Charles J. Gisler, Jr. provides that upon a change in control (as defined in his agreement), he shall be entitled to a cash payment equal to his average annual base salary and cash bonus (excluding any cash paid for any equity bonus plan) for the most recent three years. In addition, he shall be entitled to a second equal payment if within a year of a change in control: (i) his employment is terminated without just cause (as defined in his agreement); (ii) he is demoted to a lesser position or has his salary reduced, and he terminates his employment; or (iii) he is transferred more than 50 miles from his residence, and he terminates his employment.

The agreements with our Chief Credit Officer, Brian Fowler, our Chief Lending Officer Shaun Williams, and our Director of Retail Banking Leslie Stokes contain the same terms as each other. Upon a change in control (as defined in each agreement), the officer shall be entitled to a cash payment equal to the officer's average annual base salary and cash bonus (excluding any cash paid for any equity bonus plan) for the most recent three years. In addition, the officer shall be entitled to a second equal payment if within a year of a change in control: (i) the officer's employment is terminated without just cause (as defined in the agreement); (ii) the officer is demoted to a lesser position or has the officer's salary reduced, and the officer terminates the officer's employment; or (iii) the officer is transferred more than 50 miles from the officer's residence, and the terminates the officer's employment.

Each of the four agreements also provide for non-competition and non-solicitation prohibitions following the officer's termination of employment.

## ***Director Compensation***

We currently pay our directors \$350.00 for attendance at Bancorp Board meetings, \$700.00 for Bank Board meetings and \$200.00 for attending committee meetings. Directors are eligible to receive Stock based compensation under the 2017 Stock Incentive Plan. Equity stock awards granted to active Directors in 2020 and 2021 totaled 513 and 444 shares, respectively.

## ***Stock Incentive Plan***

At our 2017 Annual Meeting, our Shareholders approved the 2017 Stock Incentive Plan (the “2017 Plan”). This summary is qualified in its entirety by the complete terms of the 2017 Plan. We will provide a copy of the 2017 Plan on request.

The following is a summary of the material provisions of the 2017 Plan. This summary is subject to the language of the 2017 Plan and the text of the 2017 Plan controls if there is any inconsistency between this summary and the 2017 Plan text.

*Administration.* Our Compensation Committee will initially administer the 2017 Plan as the “Administrator.” The Administrator will have the authority to, among other things, interpret the 2017 Plan and any agreement covering any award under the 2017 Plan; prescribe, amend and rescind rules and regulations relating to the 2017 Plan; and correct any defect, supply any omission, or reconcile any inconsistency in, the 2017 Plan and any award or agreement covering an award.

*Eligibility.* The Administrator may designate any of the following as a participant in the 2017 Plan, to the extent of the Administrator’s authority under the 2017 Plan: any of our officers or other employees or individuals engaged to become one of our officers or employees, any consultant or advisor who provides service to us, and any of our directors, including non-employee directors.

*Types of Awards.* Awards under the 2017 Plan may consist of stock options, stock appreciation rights (“SARs”), performance shares, performance units, shares of common stock, restricted stock, restricted stock units, incentive awards, and dividend equivalent units.

*Shares Reserved under the 2017 Plan.* The 2017 Plan provides that 130,000 shares of common stock are reserved for issuance under the 2017 Plan, subject to adjustment as described below.

The number of shares reserved for issuance will be reduced on the date of the grant of any award by the maximum number of shares, if any, with respect to which such award is granted. In general, if (1) an award granted under the 2017 Plan lapses, expires, is canceled or terminates without issuance of shares or other payment; (2) it is determined that all or some portion of the shares with respect to which an award was granted will not be issuable or that compensation payable with respect to shares covered by such an award will not be payable, on the basis that the conditions for such issuance will not be satisfied; (3) shares are forfeited under an award; or (4) shares are issued under any award and we subsequently reacquire them pursuant to rights reserved by us upon the issuance of the shares, then such shares may again be used for new awards under the 2017 Plan.

No participant may be granted awards under the 2017 Plan that could result in such participant:

- receiving stock options for, and/or SARs with respect to, more than 10,000 shares of common stock (or 5,000 shares of common stock for a non-employee director) during any fiscal year;

- receiving awards of restricted stock and/or restricted stock units relating to more than 10,000 shares of common stock (or 5,000 shares of common stock for a non-employee director) during any fiscal year;
- receiving an award of performance shares, and/or an award of performance units the value of which is based on the fair market value of a share of our common stock, for more than: (i) 10,000 shares of common stock (or 5,000 shares of common stock for a non-employee director) in respect of any fiscal year, or (ii) 20,000 shares of common stock (or 10,000 shares of common stock for a non-employee director) in respect of any period of two consecutive fiscal years, or (iii) 30,000 shares of common stock (or 15,000 shares of common stock for a non-employee director) in respect of any period of three consecutive fiscal years;
- receiving annual incentive award(s) in respect of any single fiscal year that could result in a cash payment of more than \$500,000;
- receiving long-term incentive award(s) and/or award(s) of performance units the value of which is not based on the fair market value of a share of our common stock in respect of any period of two fiscal years that could result in a payment of more than \$1,000,000, or in respect of any three fiscal years that could result in the payment of more than \$1,500,000; or
- receiving other common stock-based awards or dividend equivalent units relating to more than 10,000 shares of common stock (or 5,000 shares of common stock for a non-employee director) during any fiscal year.

*Stock Options.* Stock options may be granted to participants at such time as the Administrator will determine. The Administrator will also determine the number of shares subject to the stock options granted, whether a stock option is to be an incentive stock option or non-qualified stock option and the grant date for the stock option. The Administrator will fix the stock option exercise price, which may never be less than the fair market value of a share of our common stock on the date of grant. The Administrator will determine the expiration date of each stock option, except that the expiration date may not be later than 10 years after the date of grant. Stock options will be exercisable and vest at such times and be subject to such restrictions and conditions as the Administrator deems necessary or advisable. If a stock option intended to be an incentive stock option fails to meet the requirements thereof, the stock option will automatically be treated as a non-qualified stock option to the extent of such failure. Except to the extent otherwise provided in an award agreement, a participant will not have any rights as a holder of shares of common stock as a result of the grant of a stock option until the stock option is exercised.

*SARs.* A SAR is the right of a participant to receive cash in an amount, and/or common stock with a fair market value, equal to the appreciation of the fair market value of a share of our common stock during a specified period of time. The Administrator will determine all terms and conditions of each SAR, including: (1) whether the SAR is granted independent of a stock option or relates to a stock option; (2) the grant date; (3) the number of shares of our common stock to which the SAR relates; (4) the grant price, which may never be less than the fair market value of our common stock subject to the SAR as determined on the date of grant; (5) the terms and conditions of exercise or maturity, including vesting; (6) a term that must be no later than 10 years after the date of grant; and (7) whether the SAR will settle in cash, common stock or a combination of the two.

*Performance and Stock Awards.* The Administrator will have the authority to grant awards of shares of common stock, restricted stock, restricted stock units, performance shares or performance units. Restricted stock awards are shares of common stock subject to a risk of forfeiture and/or restrictions on transfer, which may lapse upon the achievement or partial achievement of performance goals and/or upon completing a period of service. Restricted stock units represent the right to receive cash and/or shares of common stock, the value of which is equal to the fair market value of one share of our common stock. Performance shares are the right to receive shares of common stock to the extent performance goals are achieved or other requirements are met. Performance units represent the right to receive cash and/or shares of common stock valued in relation to a unit that has a designated dollar value or the value of which is equal to the fair market value of one or more shares of common stock, to the extent performance goals are achieved or other requirements are met.

The Administrator will determine all terms and conditions of the performance and stock awards, including: (1) the number of shares of common stock and/or units to which such award relates; (2) whether performance goals must be achieved for the participant to realize any portion of the benefit under the award; (3) the length of the vesting and/or performance period; (4) with respect to performance units, whether to measure the value of each unit in relation to a designated dollar value or the fair market value of one or more shares of common stock; and (5) with respect to performance units and restricted stock units, whether the awards will be settled in cash, in shares of common stock, or in a combination of the two. However, the 2017 Plan requires a minimum vesting period on certain types of awards. Any period of vesting applicable to restricted stock or restricted stock units that are not subject to a performance goal and are granted to a participant other than a non-employee director may not lapse more quickly than ratably over three years from the date of grant.

*Performance Goals.* For purposes of the 2017 Plan, performance goals mean any goals the Administrator establishes that relate to quantitative performance metrics with respect to our operations.

*Incentive Awards.* If the 2017 Plan is approved, then the Administrator will have the authority to grant annual and long-term incentive awards. An incentive award is the right to receive a cash payment or another award, to the extent performance goals are achieved. The Administrator will determine all terms and conditions of an annual or long-term incentive award. The performance period for an annual incentive award must relate to a period of at least one year, and the performance period for a long-term incentive award must relate to a period of more than one year.

*Dividend Equivalent Units.* A dividend equivalent unit is the right to receive a payment (in cash or shares) equal to the cash dividends or other cash distributions paid with respect to a share of our common stock.

*Transferability.* Awards are not transferable other than by will or the laws of descent and distribution, unless the Administrator allows a participant: (i) to designate in writing a beneficiary to exercise the award or receive payment under the award after the participant's death, (ii) to transfer an award to the former spouse of the participant incident to a divorce, or (iii) provided that the participant receives no consideration in connection therewith, to otherwise transfer an award.

*Adjustments.* If we undertake certain recapitalization or reorganization transactions, such as a stock split or stock dividend, or any other event occurs that in the judgment of the Administrator requires an adjustment to prevent dilution or enlargement of the benefits intended to be made available under the 2017 Plan, then the Administrator will adjust any or all of: (A) the number and type of shares subject to the 2017 Plan; (B) the number and type of shares of common stock subject to outstanding awards; (C) the

grant, purchase or exercise price with respect to any award; and (D) to the extent such discretion does not cause an award intended to qualify as performance-based compensation under Section 162(m) of the Internal Revenue Code to lose its status as such, the performance goals of an award.

*Change of Control.* The 2017 Plan does not provide for automatic vesting of awards solely upon a change of control. However, in the event of a change of control the Administrator in its discretion may: (a) provide for the acceleration of any time period or the deemed achievement of any performance goals; (b) provide for the purchase or cancellation of the award; (c) adjust the terms of the award; (d) cause the award to be assumed, or new right substituted therefor, by another entity; or (e) make such other provision as the Administrator may consider equitable and in our best interests.

*Term of Plan.* Unless earlier terminated by the Board of Directors or the Administrator, the 2017 Plan will remain in effect until the tenth anniversary of its effective date.

*Termination and Amendment.* Board of Directors or the Administrator may amend, alter, suspend, discontinue or terminate the 2017 Plan at any time, subject to the following limitations:

- the Board of Directors must approve any amendment to the 2017 Plan if we determine such approval is required by prior action of the Board of Directors, applicable corporate law or any other applicable law;
- stockholders must approve any amendment to the 2017 Plan if we determine such approval is required by Section 16 of the Securities Exchange Act of 1934, the Internal Revenue Code, the listing requirements of any principal securities exchange or market on which the shares of our common stock are then traded or any other applicable law; and
- stockholders must approve any amendment to the 2017 Plan that would diminish the protections afforded by the prohibition on repricing and backdating of outstanding stock options or SARs.

Subject to the requirements of the 2017 Plan, the Administrator may modify, amend or cancel any award or waive any restrictions or conditions applicable to any award or the exercise of the award. However, except as otherwise provided in the 2017 Plan or the award agreement, any modification or amendment that materially diminishes the rights of the participant, or the cancellation of an award, will be effective only if agreed to by the participant.

*Recoupment and Disgorgement of Awards.* The 2017 Plan gives the Administrator authority to terminate or cause a participant to forfeit an award, and require the participant to disgorge to the Company any gains attributable to an award, if the participant engages in any action constituting cause for termination or a breach of any award agreement or any other agreement between the participant and us. In addition, any awards granted pursuant to the 2017 Plan, and any shares of common stock issued or cash paid pursuant to an award, will be subject to any recoupment or claw back policy adopted by law, regulation or listing standards applicable to us.

*Repricing and Backdating Prohibited.* Except for the adjustments provided for in the 2017 Plan, the Administrator may not: (1) amend the terms of outstanding stock options or SARs to reduce the exercise or grant price of such outstanding stock options or SARs; (2) cancel outstanding stock options or SARs in exchange for stock options or SARs with an exercise or grant price less than the exercise or grant price of the original stock options or SARs; or (3) cancel outstanding stock options or SARs with an exercise or

grant price above the current Fair Market Value of a share of our common stock in exchange for cash or other securities. The Administrator may not make a grant of a stock option or SAR with a grant date that is effective before the date the Administrator takes action to approve such award.

### ***Indemnification***

Our Articles of Incorporation provide for the indemnification of directors, officers, employees, and agents to the maximum extent permitted by Chapter 607, *Florida Statutes*. Insofar as indemnification for liabilities arising under the Securities Act of 1933, as amended, may be permitted to our directors, officers, and controlling persons under the foregoing provisions, or otherwise, we have been advised that in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act of 1933, as amended, and is, therefore, unenforceable.

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*The following discussion reviews our results of operations and assesses our financial condition as of June 30, 2021, June 30, 2020, December 31, 2020, and December 31, 2019. You should read the following discussion and analysis in conjunction with the financial data contained elsewhere in this Private Placement Memorandum. Our 2020 and 2019 audited financial statements and the related notes are included as Appendix A and our unaudited balance sheet and income statement for the six months ended June 30, 2021, and June 30, 2020, are included as Appendix B.*

### **Overview**

The following discussion and analysis presents our financial condition and results of operations on a consolidated basis. However, because we conduct all of our material business operations through the Bank, the discussion and analysis relates to activities primarily conducted at the subsidiary level. The following discussion should be read in conjunction with our consolidated financial statements.

As a one bank holding company, we generate most of our revenue from interest on loans. Our primary source of funding for our loans is deposits. Our largest expenses are interest on those deposits and salaries plus related employee benefits. We measure our performance through our net interest margin, return on average assets, and return on average common equity, while maintaining appropriate regulatory leverage and risk-based capital ratios.

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## Average Balance Sheet and Analysis of Net Interest Income

The following tables set forth, for the periods indicated, information regarding: (i) the total dollar amount of interest and dividend income of Marine from interest-earning assets and the resultant average yields; (ii) the total dollar amount of interest expense on interest-bearing liabilities and the resultant average cost; (iii) net interest income; (iv) interest-rate spread; (v) net interest margin; and (vi) ratio of average interest-earning assets to average interest-bearing liabilities (dollars in thousands).

|  | Period Ended June 30, |          |                    |                 |          |                    |
|--|-----------------------|----------|--------------------|-----------------|----------|--------------------|
|  | 2021                  |          |                    | 2020            |          |                    |
|  | Average Balance       | Interest | Average Yield/Rate | Average Balance | Interest | Average Yield/Rate |
| Interest-earning assets:   |                       |          |                    |                 |          |                    |
| Loans, excluding PPP loans   | 284,965               | 7,332    | 5.12%              | 224,471         | 5,876    | 5.18%              |
| PPP Loans  | 45,894                | 408      | 1.77%              | 51,624          | 354      | 1.36%              |
| Other  | 100,585               | 372      | 0.74%              | 32,659          | 347      | 2.10%              |
| Total interest-earning assets  | 431,444               | 8,112    | 3.74%              | 308,754         | 6,577    | 4.21%              |
| Non-interest-earning assets  | 30,610                |          |                    | 16,202          |          |                    |
| Total assets   | 462,054               |          |                    | 324,956         |          |                    |
| Interest-bearing liabilities:  |                       |          |                    |                 |          |                    |
| NOW, MMDA, and savings   | 246,392               | 90       | 0.07%              | 160,840         | 508      | 0.62%              |
| Time deposits  | 36,900                | 156      | 0.84%              | 37,817          | 285      | 1.49%              |
| Other borrowings   | -                     | -        | 0.00%              | 3,883           | 19       | 0.98%              |
| Total interest-bearing liabilities   | 283,291               | 246      | 0.17%              | 202,540         | 812      | 0.79%              |
| Demand deposits  | 143,232               |          |                    | 93,889          |          |                    |
| Non-interest-bearing liabilities   | 3,460                 |          |                    | 2,397           |          |                    |
| Stockholders' equity   | 32,070                |          |                    | 26,130          |          |                    |
| Total liabilities and stockholders' equity                                       | 462,054               |          |                    | 324,956         |          |                    |
| Net interest income  |                       | 7,866    |                    |                 | 5,765    |                    |
| Interest-rate spread   |                       |          | 3.57%              |                 |          | 3.42%              |
| Net interest margin  |                       |          | 3.63%              |                 |          | 3.69%              |
| Ratio of average interest-earning assets to average interest-bearing liabilities | 152.30%               |          |                    | 152.44%         |          |                    |

|  | Year Ended December 31, |          |                       |                    |          |                       |
|--|-------------------------|----------|-----------------------|--------------------|----------|-----------------------|
|  | 2020                    |          |                       | 2019               |          |                       |
|  | Average<br>Balance      | Interest | Average<br>Yield/Rate | Average<br>Balance | Interest | Average<br>Yield/Rate |
| Interest-earning assets:   |                         |          |                       |                    |          |                       |
| Loans, excluding PPP loans   | 247,053                 | 11,927   | 4.83%                 | 227,224            | 11,086   | 4.88%                 |
| PPP Loans  | 55,712                  | 1,311    | 2.35%                 | -                  | -        | -                     |
| Other  | 42,176                  | 603      | 1.43%                 | 36,116             | 853      | 2.36%                 |
| Total interest-earning assets  | 344,941                 | 13,841   | 4.01%                 | 263,340            | 11,939   | 4.53%                 |
| Non-interest-earning assets  | 17,856                  |          |                       | 12,698             |          |                       |
| Total assets   | 362,797                 |          |                       | 276,038            |          |                       |
| Interest-bearing liabilities:  |                         |          |                       |                    |          |                       |
| NOW, MMDA, and savings   | 182,756                 | 755      | 0.41%                 | 136,796            | 943      | 0.69%                 |
| Time deposits  | 40,879                  | 550      | 1.35%                 | 34,995             | 536      | 1.53%                 |
| Borrowed Funds   | 1,265                   | 19       | 1.52%                 | 4,832              | 101      | 2.10%                 |
| Total interest-bearing liabilities   | 224,900                 | 1,324    | 0.59%                 | 176,623            | 1,580    | 0.89%                 |
| Demand deposits  | 107,162                 |          |                       | 73,245             |          |                       |
| Non-interest-bearing liabilities   | 3,564                   |          |                       | 1,656              |          |                       |
| Stockholders' equity   | 27,171                  |          |                       | 24,514             |          |                       |
| Total liabilities and stockholders' equity                                       | 362,797                 |          |                       | 276,038            |          |                       |
| Net interest income  |                         | 12,517   |                       |                    | 10,359   |                       |
| Interest-rate spread   |                         |          | 3.42%                 |                    |          | 3.64%                 |
| Net interest margin  |                         |          | 3.63%                 |                    |          | 3.93%                 |
| Ratio of average interest-earning assets to average interest-bearing liabilities | 153.38%                 |          |                       | 149.10%            |          |                       |

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## Rate/Volume Analysis

The following tables set forth certain information regarding changes in interest income and interest expense for the periods indicated. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to: (i) changes in rate (change in rate multiplied by prior volume); (ii) changes in volume (changes in volume multiplied by prior rate); and (iii) changes in rate-volume (change in rate multiplied by change in volume) (dollars in thousands).

|   | <u>Rate</u>    | <u>Volume</u>  | <u>Total</u>      |
|---|----------------|----------------|-------------------|
| <b>Period Ended June 30, 2021 vs. 2020:</b>   |                |                |                   |
| Interest-earning assets:                      |                |                |                   |
| Loans, excluding PPP                          | \$(84)         | \$1,540        | \$1,456           |
| PPP loans                                     | 106            | (52)           | 54                |
| Other interest-earning assets                 | (226)          | 251            | 25                |
| Total interest-earning assets                 | <u>\$(204)</u> | <u>\$1,739</u> | <u>\$1,535</u>    |
| Interest-bearing liabilities:                 |                |                |                   |
| NOW, MMDA, and savings                        | \$(448)        | \$32           | \$(416)           |
| Time deposits                                 | (125)          | (5)            | (130)             |
| Other borrowings                              | (19)           | -              | (19)              |
| Total interest-bearing liabilities            | <u>\$(592)</u> | <u>\$27</u>    | <u>\$(565)</u>    |
| Net change in net interest income             | <u>\$388</u>   | <u>\$1,712</u> | <u>\$2,100</u>    |
|   | <u>Rate</u>    | <u>Volume</u>  | <u>Net Change</u> |
| <b>Year Ended December 30, 2020 vs. 2019:</b> |                |                |                   |
| Interest-earning assets:                      |                |                |                   |
| Loans, excluding PPP                          | \$(116)        | \$957          | \$841             |
| PPP loans                                     | -              | 1,311          | 1,311             |
| Other interest-earning assets                 | (337)          | 87             | (250)             |
| Total interest-earning assets                 | <u>\$(453)</u> | <u>\$2,355</u> | <u>\$1,902</u>    |
| Interest-bearing liabilities:                 |                |                |                   |
| NOW, MMDA, and savings                        | \$(377)        | \$190          | \$(187)           |
| Time deposits                                 | (65)           | 79             | 14                |
| Other borrowings                              | (28)           | (54)           | (82)              |
| Total interest-bearing liabilities            | <u>\$(470)</u> | <u>\$215</u>   | <u>\$(255)</u>    |
| Net change in net interest income             | <u>\$17</u>    | <u>\$2,140</u> | <u>\$2,157</u>    |

## Liquidity and Capital Resources

The Bank generally maintains a liquidity ratio of liquid assets to total assets, or Core Basic Surplus, of at least 5%. Core Basic Surplus consists of cash-on-hand and demand deposits due from correspondent banks, unpledged securities and the guaranteed portion of SBA loans that could easily be converted to cash. The Bank's liquidity ratio was 21.5% at June 30, 2021 and at December 31, 2020.

During the first half of 2021, the Bank did not pay a dividend to the Company. The Company's liquidity needs are to make interest payments on its debt obligations and payment of certain operating expenses. As of June 30, 2021, the Company held \$54 thousand in cash and cash equivalents.

A description of the Company's and the Bank's debt obligations is set forth below under the heading "Other Borrowings."

### Loan Portfolio Composition

Through the efforts of our management and the loan officers, we have been able to achieve loan growth by taking advantage of the economic recovery and consolidation in our markets. Senior management and our loan officers have continued to develop new sources of loan referrals, and have also enjoyed repeat business from loyal customers in the markets the Bank serves. The following table sets forth the composition of our loan portfolio, as of the dates indicated (dollars in thousands).

|  | As of June 30,          |                  | As of December 31,      |                  |                         |                  |
|--|-------------------------|------------------|-------------------------|------------------|-------------------------|------------------|
|  | 2021                    |                  | 2020                    |                  | 2019                    |                  |
|  | Amount                  | % of total loans | Amount                  | % of total loans | Amount                  | % of total loans |
| Residential real estate, held for sale             | \$2,052                 |                  | \$1,154                 |                  | \$219                   |                  |
| Loans held for investment, at amortized cost       |                         |                  |                         |                  |                         |                  |
| Residential real estate                            | 135,435                 | 41.07%           | 134,075                 | 40.66%           | 133,358                 | 55.17%           |
| Commercial real estate                             | 127,052                 | 38.53%           | 113,622                 | 34.46%           | 80,027                  | 33.11%           |
| Construction and land                              | 14,493                  | 4.40%            | 14,148                  | 4.29%            | 8,248                   | 3.41%            |
| Commercial and industrial                          | 18,443                  | 5.59%            | 19,373                  | 5.87%            | 19,508                  | 8.07%            |
| Commercial and industrial – PPP                    | 33,176                  | 10.06%           | 47,397                  | 14.37%           | -                       | -                |
| Consumer and other                                 | 1,186                   | 0.35%            | 1,145                   | 0.35%            | 582                     | 0.24%            |
| Total loans held for investment, at amortized cost | <u>329,785</u>          | <u>100.00%</u>   | <u>329,760</u>          | <u>100.00%</u>   | <u>241,723</u>          | <u>100.00%</u>   |
| Allowance for loan losses                          | (3,968)                 |                  | (3,637)                 |                  | (2,651)                 |                  |
| Deferred loan (fees) costs, net                    | <u>(1,161)</u>          |                  | <u>(890)</u>            |                  | <u>219</u>              |                  |
| Loans held for investment, at amortized cost, net  | <u><b>\$324,656</b></u> |                  | <u><b>\$325,233</b></u> |                  | <u><b>\$239,291</b></u> |                  |

In general, all construction loans are closed as construction-to-permanent loans. Third party take-out financing, where applicable, is typically in the form of permanent first mortgage conforming loans. The increase in residential lending is primarily due to enhancements in the Bank's personnel.

In the first half of 2021, we originated approximately \$94.2 million in new loans. By comparison, in the first half of 2020, we originated approximately \$61.7 million in new loans.

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## PPP Loans

As part of the Bank's strategic decision to become an active PPP lender, the Bank originated \$32.5 million in PPP loans in the first half of 2021 and \$61 million in 2020. The Bank did not utilize the Federal Reserve's PPPLF to match fund any PPP loans. The following tables reflect the Bank's PPP lending activity during the periods indicated (dollars in thousands).

|  | <b>At and for the Period<br/>Ended<br/>June 30, 2021</b> | <b>At and for the Year<br/>Ended<br/>December 31, 2020</b> |
|--|--|--|
| Number of loans originated                             | 458  | 788  |
| Amount of loans originated                             | \$32,534,090   | \$61,180,468   |
| Average loan size originated                           | \$71,035   | \$77,640   |
| Amount of PPP loans purchased                          | N/A  | N/A  |
| PPP loan balance at period end, net                    | \$33,176,144   | \$47,397,244   |
| PPP loan origination fees, net, recognized             | \$1,319  | \$903  |
| Deferred PPP loan origination fees, net, at period end | \$1,307  | \$1,070  |

## Credit Risk

The Bank's primary business is making commercial, consumer, and real estate loans. This activity inevitably has risks for potential loan losses, the magnitude of which depends on a variety of economic factors affecting borrowers, which are beyond our control. We have developed policies and procedures for evaluating the overall quality of our 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 about future events that it believes to be reasonable, but which may or may not prove accurate. Thus, there can be no assurance that charge-offs in future periods will not exceed the ALLL, or that additional increases in the credit loss allowance will not be required.

Allowance for Loan Losses. The Bank must maintain an adequate ALLL based on a comprehensive methodology that assesses the probable losses inherent in our loan portfolio. We maintain an ALLL based on a number of quantitative and qualitative factors, including levels and trends of past due and non-accrual loans, asset classifications, loan grades, change in volume and mix of loans, collateral value, historical loss experience, size and complexity of individual credits and economic conditions. Provisions for loan losses are provided on both a specific and general basis. Specific allowances are provided for impaired credits for which the expected/anticipated loss is measurable. General valuation allowances are determined by a portfolio segmentation based on collateral type with a further evaluation of various quantitative and qualitative factors noted above.

We periodically review the assumptions and formulae by which additions are made to the specific and general valuation allowances for losses in an effort to refine such allowances in light of the current status of the factors described above. The methodology is presented to and approved by the Bank's Board of Directors. Future additional provisions to the loan loss reserves may be made as appropriate as new loans are identified or as existing loans may deteriorate.

Each adversely classified loan is evaluated for impairment. This occurs at the time the loan is classified and on a regular basis thereafter (at least annually). The evaluation is documented in a status report for a specific loan or relationship. Specific allocation of reserves on impaired loans considers collateral value, the borrower's financial condition, and industry and current economic trends. We review collateral value, cash flow, and tertiary support on each impaired credit. Any deficiency outlined by a real estate collateral evaluation liquidation analysis, or cash flow shortfall, is accounted for by a specific allocation for the loan.

For performing loans which are evaluated collectively, we perform a portfolio segmentation based on collateral type and additionally, for SBA loans, by loan origination year. The loss factors for each segment are calculated using actual loan loss history for each segment of loans over the preceding three years with the most recent year carrying the most weight, depending on the segment and vintage year of the loans in the segment of SBA loans. The Bank's actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: levels of, and trends, in delinquencies and impaired loans; levels of, and trends, in charge-offs and recoveries; migration of loans to the classification of special mention, substandard, or doubtful; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentration.

While management believes our ALLL is adequate as of June 30, 2021, future adjustments to our allowance may be necessary if economic conditions differ substantially from the assumptions used in making the determination.

*Nonperforming Assets.* At June 30, 2021, we had \$51 thousand in nonperforming assets, excluding government guaranteed loan balances, and our ALLL represented 1.20% of total loans. At June 30, 2020, we had no nonperforming assets, and our ALLL represented 1.04% of total loans. Total loans at June 30, 2021 and 2020, include PPP and other government guaranteed SBA loans which have no reserves allocated to them. ALLL as a percentage of loans, not including residential loans held for sale and SBA guaranteed loan balances, was 1.34% at June 30, 2021, compared to 1.29% at June 30, 2020.

At December 31, 2020, we had \$92 thousand in nonperforming assets, excluding government guaranteed loan balances, and our ALLL represented 1.10% of total loans. At December 31, 2019, we had no nonperforming assets, and our ALLL represented 1.09% of total loans. Total loans at December 31, 2020 and December 31, 2019, include PPP and other guaranteed SBA loans which have no reserves allocated to them. ALLL as a percentage of loans, not including residential loans held for sale and SBA guaranteed loan balances, was 1.29% at December 31, 2020, compared to 1.10% at December 31, 2019.

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The following tables sets forth certain information on nonaccrual loans and foreclosed assets, the ratio of such loans and foreclosed assets to total assets as of the dates indicated, and certain other related information (dollars in thousands).

|   | <u>At June 30,</u><br><u>2021</u> | <u>At December 31,</u><br><u>2020</u> | <u>At December 31,</u><br><u>2019</u> |
|---|-----------------------------------|---------------------------------------|---------------------------------------|
| Nonperforming loans (government guaranteed balances)                            | \$17                              | \$31                                  | -                                     |
| Nonperforming loans (unguaranteed balances)                                     | 51                                | 92                                    | -                                     |
| Total nonperforming loans   | 68                                | 123                                   | -                                     |
| Other real estate owned   | -                                 | -                                     | -                                     |
| Total nonperforming assets  | <u>\$68</u>                       | <u>\$123</u>                          | <u>-</u>                              |
| Nonperforming loans to total loans  | 0.02%                             | 0.04%                                 | -                                     |
| Nonperforming loans to total loans (excluding government guaranteed balances)   | 0.01%                             | 0.01%                                 | -                                     |
| Nonperforming assets to total assets  | 0.01%                             | 0.03%                                 | -                                     |
| Nonperforming assets to total assets (excluding government guaranteed balances) | 0.00%                             | 0.01%                                 | -                                     |
| Total loans at end of period, net of discount and deferred costs                | \$329,785                         | \$329,760                             | \$241,723                             |
| Total assets  | \$488,289                         | \$425,319                             | \$286,129                             |
| ALLL to nonperforming loans   | 5,835.29%                         | 2,956.91%                             | N/A                                   |

The following table sets forth information with respect to activity in the ALLL for the periods shown (dollars in thousands):

|  | <u>For the Period Ended</u><br><u>June 30,</u> |                | <u>For the Period Ended</u><br><u>December 31,</u> |                |
|--|--|----------------|--|----------------|
|  | <u>2021</u>                                    | <u>2020</u>    | <u>2020</u>  | <u>2019</u>    |
| Allowance at beginning of period             | \$3,637  | \$2,651        | \$2,651  | \$2,367        |
| Charge-offs                                  |  |                |  |                |
| Commercial and industrial                    | -  | -              | 19   | 1              |
| Total charge-offs                            | -  | -              | \$19   | \$1            |
| Recoveries                                   |  |                |  |                |
| Commercial real estate                       | -  | -              | (4)  | -              |
| Commercial and industrial                    | (42)   | (3)            | (2)  | -              |
| Consumer and other                           | (9)  | (9)            | (19)   | (29)           |
| Total recoveries                             | <u>\$(51)</u>                                  | <u>\$(12)</u>  | <u>\$(25)</u>                                      | <u>\$(29)</u>  |
| Net charge-offs                              | <u>\$(51)</u>                                  | <u>\$(12)</u>  | <u>\$(6)</u>                                       | <u>\$(28)</u>  |
| Provision for loan losses                    | <u>280</u>                                     | <u>685</u>     | <u>980</u>   | <u>256</u>     |
| Allowance at end of period                   | <u>\$3,968</u>                                 | <u>\$3,348</u> | <u>\$3,637</u>                                     | <u>\$2,651</u> |
| Net charge-offs to average loans outstanding | -0.02%   | N/A            | 0.00%  | -0.01%         |
| Allowance as a percent of total loans        | 1.20%  | 1.04%          | 1.10%  | 1.09%          |
| Allowance to nonperforming loans             | 5835.29%                                       | N/A            | 2956.91%   | N/A            |

We recorded a provision for loan losses of \$280,000 during the first half of 2021, compared to \$685,000 for the same period in 2020. For the year ended December 31, 2020, the provision for loan losses was \$980,000, compared to \$256,000 for the same period in 2019. During 2020 and 2021, we increased the qualitative factors in the allowance for loan loss calculation for the economic uncertainties caused by the COVID-19 pandemic resulting in the increased provision expense in those periods.

Nonperforming assets to total assets, excluding government guaranteed loan balances, were .01% as of June 30, 2021, as compared to 0.0% as of June 30, 2020. That percentage was .01% as of December 31, 2020, an increase from 0.0% as of December 31, 2019. As of June 30, 2021, a total of 50 loans with principal balances of \$26.1 million were under payment deferrals.

## Securities

The securities portfolio is the second largest component of our interest earning assets. The portfolio serves the following purposes: (i) to optimize the Bank's income consistent with the investment portfolio's liquidity and risk objectives; (ii) to balance market and credit risks of other assets and the Bank's liability structure; (iii) to profitably deploy funds which are not needed to fulfill loan demand, deposit redemptions or other liquidity purposes; (iv) provide collateral which the Bank is required to pledge against public funds.

We classify our securities as either available-for-sale or held-to-maturity at the time of purchase. Accounting guidance requires available-for-sale securities to be marked to fair value with an offset to accumulated other comprehensive income (loss), a component of shareholders' equity. Monthly adjustments are made to reflect changes in the fair value of our available-for-sale securities.

As of June 30, 2021 \$47.3 million of our investment portfolio was classified as available-for-sale and \$2.0 million as held-to-maturity. All available-for-sale securities are carried at fair value. Securities available-for-sale consist primarily of U.S. government-sponsored agency securities, home mortgage-backed securities and state and municipal bonds. All held-to-maturity securities are carried at book value and consist of U.S. government sponsored mortgage-backed securities.

The following table sets forth the carrying amount of the investment portfolio as of the dates indicated (\$ in thousands):

|                                     | <u>June 30,</u><br><u>2021</u> | <u>December 31,</u><br><u>2020</u> | <u>2019</u>   |
|-------------------------------------|--------------------------------|------------------------------------|---------------|
| <i>Available- for- Sale</i>         |                                |                                    |               |
| U.S. Government agency securities   | 7,147                          | -                                  | 3,684         |
| Collateralized Mortgage Obligations | 1,543                          | 1,899                              | 3,428         |
| Mortgage-backed Securities          | 14,682                         | 11,889                             | 16,133        |
| SBA Bond Pool                       | 82                             | 153                                | 300           |
| Municipals                          | 23,863                         | -                                  | -             |
|                                     | <u>47,317</u>                  | <u>13,941</u>                      | <u>23,545</u> |
| <i>Held-to-Maturity-</i>            |                                |                                    |               |
| Mortgage-backed Securities          | 1,999                          | -                                  | -             |
|                                     | <u>1,999</u>                   | <u>-</u>                           | <u>-</u>      |

The carrying amount and weighted average yields for investments as of June 30, 2021, are shown below (\$ in thousands):

|                                 | <u>U.S.</u><br><u>Government</u><br><u>Agency</u> | <u>Collateralized</u><br><u>Mortgage</u><br><u>Obligations</u> | <u>SBA</u><br><u>Bond</u><br><u>Pool</u> | <u>Mortgage</u><br><u>Backed</u><br><u>Securities</u> | <u>Municipals</u> | <u>Weighted-</u><br><u>Average</u><br><u>Yields*</u> |
|---------------------------------|---|--|--|---|-------------------|--|
| Due in less than one year       | \$-   | \$-  | \$82                                     | \$-   | \$-               | 2.57%  |
| Due in one to five years        | \$-   | \$-  | \$-                                      | \$2,396   | \$-               | 3.07%  |
| Due in over five thru ten years | \$7,147   | \$-  | \$-                                      | \$10,606  | \$1,820           | 1.37%  |
| Due in over ten years           | <u>\$-</u>  | <u>\$1,543</u>   | <u>\$-</u>                               | <u>\$3,680</u>  | <u>\$22,043</u>   | <u>1.71%</u>   |
| Total                           | <u>\$7,147</u>                                    | <u>\$1,543</u>   | <u>\$82</u>                              | <u>\$16,681</u>                                       | <u>\$23,863</u>   | <u>1.66%</u>   |

\*All securities are listed at actual yield and not on a tax equivalent basis.

## Regulatory Capital Requirements

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

In 2020, the Federal banking regulatory agencies adopted a rule to simplify the methodology for measuring capital adequacy for smaller, uncomplicated banks. This community bank leverage ratio ("CBLR") is calculated as the ratio of tangible equity capital divided by average total consolidated assets. CBLR tangible equity is defined as total equity capital, prior to including minority interests, and excluding accumulated other comprehensive income, deferred tax assets arising from net operating loss and tax credit carryforwards, goodwill, and other intangible assets (other than mortgage servicing assets). Under the proposal, a qualifying organization may elect to use the CBLR framework if its CBLR is greater than 9%. The Bank has elected not to use the CBLR framework.

As of the dates indicated, the Bank met all capital adequacy requirements to which it is subject. The Bank's actual capital amounts and percentages are as shown in the table below (dollars in thousands):

|  | <u>Actual</u> |                | <u>Minimum<sup>(1)</sup></u> |                | <u>Well-Capitalized<sup>(2)</sup></u> |                |
|--|---------------|----------------|------------------------------|----------------|---------------------------------------|----------------|
|  | <u>Amount</u> | <u>Percent</u> | <u>Amount</u>                | <u>Percent</u> | <u>Amount</u>                         | <u>Percent</u> |
| <b><u>As of June 30, 2021:</u></b>                     |               |                |                              |                |                                       |                |
| Total Capital (to risk-weighted assets)                | 36,512        | 13.75%         | 21,235                       | 8.00%          | 26,544                                | 10.00%         |
| Tier 1 Capital (to risk-weighted assets)               | 33,183        | 12.50%         | 15,926                       | 6.00%          | 21,235                                | 8.00%          |
| Common Equity Tier 1 Capital (to risk-weighted assets) | 33,183        | 12.50%         | 11,945                       | 4.50%          | 17,253                                | 6.50%          |
| Tier 1 Capital (to total assets)                       | 33,183        | 6.94%          | 19,127                       | 4.00%          | 23,909                                | 5.00%          |
| <b><u>As of December 31, 2020:</u></b>                 |               |                |                              |                |                                       |                |
| Total Capital (to risk-weighted assets)                | 33,497        | 13.60%         | 19,705                       | 8.00%          | 24,631                                | 10.00%         |
| Tier 1 Capital (to risk-weighted assets)               | 30,410        | 12.35%         | 14,778                       | 6.00%          | 19,705                                | 8.00%          |
| Common Equity Tier 1 Capital (to risk-weighted assets) | 30,410        | 12.35%         | 11,084                       | 4.50%          | 16,010                                | 6.50%          |
| Tier 1 Capital (to total assets)                       | 30,410        | 7.34%          | 16,570                       | 4.00%          | 20,713                                | 5.00%          |
| <b><u>As of December 31, 2019:</u></b>                 |               |                |                              |                |                                       |                |
| Total Capital (to risk-weighted assets)                | 27,698        | 13.96%         | 15,873                       | 8.00%          | 19,842                                | 10.00%         |
| Tier 1 Capital (to risk-weighted assets)               | 25,216        | 12.71%         | 11,905                       | 6.00%          | 15,873                                | 8.00%          |
| Common Equity Tier 1 Capital (to risk-weighted assets) | 25,216        | 12.71%         | 8,929                        | 4.50%          | 12,897                                | 6.50%          |
| Tier 1 Capital (to total assets)                       | 25,216        | 8.90%          | 11,328                       | 4.00%          | 14,160                                | 5.00%          |

(1) To be considered "adequately capitalized" under the FDIC's Prompt Corrective Action regulations.

(2) To be considered "well-capitalized" under the FDIC's Prompt Corrective Action regulations.

## Market Risk

Market risk is the risk of loss from adverse changes in market prices and rates. Our market risk arises primarily from interest-rate risk inherent in loan and deposit taking activities. To that end, we actively monitor and manage our interest-rate risk exposure. The measurement of market risk associated with financial instruments is meaningful only when all related and offsetting on and off-balance-sheet transactions are aggregated, and the resulting net positions are identified. Disclosures about the fair value of financial instruments, which reflect changes in market prices and rates, should also be considered.

Our objective in managing interest-rate risk is to minimize the adverse impact of changes in interest rates on our net interest income and capital, while adjusting our asset-liability structure to obtain the maximum yield-cost spread on that structure. We rely primarily on our asset-liability structure to control interest-rate risk. However, a sudden or substantial increase in interest rates may adversely impact our earnings, to the extent that the interest rates borne by assets and liabilities do not change at the same rate, to the same extent, or on the same basis.

### **Asset/Liability Structure**

As part of our asset and liability management, we have emphasized establishing and implementing internal asset-liability decision processes, as well as communications and control procedures to manage our earnings. These processes and procedures provide us with better capital planning, asset mix and volume controls, loan-pricing guidelines, and deposit interest-rate guidelines, which should result in tighter controls and less exposure to interest-rate risk.

The matching of assets and liabilities may be analyzed by examining the extent to which such assets and liabilities are “interest rate sensitive” and by monitoring our interest rate sensitivity “gap.” An asset or liability is said to be interest rate sensitive within a specific time period if it will mature or reprice within that time period. The interest-rate sensitivity gap is defined as the difference between interest-earning assets and interest-bearing liabilities maturing or repricing within a given time period. The gap ratio is computed as rate sensitive assets/rate sensitive liabilities. A gap ratio of one to one represents perfect matching. A gap is considered positive when the amount of interest-rate sensitive assets exceeds interest-rate sensitive liabilities. A gap is considered negative when the amount of interest-rate sensitive liabilities exceeds interest-rate sensitive assets. During a period of rising interest rates, a negative gap would adversely affect net interest income, while a positive gap would result in an increase in net interest income. During a period of falling interest rates, a negative gap would result in an increase in net interest income, while a positive gap would adversely affect net interest income.

In order to minimize the potential for adverse effects of increases in interest rates on the results of our operations, we monitor asset and liability management policies to better match the maturities and repricing terms of our interest-earning assets and interest-bearing liabilities. Such policies have consisted primarily of: (i) emphasizing the origination of adjustable-rate loans; (ii) maintaining a stable core deposit base; and (iii) maintaining a significant portion of liquid assets (cash and short-term securities).

### **Deposits and Other Sources of Funds**

*General.* In addition to deposits, sources of funds available for lending and for other purposes include loan repayments and proceeds from the sales of loans. Loan repayments are a relatively stable source of funds, while deposit inflows and outflows are influenced significantly by general interest rates and money-market conditions. Borrowings, as well as available lines of credit, may be used on a short-term basis to compensate for reductions in other sources, such as deposits at less than projected levels.

*Deposits.* Deposits are attracted principally from within our primary service area of Indian River and Brevard Counties, Florida. We offer a wide selection of deposit instruments including demand deposit accounts, NOW accounts, money-market accounts, regular savings accounts, certificate of deposit accounts; and retirement savings plan (such as IRA accounts).

Certificate of deposit rates are set to encourage longer maturities as cost and market conditions will allow. Deposit account terms vary, with the primary differences being the minimum balance required, the time period the funds must remain on deposit and the interest rate. We emphasize commercial banking relationships in an effort to increase demand deposits as a percentage of total

deposits. Deposit interest rates are set weekly by management, based on a review of loan demand, deposit flows for the previous week and a survey of rates among competitors and other financial institutions in Florida.

The amounts of each of the following categories of deposits, for the periods indicated, are as follows (dollars in thousands):

| Deposit Types                         | As of June 30,<br>2021 |                  | As of December 31,<br>2020 |                  | As of December 31,<br>2019 |                  |
|---------------------------------------|------------------------|------------------|----------------------------|------------------|----------------------------|------------------|
|                                       | Amount                 | % of<br>Deposits | Amount                     | % of<br>Deposits | Amount                     | % of<br>Deposits |
| Noninterest-bearing deposits          | 156,131                | 34.58%           | 120,723                    | 30.84%           | 77,894                     | 30.39%           |
| Interest bearing transaction accounts | 54,267                 | 11.98%           | 47,851                     | 12.23%           | 30,835                     | 12.03%           |
| Savings and Money-market accounts     | 207,717                | 45.86%           | 181,722                    | 46.43%           | 112,629                    | 43.94%           |
| Subtotal                              | 419,592                | 92.61%           | 350,296                    | 89.50%           | 221,358                    | 86.36%           |
| Total time deposits                   | 33,346                 | 7.36%            | 41,116                     | 10.50%           | 34,963                     | 13.64%           |
| Total deposits                        | 451,460                | 100.00%          | 391,412                    | 100.00%          | 256,321                    | 100.00%          |

The following table sets forth the maturities of our time deposits by category for the periods indicated (dollars in thousands).

|                                    | As of June 30, | As of December 31, |
|------------------------------------|----------------|--------------------|
|                                    | 2021           | 2020               |
| Three months or less               | 10,552         | \$6,785            |
| Over three months through one year | 16,174         | 26,924             |
| Over one year through three years  | 5,945          | 6,770              |
| Over three years                   | 675            | 637                |
| Total                              | \$33,346       | \$41,116           |

## Other Borrowings

**Note Payable.** During 2020, the Company entered into a line of credit agreement with another bank. The Company may borrow up to \$2 million at a variable interest rate equal to the Wall Street Journal U.S. Prime Rate. The interest rate at June 30, 2021 was 3.25%. The line of credit matures during September 2025 and is secured by the Bank's common stock. As of June 30, 2021 the outstanding balance of the line of credit was \$2 million. The line of credit agreement is subject to certain covenants and at June 30, 2021, the Company was in compliance with the covenants.

**Subordinated Debt.** The Company issued \$3,000,000 principal amount of subordinated debt (the "Subordinated Debt") due June 6, 2028. The Subordinated Debt bears a fixed annual interest rate of 6.5% until June 6, 2023 at which time the rate will become an annual floating rate equal to three-month LIBOR, determined quarterly, plus 375 basis points. Interest is payable in arrears on March 31, June 30, September 30 and December 31 of each year through the maturity date, unless redeemed. The Company may, at its option, beginning on June 6, 2023, redeem the Subordinated Debt, in whole or in part, at 100% of the principal amount of the Subordinated Debt plus any accrued and unpaid interest. The Subordinated Debt was structured to comply with certain regulatory requirements which provide for qualification as Tier 2 Capital. The Subordinated Debt as of June 30, 2021 totaled \$2.989 million and was in compliance with the debt covenants.

**FHLB.** Marine maintains a blanket floating lien with the FHLB on qualifying loans secured by home equity lines of credit and one-to-four family residential real estate. At June 30, 2021, the Bank has credit availability of \$117.9 million. There were no FHLB advances outstanding at June 30, 2021.

**Other Available Credit.** At June 30, 2021, the Bank had unsecured lines of credit amounting to \$9.8 million with two correspondent banks to purchase federal funds, and a \$5 million reverse repurchase line of credit with one correspondent bank. The Bank also has a line of credit with the Federal Reserve Bank under which the Bank may draw up to \$3.8 million. The line is secured by \$7.4 million in loans. This line is used for liquidity needs and must be repaid within thirty days. Disbursements on the lines of credit are subject to the approval of the correspondent banks. At June 30, 2021 the Bank did not have any borrowings outstanding on these lines.

### Off-Balance Sheet Arrangements

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business. These financial instruments primarily include unfunded loan commitments, undisbursed loans in process, unfunded lines of credit, and standby letters of credit. The Bank uses these financial instruments to meet the financing needs of its customers. These financial instruments involve, to varying degrees, elements of credit, interest rate, and liquidity risk. These do not represent unusual risks and management does not anticipate any accounting losses that would have a material effect on the Bank.

A summary of the amounts of the Bank's financial instruments, with off-balance sheet risk for the periods indicated, are as follows (in thousands):

|                           | <u>As of June 30,</u> | <u>As of December 31,</u> |
|---------------------------|-----------------------|---------------------------|
|                           | <u>2021</u>           | <u>2020</u>               |
| Unfunded loan commitments | \$8,339               | \$6,680                   |
| Unfunded lines of credit  | \$56,452              | \$44,677                  |
| Standby letters of credit | \$266                 | \$399                     |
| Totals                    | <u>\$65,057</u>       | <u>\$51,756</u>           |

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Management evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained if 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 lending commitments that we issue to guarantee the performance of a customer to a third party and to support private borrowing arrangements. Essentially, all letters-of-credit issued have expiration dates within one year. The credit risk involved in issuing letters-of-credit is essentially the same as that involved in extending credit. The Bank may hold collateral supporting those commitments. Newly issued or modified guarantees that are not derivative contracts have been recorded on the Bank's balance sheet at their fair value at inception.

In general, loan commitments and letters of credit are made on the same terms, including with respect to collateral, as outstanding loans. Each customer's creditworthiness and the collateral required are evaluated on a case-by-case basis.

## **Results of Operations, Generally**

Marine's operating results depend on our net interest income, which is the difference between interest income on interest-earning assets and interest expense on interest-bearing liabilities, consisting primarily of deposits. Net interest income is determined by the difference between yields earned on interest-earning assets and rates paid on interest-bearing liabilities ("interest-rate spread") and the relative amounts of interest-earning assets and interest-bearing liabilities. Our interest-rate spread is affected by regulatory, economic, and competitive factors which influence interest rates, loan demand, and deposit flows. In addition, our operating results are also affected by the level of nonperforming loans and foreclosed real estate, as well as the level of our non-interest income, and our non-interest expenses, such as salaries and employee benefits, occupancy and equipment costs, and income taxes. We are also dependent on non-interest income, which is derived primarily from residential loan fee income and net gain on the sales of the guaranteed portion of SBA loans.

### **Comparison of Results of Operations for the Six Month Periods Ended June 30, 2021 and 2020.**

**Net Income.** Net income for the six months ended June 30, 2021, was \$2.567 million, an increase of \$1.327 million or 107% over net income for the six months ended June 30, 2020 of \$1.241 million. The increase in net income in between those periods was primarily due to an increase in net interest income and non-interest income, and a decrease in provision for loan losses, offset by an increase in non-interest expenses and income taxes.

**Net Interest Income.** Net interest income was \$7.733 million for the six months ended June 30, 2021, an increase of \$2.068 million or 37% from the same period in 2020. The increase was primarily due to net PPP origination fee income of \$1.319 million and PPP interest income of \$408 thousand recognized in the first half of 2021 and \$533 thousand in decreased interest expense, offset by declines in interest income on loans and interest-bearing deposits in other banks. The net interest margin for the six months ended June 30, 2021 was 3.63%, down from 3.69% realized in the same period in 2020. The primary reason for the decline is the significant amount of cash being held on the balance sheet at interest rates of 0.10% to 0.25%.

**Provision for Loan Losses.** The provision for loan losses is charged to earnings to increase the total allowance to a level deemed appropriate by management and is based upon the volume and type of lending we conduct, industry standards, the amount of nonperforming loans, general economic conditions, particularly as they relate to our market area, and other factors which may affect our ability to collect on the loans in our portfolio. We recorded a provision for loan losses for the six months ended June 30, 2021, and June 30, 2020 of \$280,000 and \$685,000, respectively. Marine had no charge off activity for both the six months ended June 30, 2021 and June 30, 2020. Marine did recognize recoveries of \$51,000 and \$12,000 for the six months ended June 30, 2021 and 2020 respectively. Our ALLL was \$3.968 million at June 30, 2021, compared to \$3.348 million at June 30, 2020.

**Noninterest Income.** Noninterest income for the six months ended June 30, 2021 was \$1.332 million, an increase of \$439,000 or 49% from \$893,000 during the first half of 2020. The increase was primarily due to a \$302,000 increase in secondary market loan sales and \$118,000 in income from the purchase of \$8.0 million in Bank Owned Life Insurance ("BOLI").

**Noninterest Expense.** Noninterest expense was \$5.429 million for the six months ended June 30, 2021, an increase of \$1.195 million or 28% from \$4.234 million during 2020. The increase was primarily due to increases in salaries and benefits resulting from the addition of 17 FTE employees, and in order to process PPP loan forgiveness applications, temporary workers were utilized to handle the process. Additionally; increases in data processing and network expense due to implementing new products and services and increases in FDIC insurance and regulatory assessments resulting from the deposit and balance sheet growth.

**Income Taxes.** Income tax expense was \$788,000 for the first half of 2021, an increase of \$390,000 or 98% from \$398,000 during the same period in 2020. The increase was due to the increase of \$1.7 million in pre-tax earnings.

### **Comparison of Results of Operations for the Years Ended December 31, 2020 and 2021.**

**Net Income.** Net income for the year ended December 31, 2020, was \$2.967 million, an increase of \$1.353 million or 84% over net income for the year ended December 31, 2019 of \$1.614 million. The increase in net income in between those periods was primarily due to an increase in net interest income and non-interest income offset by an increase in provision for loan losses and non-interest expense.

**Net Interest Income.** Net interest income was \$12.305 million for the year ended December 31, 2020, an increase of \$2.141 million or 21% from 2019. The increase was primarily due to net PPP origination fee income of \$903,000 and PPP interest income of \$407,000 recognized in 2020 and \$841,000 in interest on all other loans resulting from an increase in volume, and a \$241,000 decrease in interest expense on deposits, offset by declines of \$250,000 in interest income on the investment portfolio and interest-bearing deposits in other banks. The net interest margin for the year ended December 31, 2020, was 3.63%, down from 3.93% realized in 2019. The primary reason for the decline is the significant amount of PPP loans originated during 2020 at a rate of 1.00%.

**Provision for Loan Losses.** The provision for loan losses is charged to operations to increase the total allowance to a level deemed appropriate by management and is based upon the volume and type of lending we conduct, industry standards, the amount of nonperforming loans, general economic conditions, particularly as they relate to our market area, and other factors which may affect our ability to collect on the loans in our portfolio. We recorded a provision for loan losses for the year ended December 31, 2020, and December 31, 2019, of \$980,000 and \$256,000, respectively. In the year ended December 31, 2020, we charged off \$19,000 in loans, as compared to \$1,000 in 2019. Our ALLL was \$3.637 million at December 31, 2020, compared to \$2.651 million at December 31, 2019.

**Noninterest Income.** Noninterest income for the year ended December 31, 2020 was \$1.960 million, an increase of \$806,000 or 70% from \$1.154 million during 2019. The increase was primarily due to SWAP fees and gains on loans sold to the secondary market.

**Noninterest Expense.** Noninterest expense was \$9.372 million for the year ended December 31, 2020, an increase of \$470,000 or 5% from \$8.902 million during 2019. The increase was primarily due to increases in salaries and benefits and data processing fees. In addition, in order to process the origination of the 778 PPP loans, as well as processing the forgiveness applications for the same PPP loans originated in 2020, significant overtime was incurred and temporary workers were utilized.

**Income Taxes.** Income tax expense was \$946,000 for 2020, an increase of \$400,000 or 73% from \$546,000 during 2019. The increase was primarily due to the \$1.8 million increase in pre-tax earnings.

## SUPERVISION AND REGULATION

### *General*

As a bank holding company, we are subject to an extensive body of state and federal banking laws and regulations that impose specific requirements and restrictions on virtually all aspects of our operations. We are also affected by government monetary policy and by regulatory measures affecting the banking industry in general.

The following is a brief summary of some of the statutes, rules, and regulations that affect our operations. This summary is qualified in its entirety by reference to the particular statutory and regulatory provision referred to below, and is not intended to be an exhaustive description of the statutes or regulations applicable to our proposed business. Any change in applicable laws or regulations may have a material adverse effect on our business.

### *Marine Bancorp of Florida, Inc.*

Marine Bancorp of Florida, Inc. is a bank holding company within the meaning of the Bank Holding Company Act of 1956, as amended (“BHCA”). As such, we are required to file annual reports and other information with the Federal Reserve regarding our business operations and those of our subsidiary, Marine Bank & Trust Company. We are also subject to the supervision of, and to periodic inspections by, the Federal Reserve.

The BHCA generally requires every bank holding company to obtain the prior approval of the Federal Reserve before:

- acquiring all or substantially all of the assets of a bank;
- acquiring direct or indirect ownership or control of 5% or more of the voting shares of any bank or bank holding company; or
- merging or consolidating with another bank holding company.

The BHCA and the Change in Bank Control Act, together with regulations promulgated by the Federal Reserve, require that, depending on the particular circumstances, either the Federal Reserve’s approval must be obtained or notice must be furnished to the Federal Reserve and not disapproved prior to any person or company, not a bank holding company, acquiring control of a bank holding company, subject to certain exemptions. Control is conclusively presumed to exist when an individual or company acquires 25% or more of any class of voting securities of a bank holding company. Control is rebuttably presumed to exist if a person acquires 10% or more, but less than 25%, of any class of voting securities and either the bank holding company has registered securities under Section 12 of the Securities Exchange Act of 1934 or no other person owns a greater percentage of that class of voting securities immediately after the transaction.

Additionally, the BHCA provides that the Federal Reserve may not approve any of these transactions if it would result in or tend to create a monopoly or substantially lessen competition or otherwise function as a restraint of trade, unless the anti-competitive effects of the proposed transaction are clearly outweighed by the public interest in meeting the convenience and needs of the community to be served. The Federal Reserve is also required to consider the financial and managerial resources and future prospects of the bank holding companies and banks concerned and the convenience and needs of the community to be served. The Federal Reserve’s consideration of financial resources generally focuses on capital adequacy, which is discussed below. As a result of the USA PATRIOT Act, which is discussed below, the Federal Reserve is also required to consider the record of a bank holding company and its

subsidiary bank(s) in combatting money laundering activities in its evaluation of bank holding company merger or acquisition transactions.

Except as authorized by the BHCA and Federal Reserve regulations or order, a bank holding company is generally prohibited from engaging in, or acquiring direct or indirect control of 5% or more of the voting shares of any company engaged in any business other than the business of banking or managing and controlling banks. The primary exception allows the ownership of shares by a bank holding company in any company the activities of which the Federal Reserve has determined to be so closely related to banking or to managing or controlling banks that ownership of shares of that company is appropriate. Activities the Federal Reserve has determined by regulation to be proper incidents to the business of banking, and thus permissible for bank holding companies, include:

- making or servicing loans and certain types of leases;
- engaging in certain insurance and discount brokerage activities;
- performing certain data processing services;
- acting in certain circumstances as a fiduciary or investment or financial advisor;
- providing management consulting services;
- owning savings associations; and
- making investments in corporations or projects designed primarily to promote community welfare.

In accordance with Federal Reserve policy, a bank holding company is expected to act as a source of financial strength to its subsidiary banks. In adhering to the Federal Reserve's policy, we may be required to provide financial support to our bank at a time when, absent such Federal Reserve policy, it might not be deemed advisable to provide such assistance. Under the BHCA, the Federal Reserve may also require a bank holding company to terminate any activity or relinquish control of a nonbank subsidiary (other than a nonbank subsidiary of a bank) upon the Federal Reserve's determination that the activity or control constitutes a serious risk to the financial soundness or stability of any subsidiary depository institution of the bank holding company. Further, federal bank regulatory authorities have additional discretion to require a bank holding company to divest itself of any bank or nonbank subsidiary if the agency determines that divestiture may aid the depository institution's financial condition. The Dodd-Frank Act codified the Federal Reserve's policy on serving as a source of financial strength. Such support may be required at times when, absent this Federal Reserve policy, a holding company may not be inclined to provide it. A bank holding company, in certain circumstances, could be required to guarantee the capital plan of an undercapitalized banking subsidiary.

The Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA") expanded the Federal Reserve's authority to prohibit activities of bank holding companies and their nonbanking subsidiaries which represent unsafe and unsound banking practices or which constitute violations of laws or regulations. FIRREA increased the amount of civil money penalties which the Federal Reserve can assess for activities conducted on a knowing and reckless basis, if those activities caused a substantial loss to a depository institution. The penalties can be as high as \$1.0 million for each day the activity continues. FIRREA also expanded the scope of the individuals and entities against which such penalties may be assessed.

### ***Florida-State Chartered Banks***

Florida state-chartered banks are subject to the supervision and regulation of the OFR and the FDIC. Deposits are insured by the FDIC for a maximum of \$250,000 per account title. For this protection, banks must pay a quarterly statutory assessment and comply with the rules and regulations of the FDIC.

The assessment levied on a bank for deposit insurance varies, depending on the capital position of each bank, and other supervisory factors.

The Federal Deposit Insurance Act provides that, in the event of the “liquidation or other resolution” of a bank, the claims of depositors of the bank, including the claims of the FDIC as subrogee of insured depositors, and certain claims for administrative expenses of the FDIC as a receiver will have priority over other general unsecured claims against the bank. If a bank fails, insured and uninsured depositors, along with the FDIC, will have priority in payment ahead of unsecured, non-deposit creditors.

Areas regulated and monitored by the bank regulatory authorities include:

- security devices and procedures;
- adequacy of capitalization and loss reserves;
- loans;
- investments;
- borrowings;
- deposits;
- mergers;
- issuances of securities;
- payment of dividends;
- establishment of branches;
- corporate reorganizations;
- transactions with affiliates;
- maintenance of books and records; and
- adequacy of staff training to carry out safe lending and deposit gathering practices.

### ***Restrictions on Transactions with Affiliates and Loans to Insiders***

Sections 23A and 23B of the Federal Reserve Act restrict transactions by banks with their affiliates. An affiliate of a bank is any company or entity which controls, is controlled by or is under common control with the bank. Generally, Sections 23A and 23B: (1) limit the extent to which a bank or its subsidiaries may engage in “covered transactions” with any one affiliate to an amount equal to 10% of that bank’s capital stock and surplus (i.e., tangible capital); and (2) require that all such transactions be on terms substantially the same, or at least as favorable to the bank or subsidiary, as those provided to a non-affiliate. The term “covered transaction” includes the making of loans, purchase of assets, issuance of a guarantee and other similar types of transactions.

The Dodd-Frank Act expanded the scope of Section 23A, and going forward, will include investment funds managed by an institution as an affiliate, as well as other procedural and substantive hurdles. In addition, the Dodd-Frank Act expanded coverage of transactions with insiders by including credit exposure arising from derivative transactions (which transactions are also covered by the expansion of Section 23A). The Dodd-Frank Act prohibits an insured depository institution from purchasing or selling an asset to an executive officer, director, or principal shareholder (or any related interest of such a person) unless the transaction is on market terms, and, if the transaction exceeds 10% of the institution’s capital, it is approved in advance by a majority of the disinterested directors.

A bank’s authority to extend credit to executive officers, directors and greater than 10% shareholders, and entities controlled by such persons, is subject to Sections 22(g) and 22(h) of the Federal Reserve Act and Regulation O promulgated thereunder by the Federal Reserve. Among other things, these loans must be made on terms substantially the same as those offered to unaffiliated individuals, the

amount of loans a bank may make to these persons is based, in part, on the bank's capital position, and specified approval procedures must be followed in making loans which exceed specified amounts.

### ***Anti-tying Restrictions***

Bank holding companies and affiliates are prohibited from tying the provision of services, such as extensions of credit, to other services offered by a holding company or its affiliates.

### ***Capital Adequacy Requirements***

Banks are subject to regulatory capital requirements imposed by the Federal Reserve and the FDIC. Until a bank holding company's assets reach \$3 billion, the risk-based capital and leverage guidelines issued by the Federal Reserve are applied to bank holding companies on a nonconsolidated basis, unless the bank holding company is engaged in nonbank activities involving significant leverage, or it has a significant amount of outstanding debt held by the general public. A bank holding company with less than \$3 billion generally applies the risk-based and leverage capital guidelines on a bank only basis and must only meet a debt-to-equity ratio at the holding company level. The Federal Reserve risk-based capital guidelines apply directly to insured state banks, regardless of whether they are subsidiaries of a bank holding company. Both agencies' requirements, which are substantially similar, establish minimum capital ratios in relation to assets, on an aggregate basis as adjusted for credit risks and for off balance sheet exposures. The risk weights assigned to assets are based primarily on credit risks. Depending upon the riskiness of a particular asset, it is assigned to a risk category. Under the guidelines, capital is compared to the relative risk related to the balance sheet. To derive the risk included in the balance sheet, risk weights from 0% to 150% are applied to different balance sheet and off-balance sheet assets, primarily based on relative credit risk of the counterparty. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Capital is then classified into three categories, Common Equity Tier 1, Additional Tier 1, and Tier 2. Common Equity Tier 1 Capital is ("CET1") the sum of common stock instruments and related surplus net of treasury stock, retained earnings, Accumulated Other Comprehensive Income ("AOCI"), and qualifying minority interests, less applicable regulatory adjustments and deductions that include AOCI (if an irrevocable option to neutralize AOCI is exercised). Mortgage-servicing assets, deferred tax assets, and investments in financial institutions are limited to an aggregate of 15% of CET1 and 10% of CET1 individually. Additional Tier 1 Capital includes noncumulative perpetual preferred stock, Tier 1 minority interests, grandfathered trust preferred securities, and Troubled Asset Relief Program instruments, less applicable regulatory adjustments and deductions. Tier 2 Capital includes subordinated debt and preferred stock, total capital minority interests not included in Tier 1, ALLL not exceeding 1.25% percent of risk-weighted assets, less applicable regulatory adjustments and deductions.

Smaller banks are subject to the following capital level threshold requirements:

| <b>PCA Capital Category</b>    | <b>Threshold Ratios</b>               |  |                                      |                                      |
|--------------------------------|---------------------------------------|--|--------------------------------------|--------------------------------------|
|                                | <b>Total Risk-Based Capital Ratio</b> | <b>Tier 1 Risk-Based Capital Ratio</b> | <b>CET1 Risk-Based Capital Ratio</b> | <b>Tier 1 Leverage Capital Ratio</b> |
| Well capitalized               | 10%                                   | 8%                                     | 6.5%                                 | 5%                                   |
| Adequately Capitalized         | 8%                                    | 6%                                     | 4.5%                                 | 4%                                   |
| Undercapitalized               | < 8%                                  | < 6%                                   | < 4.5%                               | < 4%                                 |
| Significantly Undercapitalized | < 6%                                  | < 4%                                   | < 3%                                 | < 3%                                 |
| Critically Undercapitalized    |                                       | Tangible Equity/Total Assets ≤ 2%      |                                      |                                      |

Community banks are subject to the following minimum capital requirements.

|                                   |        |
|-----------------------------------|--------|
| Minimum CET1 ratio                | 4.5%   |
| Capital conversion buffer         | 2.50%  |
| Phase-in of deductions from CET1* | 100.0% |
| Minimum tier 1 capital            | 6.0%   |
| Minimum total capital             | 8.0%   |

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\*Including certain threshold deduction items that are over the limits.

Federal banking regulators have adopted regulations revising the risk-based capital guidelines to further ensure that the guidelines take adequate account of interest rate risk. Interest rate risk is the adverse effect that changes in market interest rates may have on a bank's financial condition and is inherent to the business of banking. Under the regulations, when evaluating a bank's capital adequacy, the revised capital standards now explicitly include a bank's exposure to declines in the economic value of its capital due to changes in interest rates. The exposure of a bank's economic value generally represents the change in the present value of its assets, less the change in the value of its liabilities, plus the change in the value of its interest rate off-balance sheet contracts.

Federal bank regulatory agencies possess broad powers to take prompt corrective action as deemed appropriate for an insured depository institution and its holding company, based on the institution's capital levels. The extent of these powers depends upon whether the institution in question is considered "well-capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized," or "critically undercapitalized." Generally, as an institution is deemed to be less well-capitalized, the scope and severity of the agencies' powers increase, ultimately permitting the agency to appoint a receiver for the institution. Business activities may also be influenced by an institution's capital classification. For instance, only a "well-capitalized" depository institution may accept brokered deposits without prior regulatory approval and can engage in various expansion activities with prior notice, rather than prior regulatory approval. However, rapid growth, poor loan portfolio performance or poor earnings performance, or a combination of these factors, could change the capital position of the bank in a relatively short period of time. Failure to meet these capital requirements could subject the bank to prompt corrective action provisions of the FDIA, which may include filing with the appropriate bank regulatory authorities a plan describing the means and a schedule for achieving the minimum capital requirements. In addition, we would not be able to receive regulatory approval of any application that required consideration of capital adequacy, such as a branch or merger application, unless we could demonstrate a reasonable plan to meet the capital requirement within an acceptable period of time.

### ***Branching***

National banks and state banks are able to establish branches in any state if that state would permit the establishment of the branch by a state bank chartered in that state. Florida law permits a state bank to establish a branch of the bank anywhere in the state. Accordingly, under the Dodd-Frank Act, a bank with its headquarters outside the State of Florida may establish branches anywhere within Florida.

### ***Deposit Insurance Assessments***

The deposits of a bank are insured by the FDIC up to the limits under applicable law, which currently is set at \$250,000 for accounts under the same name and title. Banks are subject to deposit insurance premium assessments. The FDIC imposes a risk-based deposit premium assessment system. Under this system, the assessment rates for an insured depository institution vary according to the level of risk incurred in its activities. To arrive at an assessment rate for a banking institution, the FDIC places it

in one of four risk categories determined by reference to its capital levels and supervisory ratings. In the case of those institutions in the lowest risk category, the FDIC further determines its assessment rate based on certain specified financial ratios or, if applicable, long-term debt ratings. The assessment rate schedule can change from time to time, at the discretion of the FDIC, subject to certain limits. Under the current system, premiums are assessed quarterly. The FDIC has published guidelines on the adjustment of assessment rates for certain institutions.

The assessment base on which a bank's deposit insurance premiums is paid to the FDIC is now calculated based on its average consolidated total assets less its average equity. In addition, under current law, the minimum designated reserve ratio of the deposit insurance fund is required to increase from a minimum of 1.15% to 1.35% of the estimated amount of total insured deposits by September 30, 2020. The FDIC is required to offset the effect of the increased minimum reserve ratio for banks with assets of less than \$10 billion.

Insurance of deposits may be terminated by the FDIC upon a finding that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by a bank's federal regulatory agency. Deposits and certain claims for administrative expenses and employee compensation against insured depository institutions are afforded a priority over other general unsecured claims against the institution, including federal funds and letters of credit, in the liquidation or other resolution of that institution by any receiver appointed by federal authorities. These priority creditors include the FDIC.

### ***Dividends***

The Company's ability to pay cash dividends may depend almost entirely upon the aggregate amount of dividends that its bank subsidiary is able to pay and that the bank is permitted to pay, by statutes or regulations, to us. Additionally, the FBCA provides that we may only pay dividends if the dividend payment would not render the company insolvent, or unable to meet our obligations as they come due. These provisions could have the effect of limiting our ability to pay dividends on the shares issued in this offering.

A Florida state-chartered bank is subject to regulatory restrictions on the payment of dividends, including a prohibition of payment of dividends from the bank's capital under certain circumstances without the prior approval of the OFR and the Federal Reserve. Except with the prior approval of the OFR, dividends of any Florida bank may only be paid out of retained net profits from the current period and the previous two years, after deducting expenses, including losses and bad debts. In addition, a Florida state-chartered bank is required to transfer at least 20% of its net income to surplus until their surplus equals the amount of paid-in capital.

Banks are also required to hold a capital conservation buffer of CET1 in excess of their minimum risk-based capital ratios to avoid limits on dividend payments and certain other bonus payments. Those requirements are reflected in the following table.

| <b>Capital Conservation Buffer<br/>(as a percentage of risk weighted assets)</b> | <b>Maximum Payout<br/>Ratio (as a % of<br/>the Previous Four<br/>Quarters of Net<br/>Income)</b> |
|--|--|
| Greater than 2.5%  | No payout limitation   |
| Less than or equal to 2.5% and greater than 1.875%                               | 60%  |
| Less than or equal to 1.875% and greater than 1.25%                              | 40%  |
| Less than or equal to 1.25% and greater than 0.625%                              | 20%  |
| Less than or equal to 0.625%   | 0%   |

The Federal Reserve expects bank holding companies to serve as a source of strength to their subsidiary bank(s), which may require them to retain capital for investment in their subsidiary bank(s), rather than pay dividends to shareholders. As stated previously, the bank may not pay dividends to the Company, if, after paying those dividends, the bank would fail to meet the required minimum levels under the risk-based capital guidelines and the minimum leverage ratio requirements. Payment of dividends by the bank may be restricted at any time at the discretion of its applicable regulatory authorities, if they deem such dividends to constitute an unsafe and/or unsound banking practice.

### ***Fiscal and Monetary Policies***

The business and earnings of a bank may be significantly affected by the fiscal and monetary policies of the federal government and its agencies. Banks are particularly affected by the policies of the Federal Reserve, which regulates the supply of money and credit in the United States. Among the instruments of monetary policy available to the Federal Reserve are: (i) conducting open market operations in United States government securities; (ii) changing the discount rates of borrowings of depository institutions; (iii) imposing or changing reserve requirements against depository institutions' deposits; and (iv) imposing or changing reserve requirements against certain borrowing by banks and their affiliates. These methods are used in varying degrees and combinations to directly affect the availability of bank loans and deposits, as well as the interest rates charged on loans and paid on deposits. For that reason alone, the policies of the Federal Reserve have a material effect on the earnings of banks.

### ***Other Laws***

State usury and credit laws limit the amount of interest and other charges collected or contracted by a bank on loans. Bank loans are subject to federal laws applicable to credit transactions, such as the:

- *Federal Truth-In-Lending Act*, which governs disclosures of credit terms to consumer borrowers;
- *Community Reinvestment Act*, which requires financial institutions to meet their obligations to provide for the total credit needs of the communities they serve, including investing their assets in loans to low and moderate-income borrowers;
- *Home Mortgage Disclosure Act* requiring financial institutions to provide information to enable public officials to determine whether a financial institution is fulfilling its obligations to meet the housing needs of the community it serves;
- *Equal Credit Opportunity Act* prohibiting discrimination on the basis of race, creed, or other prohibitive factors in extending credit;
- *Real Estate Settlement Procedures Act*, which requires lenders to disclose certain information regarding the nature and cost of real estate settlements, and prohibits certain lending practices, as well as limits escrow account amounts in real estate transactions;

- *Fair Credit Reporting Act* governing the manner in which consumer debts may be collected by collection agencies; and
- The rules and regulations of various federal agencies charged with the responsibility of implementing such federal laws.

Bank operations are also subject to the:

- *Gramm-Leach-Bliley Act of 1999*, which contains privacy provisions that requires us to maintain privacy policies intended to safeguard consumer financial information, to disclose these policies to our customers, and allow customers to “opt out” of having their financial service providers disclose their confidential financial information to nonaffiliated third parties, subject to certain exceptions;
- *Right to Financial Privacy Act*, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records; and
- *Electronic Funds Transfer Act and Regulation E*, which govern automatic deposits to, and withdrawals from, deposit accounts and customers’ rights and liabilities arising from the use of debit cards, automated teller machines, and other electronic banking services.

### **Anti-Money Laundering**

The USA PATRIOT Act enacted in 2001:

- substantially broadens existing anti-money laundering legislation and the extraterritorial jurisdiction of the United States;
- imposes new compliance and due diligence obligations;
- creates new crimes and penalties;
- compels the production of documents located both inside and outside the United States, including those of foreign institutions that have a correspondent relationship in the United States; and
- clarifies the safe harbor from civil liability to customers.

In addition, Treasury issued regulations in cooperation with the federal banking agencies, the SEC, the Commodity Futures Trading Commission, and the Department of Justice to:

- require customer identification and verification;
- expand the money-laundering program requirement to the major financial services sectors, including insurance and unregistered investment companies, such as hedge funds; and
- facilitate and permit the sharing of information between law enforcement and financial institutions, as well as among financial institutions themselves.

Treasury also has created the Treasury USA PATRIOT Act Task Force to work with other financial regulators, the regulated community, law enforcement and consumers to continually improve the regulations. Recently, enforcement of the USA PATRIOT Act, the Bank Secrecy Act, and other anti-money laundering laws and regulations has greatly increased from both state and federal regulators.

### ***Dodd-Frank Wall Street Reform and Consumer Protection Act***

The Dodd-Frank Act imposes significant regulatory and compliance changes, including the designation of certain financial companies as systemically significant, the imposition of increased capital,

leverage, and liquidity requirements, and numerous other provisions designed to improve supervision and oversight of, and strengthen safety and soundness within, the financial services sector. Additionally, the Dodd-Frank Act provides for systemic risk oversight within the financial system to be distributed among new and existing federal regulatory agencies, including the Financial Stability Oversight Council, the Federal Reserve, the OCC, and the FDIC. The following items provide a brief description of certain key provisions of the Dodd-Frank Act that affect banks:

- *Limitation on debit card transaction fees.* The amount a provider can charge for debit card transaction fees, commonly referred to as interchange fees, is now limited to \$0.21 plus 0.05% of the price of the transaction (plus \$0.01, if the provider has certain fraud prevention standards in place).
- *Mortgage loan origination and risk retention.* Additional regulatory requirements have been put in place that may affect our operations and result in increased compliance costs. For example, new standards have been created for mortgage loan originations on all lenders, including banks and thrifts, in an effort to require steps to verify a borrower's ability to repay. In addition, the Dodd-Frank Act generally requires lenders or securitizers to retain an economic interest in the credit risk relating to loans the lender sells or mortgage and other asset-backed securities that the securitizer issues. These applicable rules generally require a sponsor of this type of transaction to retain an economic interest equal to at least 5% percent of the aggregate credit risk of the assets collateralizing an issuance.
- *Expanded FDIC resolution authority.* While insured depository institutions have long been subject to the FDIC's resolution process, the Dodd-Frank Act created a new mechanism for the FDIC to conduct the orderly liquidation of certain "covered financial companies," including bank and thrift holding companies and systemically significant nonbank financial companies.
- *Consumer Financial Protection Bureau ("CFPB").* A new independent CFPB was created within the Federal Reserve. The CFPB is tasked with establishing and implementing rules and regulations under certain federal consumer protection laws with respect to the conduct of providers of certain consumer financial products and services. The CFPB has rulemaking authority over many of the statutes governing products and services offered to bank and thrift consumers.
- *Transactions with affiliates and insiders.* The Dodd-Frank Act generally enhanced the restrictions on transactions with affiliates under Section 23A and 23B of the Federal Reserve Act, including an expansion of the definition of "covered transactions."
- *Enhanced lending limits.* The Dodd-Frank Act strengthened the limits on a depository institution's credit exposure to one borrower.

### ***Future Legislation***

Various other legislative and regulatory initiatives, including proposals to overhaul the banking regulatory system are from time to time introduced in Congress and state legislatures, as well as regulatory agencies. The latest example was the passing of the Dodd-Frank Act. Future legislation regarding financial institutions may change banking statutes and the operating environment of the Company and our bank in substantial and unpredictable ways, and could increase or decrease the cost of doing business, limit or expand permissible activities or affect the competitive balance depending upon whether any of this potential legislation will be enacted, and if enacted, the effect that it or any implementing regulations, would have on the financial condition or results of operations of the Company and our bank. The nature and extent of future legislative and regulatory changes affecting financial institutions is very unpredictable at this time.

## **RELATED PARTY TRANSACTIONS**

Certain directors, executive officers, and their immediate family members may become customers of Marine. Loans made to directors, executive officers, and their immediate families require approval of a majority of the disinterested directors approving the loan. All transactions between Marine and its directors, executive officers, the immediate family members of directors and executive officers, and any principal shareholders, were made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with non-affiliated persons, and in the opinion of management, did not involve more than the normal risk of collectability or present any other unfavorable features.

As of June 30, 2021, the Bank had an aggregate of \$10.1 million in loan balances outstanding to our directors, executive officers, and principal shareholders. As of June 30, 2021, all such loans were current and performing in accordance with their terms.

## **DESCRIPTION OF SECURITIES**

### ***General***

The authorized capital stock of the Company consists of 25,000,000 shares of common stock, \$1.50 par value per share and 5,000,000 shares of preferred stock, \$5.00 par value per share. The following summary describes the material terms of that capital stock. Reference is made to the Articles of Incorporation, copies of which will be provided upon request, for details of the provisions summarized below.

### ***Common Stock***

Holders of shares of the common stock are entitled to elect the members of our Board of Directors, and such holders are entitled to vote as one class on all matters required, or permitted, to be submitted to the shareholders. No holder of common stock has preemptive rights with respect to the issuance of shares of that or any other class of stock, and the holders of common stock are entitled to one vote per share and are not entitled to cumulative voting rights with respect to the election of directors.

The holders of shares of common stock are entitled to dividends and other distributions if, as, and when declared by the Board of Directors out of legally available assets. Upon the liquidation, dissolution, or winding up of the Company, the holder of each share of common stock will be entitled to share equally in the distribution of assets of the Company. The holders of common stock are not entitled to the benefit of any sinking fund provision. The shares of common stock are not subject to any redemption provisions, nor are they convertible into any other security or property. All shares of common stock outstanding upon completion of this offering will be fully paid and non-assessable.

### ***Preferred Stock***

The Articles of Incorporation provide for “blank check” preferred stock. This means our Board of Directors may designate the relative rights, preferences, and limitations of any such shares. Those rights, preferences, or limitations may provide for superior or inferior dividend rights, voting rights, liquidation preference, or other features. The Board will have discretion to set the terms of any preferred stock that the Company may issue in the future.

## **LEGAL MATTERS**

Certain legal matters in connection with the shares offered hereby will be passed upon for the Company by Iglar and Pearlman, P.A., 2457 Care Drive, Suite 203, Tallahassee, Florida 32308.

## **STOCK TRANSFER AGENT**

Continental Stock and Transfer Company serves as the Company's stock transfer agent and registrar.

## **REPORTS TO SHAREHOLDERS**

We are not subject to the reporting requirements of the Securities Exchange Act of 1934. We will furnish our shareholders with annual reports containing audited financial information for each fiscal year on or before the date of the annual meeting of shareholders as required by Florida law. We will also furnish such other reports as we may determine to be appropriate or as otherwise may be required by law.

## **ADDITIONAL INFORMATION**

Questions concerning this offering should be directed to our Chief Executive Officer William J. Penney at 772-231-6611 or [bpenny@marinebank.bank](mailto:bpenny@marinebank.bank).

## APPENDIX A

**MARINE BANCORP OF FLORIDA, INC.  
HOLDING COMPANY FOR**



**Audited Consolidated Financial Statements**

**December 31, 2020 and 2019  
and the Years Then Ended**

**(Together with Independent Auditors' Report)**



**Independent Auditors' Report**

The Board of Directors and Stockholders  
Marine Bancorp of Florida, Inc.  
Vero Beach, Florida:

We have audited the accompanying consolidated financial statements of Marine Bancorp of Florida, Inc. and Subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of earnings, comprehensive income, stockholders' equity and cash flows for the years then ended, and the related notes to the financial statements.

*Management's Responsibility for the Financial Statements*

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

*Auditor's Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

*Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of their operations, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

HACKER, JOHNSON & SMITH PA  
Fort Lauderdale, Florida  
April 21, 2021

**MARINE BANCORP OF FLORIDA, INC. AND SUBSIDIARIES**

**Consolidated Balance Sheets**  
(\$ in thousands, except per share amounts)

|  | <u>At December 31,</u> |                |
|--|------------------------|----------------|
|  | <u>2020</u>            | <u>2019</u>    |
| <b>Assets</b>  |                        |                |
| Cash and due from banks  | \$ 3,682               | 4,813          |
| Interest-bearing deposits with banks   | <u>62,751</u>          | <u>4,171</u>   |
| Total cash and cash equivalents  | 66,433                 | 8,984          |
| Time deposits  | 1,480                  | 5,875          |
| Debt securities available for sale   | 13,941                 | 23,545         |
| Loans held for sale  | 1,154                  | 219            |
| Loans, net of allowance for loan losses of \$3,637 and \$2,651   | 325,233                | 239,291        |
| Accrued interest receivable  | 1,439                  | 692            |
| Premises and equipment, net  | 5,699                  | 5,520          |
| Operating lease right-of-use assets  | 939                    | 1,076          |
| Deferred tax asset   | 154                    | 39             |
| Federal Home Loan Bank stock   | 257                    | 328            |
| Bank-owned life insurance  | 8,000                  | -              |
| Other assets   | <u>590</u>             | <u>560</u>     |
| Total assets   | \$ <u>425,319</u>      | <u>286,129</u> |
| <b>Liabilities and Stockholders' Equity</b>  |                        |                |
| Liabilities:   |                        |                |
| Noninterest-bearing demand deposits  | 125,961                | 80,199         |
| Savings, NOW and money-market deposits   | 224,335                | 141,159        |
| Time deposits  | <u>41,116</u>          | <u>34,963</u>  |
| Total deposits   | 391,412                | 256,321        |
| Federal Home Loan Bank advances  | -                      | 2,000          |
| Note payable   | 2,000                  | -              |
| Subordinated debt, net   | 2,986                  | 2,981          |
| Operating lease liabilities  | 976                    | 1,095          |
| Official checks  | 900                    | 296            |
| Accrued interest payable and other liabilities   | <u>992</u>             | <u>669</u>     |
| Total liabilities  | <u>399,266</u>         | <u>263,362</u> |
| Commitments and contingencies (Notes 5, 10 and 12)   |                        |                |
| Stockholders' equity:  |                        |                |
| Preferred stock, \$5 par value; 5,000,000 shares authorized;<br>none issued or outstanding                             | -                      | -              |
| Common stock, \$1.50 par value; 20,000,000 shares authorized,<br>1,374,076 and 1,364,632 shares issued and outstanding | 2,060                  | 2,047          |
| Additional paid-in capital, common   | 17,099                 | 17,013         |
| Retained earnings  | 6,510                  | 3,543          |
| Accumulated other comprehensive income   | <u>384</u>             | <u>164</u>     |
| Total stockholders' equity   | <u>26,053</u>          | <u>22,767</u>  |
| Total liabilities and stockholders' equity   | \$ <u>425,319</u>      | <u>286,129</u> |

See Accompanying Notes to Consolidated Financial Statements.

**MARINE BANCORP OF FLORIDA, INC. AND SUBSIDIARIES**

**Consolidated Statements of Earnings**  
(\$ in thousands, except per share amounts)

|   | <u>Year Ended December 31,</u> |                  |
|---|--------------------------------|------------------|
|   | <u>2020</u>                    | <u>2019</u>      |
| Interest income:                                    |                                |                  |
| Loans   | \$ 13,236                      | 11,086           |
| Debt securities                                     | 495                            | 658              |
| Other   | <u>108</u>                     | <u>195</u>       |
| Total interest income                               | <u>13,839</u>                  | <u>11,939</u>    |
| Interest expense:                                   |                                |                  |
| Deposits  | 1,305                          | 1,479            |
| Borrowings  | <u>229</u>                     | <u>296</u>       |
| Total interest expense                              | <u>1,534</u>                   | <u>1,775</u>     |
| Net interest income                                 | 12,305                         | 10,164           |
| Provision for loan losses                           | <u>980</u>                     | <u>256</u>       |
| Net interest income after provision for loan losses | <u>11,325</u>                  | <u>9,908</u>     |
| Noninterest income:                                 |                                |                  |
| Service charges on deposit accounts                 | 309                            | 306              |
| Swap referral fees                                  | 640                            | -                |
| Interchange fees                                    | 335                            | 273              |
| Gain on sale of loans held for sale                 | 481                            | 385              |
| Other   | <u>195</u>                     | <u>190</u>       |
| Total noninterest income                            | <u>1,960</u>                   | <u>1,154</u>     |
| Noninterest expenses:                               |                                |                  |
| Salaries and employee benefits                      | 5,425                          | 5,057            |
| Occupancy and equipment                             | 999                            | 986              |
| Data processing                                     | 1,048                          | 956              |
| Professional fees                                   | 397                            | 388              |
| Advertising   | 338                            | 361              |
| Other   | <u>1,165</u>                   | <u>1,154</u>     |
| Total noninterest expenses                          | <u>9,372</u>                   | <u>8,902</u>     |
| Earnings before income taxes                        | 3,913                          | 2,160            |
| Income taxes  | <u>946</u>                     | <u>546</u>       |
| Net earnings  | \$ <u>2,967</u>                | <u>1,614</u>     |
| Basic and diluted earnings per common share         | \$ <u>2.16</u>                 | <u>1.18</u>      |
| Weighted-average number of common shares            | <u>1,373,328</u>               | <u>1,364,632</u> |

See Accompanying Notes to Consolidated Financial Statements.

**MARINE BANCORP OF FLORIDA, INC. AND SUBSIDIARIES**

**Consolidated Statements of Comprehensive Income**  
(In thousands)

|   | <b><u>Year Ended December 31,</u></b> |                    |
|---|---------------------------------------|--------------------|
|   | <b><u>2020</u></b>                    | <b><u>2019</u></b> |
| Net earnings                                | \$ <u>2,967</u>                       | <u>1,614</u>       |
| Other comprehensive income:                 |                                       |                    |
| Change in unrealized gain on investments-   |                                       |                    |
| Unrealized gain arising during the year     | 292                                   | 1,322              |
| Deferred income tax expense on above change | <u>(72)</u>                           | <u>(333)</u>       |
| Total other comprehensive income            | <u>220</u>                            | <u>989</u>         |
| Comprehensive income                        | \$ <u>3,187</u>                       | <u>2,603</u>       |

See Accompanying Notes to Consolidated Financial Statements.

**MARINE BANCORP OF FLORIDA, INC. AND SUBSIDIARIES**

**Consolidated Statements of Stockholders' Equity**

**Years Ended December 31, 2020 and 2019**  
 (\$ in thousands)

|   | <u>Common Stock</u> |                 |   |                              | <u>Accumulated<br/>Other<br/>Compre-<br/>hensive<br/>(Loss) Income</u> | <u>Total<br/>Stockholders'<br/>Equity</u> |
|---|---------------------|-----------------|---|------------------------------|--|---|
|   | <u>Shares</u>       | <u>Amount</u>   | <u>Additional<br/>Paid-In<br/>Capital</u> | <u>Retained<br/>Earnings</u> |  |   |
| Balance at December 31, 2018  | 1,364,632           | \$ 2,047        | 16,959                                    | 1,929                        | (825)  | 20,110                                    |
| Net earnings  | -                   | -               | -   | 1,614                        | -  | 1,614                                     |
| Net change in unrealized loss on debt securities<br>available for sale, net of income taxes | -                   | -               | -   | -                            | 989  | 989                                       |
| Stock-based compensation  | <u>-</u>            | <u>-</u>        | <u>54</u>                                 | <u>-</u>                     | <u>-</u>   | <u>54</u>                                 |
| Balance at December 31, 2019  | 1,364,632           | 2,047           | 17,013                                    | 3,543                        | 164  | 22,767                                    |
| Net earnings  | -                   | -               | -   | 2,967                        | -  | 2,967                                     |
| Net change in unrealized gain on debt securities<br>available for sale, net of income taxes | -                   | -               | -   | -                            | 220  | 220                                       |
| Restricted common stock issued  | 7,704               | 10              | (10)                                      | -                            | -  | -   |
| Stock-based compensation  | <u>1,740</u>        | <u>3</u>        | <u>96</u>                                 | <u>-</u>                     | <u>-</u>   | <u>99</u>                                 |
| Balance at December 31, 2020  | <u>1,374,076</u>    | <u>\$ 2,060</u> | <u>17,099</u>                             | <u>6,510</u>                 | <u>384</u>   | <u>26,053</u>                             |

See Accompanying Notes to Consolidated Financial Statements.

**MARINE BANCORP OF FLORIDA, INC. AND SUBSIDIARIES**

**Consolidated Statements of Cash Flows**  
(In thousands)

|   | <u>Year Ended December 31,</u> |                 |
|---|--------------------------------|-----------------|
|   | <u>2020</u>                    | <u>2019</u>     |
| Cash flows from operating activities:   |                                |                 |
| Net earnings  | \$ 2,967                       | 1,614           |
| Adjustments to reconcile net earnings to net cash provided by operating activities: |                                |                 |
| Depreciation and amortization   | 427                            | 426             |
| Provision for loan losses   | 980                            | 256             |
| Stock-based compensation  | 99                             | 54              |
| Deferred income taxes   | (187)                          | (13)            |
| Net (accretion) amortization of deferred loan fees and costs                        | (745)                          | 78              |
| Net amortization of premiums and discounts on debt securities                       | 47                             | 48              |
| Net amortization of debt issuance costs   | 5                              | 6               |
| Net amortization of core deposit intangible   | 24                             | 24              |
| Gain on sale of loans held for sale   | (481)                          | (385)           |
| Proceeds from sale of loans held for sale   | 24,340                         | 17,533          |
| Originations of loans held for sale   | (24,794)                       | (16,758)        |
| Decrease in operating lease liabilities   | (119)                          | (48)            |
| Amortization of operating lease right-of-use assets                                 | 137                            | 67              |
| Net increase in accrued interest receivable   | (747)                          | (57)            |
| Net (increase) decrease in other assets   | (54)                           | 405             |
| Net increase (decrease) in official checks  | 604                            | (1,189)         |
| Net increase (decrease) in accrued interest payable and other liabilities           | <u>323</u>                     | <u>(486)</u>    |
| Net cash provided by operating activities   | <u>2,826</u>                   | <u>1,575</u>    |
| Cash flows from investing activities:   |                                |                 |
| Net maturity of time deposits   | 4,395                          | -               |
| Proceeds from calls and principal repayments of debt securities available for sale  | 9,313                          | 9,073           |
| Proceeds from sale of debt securities available for sale                            | 536                            | -               |
| Net increase in loans   | (86,177)                       | (24,213)        |
| Net purchase of premises and equipment  | (606)                          | (141)           |
| Redemption (purchase) of Federal Home Loan Bank stock                               | 71                             | (110)           |
| Purchase of bank-owned life insurance   | <u>(8,000)</u>                 | <u>-</u>        |
| Net cash used in investing activities   | <u>(80,468)</u>                | <u>(15,391)</u> |
| Cash flows from financing activities:   |                                |                 |
| Net increase in deposits  | 135,091                        | 12,403          |
| (Decrease) increase in Federal Home Loan Bank advances                              | (2,000)                        | 2,000           |
| Increase in note payable  | <u>2,000</u>                   | <u>-</u>        |
| Net cash provided by financing activities   | <u>135,091</u>                 | <u>14,403</u>   |
| Net increase in cash and cash equivalents   | 57,449                         | 587             |
| Cash and cash equivalents at beginning of year                                      | <u>8,984</u>                   | <u>8,397</u>    |
| Cash and cash equivalents at end of year  | \$ <u>66,433</u>               | <u>8,984</u>    |

(continued)

**MARINE BANCORP OF FLORIDA, INC. AND SUBSIDIARIES**

**Consolidated Statements of Cash Flows, Continued**  
(In thousands)

|  | <u>Year Ended December 31,</u> |              |
|--|--------------------------------|--------------|
|  | <u>2020</u>                    | <u>2019</u>  |
| Supplemental disclosure of cash flow information:  |                                |              |
| Cash paid during the year for:   |                                |              |
| Interest   | \$ <u>1,580</u>                | <u>1,743</u> |
| Income taxes   | \$ <u>1,113</u>                | <u>551</u>   |
| Noncash transactions:  |                                |              |
| Accumulated other comprehensive income, net change in<br>unrealized gain on debt securities available for sale, net<br>of income taxes | \$ <u>220</u>                  | <u>989</u>   |
| Operating lease right-of-use assets and operating lease<br>liabilities recognized  | \$ <u>-</u>                    | <u>1,143</u> |

See Accompanying Notes to Consolidated Financial Statements.

# MARINE BANCORP OF FLORIDA, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

December 31, 2020 and 2019 and the Years Then Ended

### (1) Summary of Significant Accounting Policies

**General.** Marine Bancorp of Florida, Inc. (the "Holding Company") owns 100% of the outstanding common stock of Marine Bank & Trust Company (the "Bank"). The Bank's wholly-owned subsidiary is Marine Investment Services Group, Inc. ("MISG") (collectively, the "Company").

The Holding Company's primary activity is the operation of the Bank and its subsidiary. The Bank is a state (Florida)-chartered commercial bank. The Bank's deposits are insured up to the applicable limits by the Federal Deposit Insurance Corporation (the "FDIC"). The Bank offers a variety of community banking services to individuals and corporate customers through its four banking offices located in Brevard and Indian River Counties, Florida.

The Bank's wholly-owned subsidiary, Marine Investment Services Group, Inc. ("MISG"), provides insurance and financial products to customers of the Bank. MISG had minimal activity during 2020 and 2019.

**Subsequent Events.** Management has evaluated events occurring subsequent to the balance sheet date through April 21, 2021 which is the date the consolidated financial statements were issued, determining no events require additional disclosure in these consolidated financial statements.

**Basis of Presentation.** The accompanying consolidated financial statements include the accounts of the Holding Company, the Bank and MISG. All significant intercompany accounts and transactions have been eliminated in consolidation. The accounting and reporting practices of the Company conform to accounting principles generally accepted in the United States of America ("GAAP") and to general practices within the banking industry. The following summarizes the more significant of these policies and practices.

**Use of Estimates.** In preparing consolidated financial statements in conformity with GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and 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 loan losses and interchange fees.

**Revenue Recognition.** On January 1, 2019, the Company adopted Accounting Standards Updated ("ASU") ASU 2014-09 Revenue from Contracts with Customers and all subsequent amendments to the ASU (collectively, "ASC 606"). The majority of the Company's revenues come from interest income and financial assets, including loans, debt securities and gain on sales of loans held for sale which are outside the scope of ASC 606. The Company's services that fall within the scope of ASC 606 are presented within noninterest income and are recognized as revenue as the Company satisfies its obligation to the customer. Elements of noninterest income within the scope of ASC 606 are limited to service charges on deposit accounts, swap referral fees and interchange fees.

(continued)

# MARINE BANCORP OF FLORIDA, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements, Continued

### (1) Summary of Significant Accounting Policies, Continued

**Revenue Recognition, Continued.** The Company used the modified retrospective approach at the date of adoption. The impact of guidance in this update, including method of implementation of ASC 606, did not have any impact on the Company's consolidated financial statements.

The following summarizes the Company's revenue recognition accounting policy for service charges on deposit accounts, swap referral fees and interchange fees which are within the scope of ASC 606:

**Service Charges on Deposit Accounts.** Deposit related fees consist of fees earned on transaction-based, account maintenance, and overdraft services. Transaction-based fees, which include services such as wire fees, ATM use fees, stop payment charges, statement rendering, and ACH fees, are recognized at the time the transaction is executed as that is the point in time the Company fulfills the customer's request. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Company satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn from the customer's account balance.

**Swap Referral Fees.** The Company has an agreement with another bank (the "Hedge Provider") which provides for fees to the Company for referring the Company's borrowers to the Hedge Provider. At loan origination, the Company's borrowers enter into an interest rate swap agreement with the Hedge Provider which is when the performance obligation has been satisfied by the Company. The fees are received and recognized at loan origination. During 2020, the Company recognized \$640,000 in swap fees. There were no swap fees recognized in 2019.

**Interchange Fees.** The Company earns interchange fees from debit cardholder transactions conducted through payment networks. 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.

**Cash and Cash Equivalents.** For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash and balances due from banks and interest-bearing deposits with banks, all of which have original maturities of less than ninety days.

The Company may be required under Federal Reserve Board regulations to maintain reserves, generally consisting of vault cash or deposits with the Federal Reserve Bank or in pass-through accounts with other qualified banks, against its transaction deposit accounts. At December 31, 2020, the Company did not have a reserve requirement as the Federal Reserve Board lowered the requirements to zero for all depository institutions. At December 31, 2019, balances maintained as reserves were \$2,327,000.

(continued)

# MARINE BANCORP OF FLORIDA, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements, Continued

### (1) Summary of Significant Accounting Policies, Continued

**Debt Securities.** The Company may classify its debt securities as either trading, held to maturity or available for sale. Trading debt securities are held principally for resale and recorded at their fair values. Unrealized gains and losses on trading debt securities are included immediately in earnings. Held to maturity debt securities are those which the Company has the positive intent and ability to hold to maturity and are reported at amortized cost. Debt securities available for sale consist of debt securities not classified as trading debt securities nor as held to maturity debt securities. Unrealized holding gains and losses, net of tax, on debt securities available for sale are reported as a net amount in accumulated other comprehensive income. Gains and losses on the sale of debt securities available for sale are determined using the specific-identification method. Premiums and discounts on debt securities available for sale are recognized in interest income using the interest method over the period to maturity.

Management evaluates debt 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 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 Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

**Loans Held for Sale.** Loans originated and intended for sale in the secondary market are carried at the lower of cost or fair value. Gains and losses on loans sales (sales proceeds minus carrying value) are recorded in noninterest income.

**Loans.** Loans that management has the intent, and the Company has the ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding principal adjusted for any charge-offs, the allowance for loan losses, and any deferred fees or costs.

Loan origination fees are deferred, and certain direct origination costs are capitalized. Both are recognized as an adjustment of the yield of the related loan.

The accrual of interest on loans is discontinued at the time the loan is ninety days delinquent unless the loan is well collateralized and in process of collection. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged-off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

(continued)

# MARINE BANCORP OF FLORIDA, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements, Continued

### (1) Summary of Significant Accounting Policies, Continued

**Allowance for Loan Losses.** The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. There were no changes in the Company's accounting policy or methodology during the years ended December 31, 2020 or 2019.

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

The allowance consists of specific and general components. The specific component relates to loans that are impaired. For such loans, an allowance is established when the discounted cash flows or the collateral value of the impaired loan is lower than the carrying value of that loan. The general component covers all other loans and is based on historical loss experience, adjusted for qualitative factors, such as economic conditions and other trends or uncertainties that could affect management's estimate of probable losses.

The historical loss component of the allowance is determined by losses recognized by portfolio segment over the preceding three years with the most recent year carrying more weight. This is supplemented by the risks for each portfolio segment. Risk factors impacting loans in each of the portfolio segments include any deterioration of property values, change in consumer and business spending, credit availability and the economy. The historical experience is adjusted for the following qualitative factors; management changes, portfolio quality, national and local economic outlook, collateral values and other trends or uncertainties that could affect management's estimate of probable losses.

A loan is considered impaired when, based on current information and events, it is probable the Company will be unable to collect the scheduled payments of principal or interest when due. 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. Impairment is measured on a loan-by-loan basis for all loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral-dependent.

(continued)

# MARINE BANCORP OF FLORIDA, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements, Continued

### (1) Summary of Significant Accounting Policies, Continued

**Premises and Equipment.** Land is carried at cost. Building, furniture, fixtures, computer equipment and software are carried at cost less accumulated depreciation and amortization. Depreciation and amortization expense are computed using the straight-line method over the shorter of the estimated useful life of each type of asset or the lease term.

**Leases.** We determine if a contract contains a lease at inception and recognize operating lease right-of-use assets and operating lease liabilities based on the present value of the future minimum lease payments at the lease commencement date. As our leases do not provide implicit rates, we use our incremental borrowing rate commensurate with the underlying lease terms. Lease agreements that have lease and non-lease components, are accounted for as a single lease component. Lease expense is recognized on a straight-line basis over the lease term.

**Fair Value Measurements.** Fair value is the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. GAAP establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The hierarchy describes three levels of inputs that may be used to measure fair value:

Level 1: Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities that are not active; and model-driven valuations whose inputs are observable or whose significant value drivers are observable. Valuations may be obtained from, or corroborated by, third-party pricing services.

Level 3: Unobservable inputs to measure fair value of assets and liabilities for which there is little, if any market activity at the measurement date, using reasonable inputs and assumptions based upon the best information at the time, to the extent that inputs are available without undue cost and effort.

The following describes valuation methodologies used for assets measured at fair value:

**Debt Securities Available for Sale.** Where quoted prices are available in an active market, debt 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 debt securities with similar characteristics, or discounted cash flows. Instruments, which would generally be classified within Level 2 of the valuation hierarchy, include U.S. government agency obligations, collateralized mortgage obligations, mortgage-backed securities and small business administration ("SBA") bond pools.

(continued)

# MARINE BANCORP OF FLORIDA, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements, Continued

### (1) Summary of Significant Accounting Policies, Continued

#### *Fair Value Measurements, Continued.*

*Impaired Loans.* The fair value of impaired loans with specific allocations of the allowance for loan losses is generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available for similar loans and collateral underlying such loans. Such adjustments result in Level 3 fair value classification for impaired loans measured at fair value. Non-real estate collateral may be valued using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business, resulting in a Level 3 fair value classification. Impaired loans are evaluated on a quarterly basis for additional impairment and adjusted in accordance with the allowance policy.

*Off-Balance-Sheet Financial Instruments.* In the ordinary course of business, the Company has entered into off-balance sheet financial instruments consisting of commitments to extend credit, unused lines of credit and standby letters of credit. Such financial instruments are recorded in the consolidated financial statements when they are funded.

*Fair Values of Financial Instruments.* The following methods and assumptions were used by the Company in estimating fair values of financial instruments:

*Cash and Cash Equivalents.* The carrying amounts of cash and cash equivalents approximate their fair value.

*Time Deposits.* The carrying amount of time deposits approximate their fair value.

*Debt Securities Available for Sale.* Fair values for debt securities are based on the framework for measuring fair value.

*Loans Held for Sale.* Fair values of loans held for sale are valued based on the price the loans were sold for in the market.

*Loans.* For variable-rate loans that reprice frequently and have no significant change in credit risk, fair values are based on carrying values. Fair values for fixed-rate mortgage (e.g., one-to-four family residential), commercial real estate and commercial loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Fair values for nonperforming loans are estimated using discounted cash flow analysis or underlying collateral values, where applicable.

*Accrued Interest Receivable.* The carrying amounts of accrued interest receivable approximates fair value.

(continued)

# MARINE BANCORP OF FLORIDA, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements, Continued

### (1) Summary of Significant Accounting Policies, Continued

#### *Fair Values of Financial Instruments, Continued.*

**Federal Home Loan Bank Stock.** The fair value of the Company's investment in Federal Home Loan Bank ("FHLB") stock is its redemption value.

**Deposits.** The fair values disclosed for demand, savings deposits, NOW and money-market are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). Fair values for fixed-rate time deposits are estimated using a discounted cash flow calculation that applies interest rates currently being offered on time deposits to a schedule of aggregated expected monthly maturities of time deposits.

**Federal Home Loan Bank Advances.** For variable-rate FHLB advances that reprice frequently, fair values are based on carrying values.

**Note Payable.** The carrying amount of the Company's note payable approximates fair value.

**Subordinated Debt.** The fair value of the Company's subordinated debt is estimated using a discounted cash flow calculation that applies interest rates currently being offered on similar subordinated debt.

**Off-Balance Sheet Financial Instruments.** Fair values for off-balance sheet lending commitments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing.

**Transfer of Financial Assets.** Transfers of financial assets or a participating interest in an entire financial asset are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity. A participating interest is a portion of an entire financial asset that (1) conveys proportionate ownership rights with equal priority to each participating interest holder (2) involves no recourse (other than standard representations and warranties) to, or subordination by, any participating interest holder, and (3) does not entitle any participating interest holder to receive cash before any other participating interest holder. Recourse in the form of an independent third-party guarantee shall be excluded from the evaluation of whether the participating interest definition is met.

**Income Taxes.** There are two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur. Deferred income tax expense results from changes in deferred tax assets and liabilities between periods.

(continued)

# MARINE BANCORP OF FLORIDA, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements, Continued

### (1) Summary of Significant Accounting Policies, Continued

***Income Taxes, Continued.*** Deferred tax assets are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgment. As of December 31, 2020, management is not aware of any uncertain tax positions that would have a material effect on the Company's consolidated financial statements. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

The Company recognizes interest and penalties on income taxes, if any as a component of income tax expense.

The Company files consolidated income tax returns. Income taxes are allocated to the Bank and MISG as though separate income tax returns were filed.

***Stock-Based Compensation.*** The Company recognizes the fair value of stock-based compensation in salaries and employee benefits for officers and employees and in other expense for directors in the consolidated statements of earnings. The expense is recognized as the stock awards vest.

***Comprehensive Income.*** GAAP requires that recognized revenue, expenses, gains and losses be included in earnings. Although certain changes in assets and liabilities, such as unrealized gains and losses on debt securities available for sale, are reported as a separate component of the equity section of the balance sheet, such items, along with net earnings are components of comprehensive income. The tax effects of items included in accumulated other comprehensive income are released as each individual item matures, is sold or disposed of.

***Earnings Per Share.*** Earnings per share ("EPS") has been computed on the basis of the weighted-average number of shares of common stock outstanding. In 2020 and 2019, basic and diluted EPS are the same because stock options outstanding were not dilutive due to their exercise prices exceeding the fair value of the Company's common stock during those years. EPS was computed using the treasury stock method.

(continued)

**MARINE BANCORP OF FLORIDA, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements, Continued**

**(1) Summary of Significant Accounting Policies, Continued**

**Recent Pronouncements.** In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-13, *Financial Instruments-Credit Losses (Topic 326)*. The ASU requires the Company to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. The Company will continue to use judgment to determine which loss estimation method is appropriate for their circumstances. The ASU requires enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. These disclosures include qualitative and quantitative requirements that provide additional information about the amounts recorded in the financial statements. Additionally, the ASU amends the accounting for credit losses on debt securities available for sale and purchased financial assets with credit deterioration. The ASU will take effect fiscal years, and interim periods within those fiscal years, beginning after December 15, 2022. Early adoption is permitted. The Company is in the process of determining the effect of the ASU on its consolidated financial statements.

**(2) Debt Securities Available for Sale**

Management has classified all debt securities as available for sale. The carrying amount of debt securities and their fair values are as follows (in thousands):

|                                     | <b>Amortized<br/>Cost</b> | <b>Gross<br/>Unrealized<br/>Gains</b> | <b>Gross<br/>Unrealized<br/>Losses</b> | <b>Fair<br/>Value</b> |
|-------------------------------------|---------------------------|---------------------------------------|--|-----------------------|
| <i>At December 31, 2020:</i>        |                           |                                       |  |                       |
| Collateralized mortgage obligations | \$ 1,861                  | 38                                    | -                                      | 1,899                 |
| Mortgage-backed securities          | 11,420                    | 473                                   | (4)                                    | 11,889                |
| SBA bond pool                       | <u>151</u>                | <u>2</u>                              | <u>-</u>                               | <u>153</u>            |
|                                     | <b>\$ <u>13,432</u></b>   | <b><u>513</u></b>                     | <b><u>(4)</u></b>                      | <b><u>13,941</u></b>  |
| <i>At December 31, 2019:</i>        |                           |                                       |  |                       |
| U.S. government agency              | 3,697                     | -                                     | (13)                                   | 3,684                 |
| Collateralized mortgage obligations | 3,456                     | 2                                     | (30)                                   | 3,428                 |
| Mortgage-backed securities          | 15,878                    | 284                                   | (29)                                   | 16,133                |
| SBA bond pool                       | <u>297</u>                | <u>3</u>                              | <u>-</u>                               | <u>300</u>            |
|                                     | <b>\$ <u>23,328</u></b>   | <b><u>289</u></b>                     | <b><u>(72)</u></b>                     | <b><u>23,545</u></b>  |

(continued)

**MARINE BANCORP OF FLORIDA, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements, Continued**

**(2) Debt Securities Available for Sale, Continued**

Debt securities available for sale measured at fair value on a recurring basis are summarized below (in thousands):

|                                     |                   | <u>Fair Value Measurements Using</u>  |  |  |
|-------------------------------------|-------------------|---|--|--|
|                                     | <u>Fair Value</u> | <u>Quoted Prices<br/>In Active<br/>Markets for<br/>Identical<br/>Assets<br/>(Level 1)</u> | <u>Significant<br/>Other<br/>Observable<br/>Inputs<br/>(Level 2)</u> | <u>Significant<br/>Unobservable<br/>Inputs<br/>(Level 3)</u> |
| <i>At December 31, 2020:</i>        |                   |   |  |  |
| Collateralized mortgage obligations | \$ 1,899          | -   | 1,899  | -  |
| Mortgage-backed securities          | 11,889            | -   | 11,889   | -  |
| SBA bond pool                       | <u>153</u>        | <u>-</u>  | <u>153</u>   | <u>-</u>   |
|                                     | <u>\$ 13,941</u>  | <u>-</u>  | <u>13,941</u>  | <u>-</u>   |
| <i>At December 31, 2019:</i>        |                   |   |  |  |
| U.S. government agency              | 3,684             | -   | 3,684  | -  |
| Collateralized mortgage obligations | 3,428             | -   | 3,428  | -  |
| Mortgage-backed securities          | 16,133            | -   | 16,133   | -  |
| SBA bond pool                       | <u>300</u>        | <u>-</u>  | <u>300</u>   | <u>-</u>   |
|                                     | <u>\$ 23,545</u>  | <u>-</u>  | <u>23,545</u>  | <u>-</u>   |

Debt securities with a carrying value of approximately \$8,823,000 and \$9,244,000 at December 31, 2020 and 2019, respectively, were pledged to the State of Florida to secure trust powers and to collateralize public deposits.

The Company sold one debt security available for sale for \$536,000 during the year ended December 31, 2020 for which no gain or loss was recorded. There were no debt securities sold during the year ended December 31, 2019.

Debt securities with gross unrealized losses, aggregated by investment category and length of time that individual debt securities have been in a loss position, is as follows (in thousands):

|                                     | <u>Less Than Twelve Months</u>         |                       | <u>Twelve Months or Greater</u>        |                       |
|-------------------------------------|--|-----------------------|--|-----------------------|
|                                     | <u>Gross<br/>Unrealized<br/>Losses</u> | <u>Fair<br/>Value</u> | <u>Gross<br/>Unrealized<br/>Losses</u> | <u>Fair<br/>Value</u> |
| <i>At December 31, 2020:</i>        |  |                       |  |                       |
| Mortgage-backed securities          | \$ -                                   | <u>-</u>              | <u>(4)</u>                             | <u>1,466</u>          |
| <i>At December 31, 2019:</i>        |  |                       |  |                       |
| U.S. government agency              | (2)                                    | 1,696                 | (11)                                   | 1,988                 |
| Collateralized mortgage obligations | (23)                                   | 1,629                 | (7)                                    | 807                   |
| Mortgage-backed securities          | <u>(20)</u>                            | <u>4,005</u>          | <u>(9)</u>                             | <u>1,679</u>          |
|                                     | <u>\$(45)</u>                          | <u>7,330</u>          | <u>(27)</u>                            | <u>4,474</u>          |

(continued)

# MARINE BANCORP OF FLORIDA, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements, Continued

### (2) Debt Securities Available for Sale, Continued

At December 31, 2020 and 2019, the unrealized losses on one and fourteen debt securities available for sale were caused by interest rate changes and general market conditions. It is expected that the debt securities would not be settled at a price less than the par value of the investments. Because the decline in fair value is attributable to changes in interest rates and general market conditions and not credit quality, and because the Company has the ability and intent to hold these investments until a market price recovery or maturity, these investments are not considered other-than-temporarily impaired.

### (3) Loans

The portfolio segments and classes of loans are as follows (in thousands):

|                                   | <u>At December 31,</u> |                |
|-----------------------------------|------------------------|----------------|
|                                   | <u>2020</u>            | <u>2019</u>    |
| Commercial real estate            | \$ 113,622             | 80,027         |
| Residential real estate           | 134,075                | 133,358        |
| Construction and land development | 14,148                 | 8,248          |
| Commercial                        | 66,770                 | 19,508         |
| Consumer                          | <u>1,145</u>           | <u>582</u>     |
| Total loans                       | 329,760                | 241,723        |
| Net deferred loan (fees) costs    | (890)                  | 219            |
| Allowance for loan losses         | <u>(3,637)</u>         | <u>(2,651)</u> |
| Loans, net                        | \$ <u>325,233</u>      | <u>239,291</u> |

The Company has divided the loan portfolio into five portfolio segments and classes each with different risk characteristics and methodologies for assessing risk. The Company seeks to minimize its credit risk through its underwriting standards. The loan portfolio segments and classes identified by the Company are as follows:

**Commercial Real Estate.** Commercial real estate loans typically consist of loans to finance real estate purchases and refinances of commercial property slated for expansion or further improvement. These loans are secured by first liens on office buildings, retail and mixed-use properties, industrial warehouses, hotel/motels and restaurants located within the Company's market area. The Company's underwriting criteria and analysis includes credit verification, independent appraisals, review of borrowers' financial condition and their respective cash flows, projected cash flows and the principal guarantors' overall ability to service the debt repayments. Commercial real estate loans are typically larger in nature than residential loans and depend upon operating results and proper management, which in turn involve a higher degree of credit risk. Prevailing economic conditions also may add a higher degree of risk depending on the business.

(continued)

# MARINE BANCORP OF FLORIDA, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements, Continued

### (3) Loans, Continued

**Residential Real Estate.** The Company originates fixed-rate and adjustable-rate residential real estate loans for purchase of a home or refinance of a mortgage loan. These loans are collateralized by 1-4 family residential properties located within the Company's market area. In addition, market conditions could fluctuate negatively and affect the home's final value.

**Construction and Land Development.** Construction and land development loans consist of loans to commercial borrowers, builders and developers and individuals to a limited extent. Commercial borrowers involve loans made for true business expansion to existing facilities and property. Loans to builders and developers are for small scale subdivisions and commercial industrial and retail facilities. Construction and land development loans to individuals include loans to build or add-on to existing primary residences that are located within the Company's market area. Additionally, these loans have a higher degree of risk associated with overall budget and project costs, evaluating and monitoring construction progress and overall market saturations which may affect values negatively during an economic downturn.

**Commercial.** Commercial business loans and lines of credit consist of loans to small and medium sized companies located within the Company's market area. Commercial loans are generally for the purpose of working capital, equipment purchases, inventory needs or receivable financing. Primarily all of the Company's commercial loans are secured with collateral, with some unsecured loans extended on a limited basis. Commercial loans are underwritten utilizing the borrowers' financials and cash flows of both a historical and pro-forma basis. The Company's underwriting criteria on these loans also include borrowers' lending histories, value of collateral as well as the overall strength of principal guarantors endorsing the obligation. These loans are also affected by adverse economic conditions should they prevail within the Company's local market. The Company took action to support its clients and help its communities by participating in the Payroll Protection Plan ("PPP"). The Company originated 788 PPP loans for a total dollar amount of \$61.2 million. These loans are 100% guaranteed by the Small Business Administration (the "SBA"). At December 31, 2020, the outstanding PPP loans totaled \$47.4 million.

**Consumer.** Consumer loans mainly consist of vehicles, personal loans, time deposit loans, marketable securities loans, and cash value life insurance loans. Most of the Company's consumer loans share approximately the same level of risk as residential mortgages.

(continued)

**MARINE BANCORP OF FLORIDA, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements, Continued**

**(3) Loans, Continued**

Activity in the allowance for loan losses is as follows (in thousands):

|  | <b>Commercial<br/>Real<br/>Estate</b> | <b>Residential<br/>Real<br/>Estate</b> | <b>Construction<br/>and<br/>Land<br/>Development</b> | <b>Commercial</b> | <b>Consumer</b> | <b>Unallocated</b> | <b>Total</b>   |
|--|---------------------------------------|--|--|-------------------|-----------------|--------------------|----------------|
| <i>Year Ended December 31, 2020:</i>   |                                       |  |  |                   |                 |                    |                |
| Beginning balance                      | \$ 934                                | 1,347                                  | 107  | 199               | 7               | 57                 | 2,651          |
| Provision (credit) for loan losses     | 652                                   | 75                                     | 91   | (96)              | (10)            | 268                | 980            |
| Charge-offs                            | -                                     | -                                      | -  | (19)              | -               | -                  | (19)           |
| Recoveries                             | <u>4</u>                              | <u>-</u>                               | <u>-</u>   | <u>2</u>          | <u>19</u>       | <u>-</u>           | <u>25</u>      |
| Ending balance                         | \$ <u>1,590</u>                       | <u>1,422</u>                           | <u>198</u>   | <u>86</u>         | <u>16</u>       | <u>325</u>         | <u>3,637</u>   |
| Individually evaluated for impairment: |                                       |  |  |                   |                 |                    |                |
| Recorded investment                    | \$ <u>-</u>                           | <u>-</u>                               | <u>-</u>   | <u>123</u>        | <u>-</u>        | <u>-</u>           | <u>123</u>     |
| Balance in allowance for loan losses   | \$ <u>-</u>                           | <u>-</u>                               | <u>-</u>   | <u>10</u>         | <u>-</u>        | <u>-</u>           | <u>10</u>      |
| Collectively evaluated for impairment: |                                       |  |  |                   |                 |                    |                |
| Recorded investment                    | \$ <u>113,622</u>                     | <u>134,075</u>                         | <u>14,148</u>  | <u>66,647</u>     | <u>1,145</u>    | <u>-</u>           | <u>329,637</u> |
| Balance in allowance for loan losses   | \$ <u>1,590</u>                       | <u>1,422</u>                           | <u>198</u>   | <u>76</u>         | <u>16</u>       | <u>325</u>         | <u>3,627</u>   |
| <i>Year Ended December 31, 2019:</i>   |                                       |  |  |                   |                 |                    |                |
| Beginning balance                      | 688                                   | 1,392                                  | 96   | 163               | 9               | 19                 | 2,367          |
| Provision (credit) for loan losses     | 246                                   | (45)                                   | 11   | 37                | (31)            | 38                 | 256            |
| Charge-offs                            | -                                     | -                                      | -  | (1)               | -               | -                  | (1)            |
| Recoveries                             | <u>-</u>                              | <u>-</u>                               | <u>-</u>   | <u>-</u>          | <u>29</u>       | <u>-</u>           | <u>29</u>      |
| Ending balance                         | \$ <u>934</u>                         | <u>1,347</u>                           | <u>107</u>   | <u>199</u>        | <u>7</u>        | <u>57</u>          | <u>2,651</u>   |
| Individually evaluated for impairment: |                                       |  |  |                   |                 |                    |                |
| Recorded investment                    | \$ <u>1,117</u>                       | <u>-</u>                               | <u>-</u>   | <u>10</u>         | <u>-</u>        | <u>-</u>           | <u>1,127</u>   |
| Balance in allowance for loan losses   | \$ <u>2</u>                           | <u>-</u>                               | <u>-</u>   | <u>-</u>          | <u>-</u>        | <u>-</u>           | <u>2</u>       |
| Collectively evaluated for impairment: |                                       |  |  |                   |                 |                    |                |
| Recorded investment                    | \$ <u>78,910</u>                      | <u>133,358</u>                         | <u>8,248</u>   | <u>19,498</u>     | <u>582</u>      | <u>-</u>           | <u>240,596</u> |
| Balance in allowance for loan losses   | \$ <u>932</u>                         | <u>1,347</u>                           | <u>107</u>   | <u>199</u>        | <u>7</u>        | <u>57</u>          | <u>2,649</u>   |

(continued)

**MARINE BANCORP OF FLORIDA, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements, Continued**

**(3) Loans, Continued**

The following summarizes the loan credit quality (in thousands):

|  | <u>Commercial<br/>Real<br/>Estate</u> | <u>Residential<br/>Real<br/>Estate</u> | <u>Construction<br/>and<br/>Land<br/>Development</u> | <u>Commercial</u> | <u>Consumer</u> | <u>Total</u>   |
|--|---------------------------------------|--|--|-------------------|-----------------|----------------|
| <i>Credit Risk Profile by Internally Assigned Grade:</i> |                                       |  |  |                   |                 |                |
| <i>At December 31, 2020:</i>                             |                                       |  |  |                   |                 |                |
| Grade:   |                                       |  |  |                   |                 |                |
| Pass   | \$ 110,886                            | 130,324                                | 14,148   | 66,489            | 1,145           | 322,992        |
| Watch  | 2,006                                 | 3,751                                  | -  | 65                | -               | 5,822          |
| Special mention  | 730                                   | -                                      | -  | 93                | -               | 823            |
| Substandard  | <u>-</u>                              | <u>-</u>                               | <u>-</u>   | <u>123</u>        | <u>-</u>        | <u>123</u>     |
| Total  | \$ <u>113,622</u>                     | <u>134,075</u>                         | <u>14,148</u>  | <u>66,770</u>     | <u>1,145</u>    | <u>329,760</u> |
| <i>At December 31, 2019:</i>                             |                                       |  |  |                   |                 |                |
| Grade:   |                                       |  |  |                   |                 |                |
| Pass   | 77,731                                | 133,179                                | 8,248  | 19,380            | 582             | 239,120        |
| Watch  | 1,680                                 | 179                                    | -  | 21                | -               | 1,880          |
| Special mention  | <u>616</u>                            | <u>-</u>                               | <u>-</u>   | <u>107</u>        | <u>-</u>        | <u>723</u>     |
| Total  | \$ <u>80,027</u>                      | <u>133,358</u>                         | <u>8,248</u>   | <u>19,508</u>     | <u>582</u>      | <u>241,723</u> |

The Company 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 Company analyzes loans individually by classifying the loans as to credit risk. Loans classified as substandard or special mention are reviewed quarterly by the Company for further deterioration or improvement to determine if they are appropriately classified and whether there is any impairment. All loans are graded upon initial issuance. Further, commercial loans over \$500,000 are typically reviewed at least annually to determine the appropriate loan grading. In addition, during the renewal process of any loan, as well as if a loan becomes past due, the Company will determine the appropriate loan grade.

Loans excluded from the review process above are generally classified as pass credits until: (a) they become ninety days past due; (b) management becomes aware of deterioration in the credit worthiness of the borrower; or (c) the borrower contacts the Company for a modification. In these circumstances, the loan is specifically evaluated for potential classification as to special mention, substandard or even charged-off. The Company uses the following definitions for risk ratings:

**Pass** – A Pass loan's primary source of loan repayment is satisfactory, with secondary sources very likely to be realized if necessary.

(continued)

**MARINE BANCORP OF FLORIDA, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements, Continued**

**(3) Loans, Continued**

**Watch** – A Watch loan is to a borrower who has uncertain ability to maintain or improve their financial performance. The financial condition of the borrower is unstable and shows minimally acceptable support for credit accommodation. Watch loans are not adversely classified and do not expose the Company to specific risk to warrant adverse classification.

**Special Mention** – A Special Mention loan has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in the deterioration of the repayment prospects for the asset or the Company's credit position at some future date. Special Mention loans are not adversely classified and do not expose the Company to sufficient risk to warrant adverse classification.

**Substandard** – A Substandard loan is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

**Doubtful** – A loan classified Doubtful has all the weaknesses inherent in one classified Substandard with the added characteristics that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

**Loss** – A loan classified Loss is considered uncollectible and of such little value that continuance as a bankable asset is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be affected in the future.

Age analysis of past-due loans at December 31, 2020 is as follows (in thousands):

|                                      | <b>Accruing Loans</b>              |                                    |  |                               | <b>Current</b> | <b>Nonaccrual<br/>Loans</b> | <b>Total<br/>Loans</b> |
|--------------------------------------|------------------------------------|------------------------------------|--|-------------------------------|----------------|-----------------------------|------------------------|
|                                      | <b>30-59<br/>Days<br/>Past Due</b> | <b>60-89<br/>Days<br/>Past Due</b> | <b>Greater<br/>Than 90<br/>Days<br/>Past Due</b> | <b>Total<br/>Past<br/>Due</b> |                |                             |                        |
| Commercial real estate               | \$ -                               | -                                  | -  | -                             | 113,622        | -                           | 113,622                |
| Residential real estate              | -                                  | -                                  | -  | -                             | 134,075        | -                           | 134,075                |
| Construction and land<br>development | -                                  | -                                  | -  | -                             | 14,148         | -                           | 14,148                 |
| Commercial                           | -                                  | -                                  | -  | -                             | 66,647         | 123                         | 66,770                 |
| Consumer                             | <u>-</u>                           | <u>-</u>                           | <u>-</u>   | <u>-</u>                      | <u>1,145</u>   | <u>-</u>                    | <u>1,145</u>           |
| Total                                | <u>\$ -</u>                        | <u>-</u>                           | <u>-</u>   | <u>-</u>                      | <u>329,637</u> | <u>123</u>                  | <u>329,760</u>         |

There were no loans past due more than thirty days and no loans on nonaccrual as of December 31, 2019.

(continued)

**MARINE BANCORP OF FLORIDA, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements, Continued**

**(3) Loans, Continued**

The following summarizes the amount of impaired loans (in thousands):

|                              | <u>With No Related Allowance Recorded</u> |                          | <u>With an Allowance Recorded</u> |                          |                          | <u>Total</u>               |                          |                          |
|------------------------------|---|--------------------------|-----------------------------------|--------------------------|--------------------------|----------------------------|--------------------------|--------------------------|
|                              | <u>Unpaid Contractual</u>                 |                          | <u>Unpaid Contractual</u>         |                          | <u>Related Allowance</u> | <u>Unpaid Contractual</u>  |                          |                          |
|                              | <u>Recorded Investment</u>                | <u>Principal Balance</u> | <u>Recorded Investment</u>        | <u>Principal Balance</u> |                          | <u>Recorded Investment</u> | <u>Principal Balance</u> | <u>Related Allowance</u> |
| <i>At December 31, 2020:</i> |   |                          |                                   |                          |                          |                            |                          |                          |
| Commercial                   | \$ <u>-</u>                               | <u>-</u>                 | <u>123</u>                        | <u>123</u>               | <u>10</u>                | <u>123</u>                 | <u>123</u>               | <u>10</u>                |
| <i>At December 31, 2019:</i> |   |                          |                                   |                          |                          |                            |                          |                          |
| Commercial real estate       | 756                                       | 756                      | 361                               | 361                      | 2                        | 1,117                      | 1,117                    | 2                        |
| Commercial                   | <u>10</u>                                 | <u>10</u>                | <u>-</u>                          | <u>-</u>                 | <u>-</u>                 | <u>10</u>                  | <u>10</u>                | <u>-</u>                 |
|                              | \$ <u>766</u>                             | <u>766</u>               | <u>361</u>                        | <u>361</u>               | <u>2</u>                 | <u>1,127</u>               | <u>1,127</u>             | <u>2</u>                 |

The average recorded investment in impaired loans and interest income recognized and received on impaired loans are as follows (in thousands):

|                                      | <u>Average Recorded Investment</u> | <u>Interest Income Recognized</u> | <u>Interest Income Received</u> |
|--------------------------------------|------------------------------------|-----------------------------------|---------------------------------|
| <i>Year Ended December 31, 2020:</i> |                                    |                                   |                                 |
| Commercial real estate               | \$ 1,034                           | 59                                | 59                              |
| Commercial                           | <u>95</u>                          | <u>1</u>                          | <u>1</u>                        |
|                                      | \$ <u>1,129</u>                    | <u>60</u>                         | <u>60</u>                       |
| <i>Year Ended December 31, 2019:</i> |                                    |                                   |                                 |
| Commercial real estate               | 1,135                              | 60                                | 60                              |
| Commercial                           | <u>12</u>                          | <u>1</u>                          | <u>1</u>                        |
|                                      | \$ <u>1,147</u>                    | <u>61</u>                         | <u>61</u>                       |

Impaired loans measured at fair value on a nonrecurring basis at December 31, 2020 are as follows (in thousands):

|            | <u>At Year End</u> |                |                |                | <u>Total Losses</u> | <u>Losses Recorded During the Year</u> |
|------------|--------------------|----------------|----------------|----------------|---------------------|--|
|            | <u>Fair Value</u>  | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |                     |  |
| Commercial | \$ <u>113</u>      | <u>-</u>       | <u>-</u>       | <u>113</u>     | <u>10</u>           | <u>10</u>                              |

There were no impaired loans measured at fair value on a nonrecurring basis at December 31, 2019.

There were no loans determined to be troubled debt restructurings entered into during the years ended December 31, 2020 and 2019.

(continued)

# MARINE BANCORP OF FLORIDA, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements, Continued

### (3) Loans, Continued

The Company grants the majority of its loans to borrowers throughout Brevard and Indian River Counties, Florida. A significant portion of its borrowers' ability to honor their contracts is dependent upon the economy and real estate market in these counties. The Company does not have any significant concentrations to any one industry or borrower.

The Company is subject to risks related to the public health crisis associated with the coronavirus global pandemic ("COVID-19"). COVID-19 has negatively impacted the global economy, disrupted global supply chains, created significant volatility and disruption in financial markets and significantly increased unemployment levels. The extent to which COVID-19 impacts the Company's business, results of operations, and financial condition, as well as loan quality, regulatory capital and liquidity ratios, will depend on future developments, the duration of the pandemic, and actions taken by governmental authorities to slow the spread of the disease or to mitigate its effects.

In accordance with relief granted by government authorities, the Company has modified certain loans at the request of its borrowers. Through December 31, 2020, the Company had received and granted eighty-six requests for modifications on loans totaling \$40.2 million. As of December 31, 2020, all of the loans modified had reverted back to their original pre-modification terms and are being paid as agreed. Loans modified under the relief granted by government authorities are not considered TDR. Management is closely monitoring these loans and believes the loan loss allowance at December 31, 2020 is adequate.

### (4) Premises and Equipment

A summary of premises and equipment follows (in thousands):

|  | <u>At December 31,</u> |                |
|--|------------------------|----------------|
|  | <u>2020</u>            | <u>2019</u>    |
| Land   | \$ 2,920               | 2,920          |
| Buildings                                      | 4,309                  | 3,807          |
| Furniture and fixtures                         | 1,324                  | 1,281          |
| Computer equipment and software                | <u>616</u>             | <u>553</u>     |
| Total at cost                                  | 9,169                  | 8,561          |
| Less accumulated depreciation and amortization | <u>(3,470)</u>         | <u>(3,041)</u> |
| Premises and equipment, net                    | \$ <u>5,699</u>        | <u>5,520</u>   |

(continued)

**MARINE BANCORP OF FLORIDA, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements, Continued**

**(5) Leases**

The Company adopted ASU 2016-02, *Leases* on August 1, 2019 which is when the Company was deemed to be a public business entity. This was triggered by the Company's common stock being listed on an over-the-counter stock exchange. The adoption resulted in the recognition of operating leases on the consolidated balance sheet from this date forward.

The Company's operating lease obligation is for two of the Company's locations used to conduct operations. The weighted-average remaining lease term is approximately 7.3 years. The components of lease expense and other lease information are as follows (in thousands):

|   | <b>During the<br/>Year Ended<br/><u>December 31,</u><br/><u>2020</u></b> | <b>From Adoption<br/>Date Through<br/>Period Ended<br/><u>December 31,</u><br/><u>2019</u></b> |
|---|--|--|
| Operating lease expense recognized                                    | \$ <u>163</u>  | <u>69</u>  |
| Cash paid for amounts included in measurement of<br>lease liabilities | \$ <u>145</u>  | <u>60</u>  |

Rent expense related to the leases from January 2019 through July 2019 was approximately \$84,000.

|                                       | <b>At December 31,</b> |                    |
|---------------------------------------|------------------------|--------------------|
|                                       | <b><u>2020</u></b>     | <b><u>2019</u></b> |
| Operating lease right-of-use assets   | \$ <u>939</u>          | <u>1,076</u>       |
| Operating lease liabilities           | \$ <u>976</u>          | <u>1,095</u>       |
| Weighted-average remaining lease term | 7.3 years              | 8.3 years          |
| Weighted-average discount term        | 2.5%                   | 2.5%               |

(continued)

**MARINE BANCORP OF FLORIDA, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements, Continued**

**(5) Leases, Continued**

Future minimum lease payments under noncancelable leases, reconciled to the Company's discounted lease liabilities are as follows (in thousands):

| <u>Year Ending<br/>December 31,</u> | <u>At December 31,<br/>2020</u> |
|-------------------------------------|---------------------------------|
| 2021                                | \$ 145                          |
| 2022                                | 147                             |
| 2023                                | 156                             |
| 2024                                | 136                             |
| 2025                                | 127                             |
| Thereafter                          | <u>360</u>                      |
| Total future minimum lease payments | 1,071                           |
| Less imputed interest               | <u>(95)</u>                     |
| Total operating lease liabilities   | \$ <u>976</u>                   |

**(6) Deposits**

The aggregate amount of time deposits with a minimum denomination of \$250,000 was approximately \$13.0 million and \$13.4 million at December 31, 2020 and 2019, respectively.

The scheduled maturities of time deposits are as follows (in thousands):

| <u>Year Ending<br/>December 31,</u> | <u>At December 31,<br/>2020</u> |
|-------------------------------------|---------------------------------|
| 2021                                | \$ 33,709                       |
| 2022                                | 5,485                           |
| 2023                                | 1,285                           |
| 2024                                | 284                             |
| 2025                                | <u>353</u>                      |
|                                     | \$ <u>41,116</u>                |

**(7) Federal Home Loan Bank ("FHLB") Advances and Other Available Credit**

There were no FHLB advances outstanding at December 31, 2020. The maturity and interest rate of the FHLB advance at December 31, 2019 was as follows (\$ in thousands):

| <u>Maturing in<br/>Year Ending<br/>December 31,</u> | <u>Fixed or<br/>Variable<br/>Rate</u> | <u>Interest<br/>Rate</u> |                 |
|---|---------------------------------------|--------------------------|-----------------|
| 2020  | Variable                              | 1.78%                    | \$ <u>2,000</u> |

(continued)

# MARINE BANCORP OF FLORIDA, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements, Continued

### (7) Federal Home Loan Bank ("FHLB") Advances and Other Available Credit, Continued

The Company maintains a blanket floating lien with the FHLB on qualifying loans secured by home equity lines of credit and one-to-four family residential real estate. At December 31, 2020, the Company has credit availability of \$99.3 million.

At December 31, 2020, the Company had unsecured lines of credit amounting to \$9.8 million with two correspondent banks to purchase federal funds, and a \$5 million reverse repurchase line of credit with one correspondent bank. The Company also has a line of credit with the Federal Reserve Bank under which the Company may draw up to \$4.9 million. The line is secured by \$9.5 million in loans. This line is used for liquidity needs and must be repaid within thirty days. Disbursements on the lines of credit are subject to the approval of the correspondent banks. At December 31, 2020 and 2019, the Company did not have any borrowings outstanding on these lines.

### (8) Note Payable

During 2020, the Company entered into a line of credit agreement with another bank. The Company may borrow up to \$2 million at a variable interest rate equal to the Wall Street Journal U.S. Prime Rate. The interest rate at December 31, 2020 was 3.25%. The line of credit matures during September 2025 and is secured by the Bank's common stock. As of December 31, 2020, the outstanding balance of the line of credit was \$2 million. The line of credit agreement is subject to certain covenants and at December 31, 2020, the Company was in compliance with the covenants.

### (9) Subordinated Debt

The Company issued \$3,000,000 principal amount of subordinated debt (the "Subordinated Debt") due June 6, 2028. The Subordinated Debt bears a fixed annual interest rate of 6.5% until June 6, 2023 at which time the rate will become an annual floating rate equal to three-month LIBOR, determined quarterly, plus 375 basis points. Interest is payable in arrears on March 31, June 30, September 30 and December 31 of each year through the maturity date, unless redeemed. The Company may, at its option, beginning on June 6, 2023, redeem the Subordinated Debt, in whole or in part, at 100% of the principal amount of the Subordinated Debt plus any accrued and unpaid interest. The Subordinated Debt was structured to comply with certain regulatory requirements which provide for qualification as Tier 2 Capital. The Subordinated Debt is subject to certain affirmative and negative covenants and at December 31, 2020 the Company was in compliance with the covenants.

The following summarizes the Subordinated Debt during the year end December 31, 2020 and 2019 (in thousands).

|  |                 |
|--|-----------------|
| Subordinated debt at December 31, 2018 | \$ 2,975        |
| Amortization of issuance expenses      | <u>6</u>        |
| Subordinated debt at December 31, 2019 | 2,981           |
| Amortization of issuance expenses      | <u>5</u>        |
| Subordinated debt at December 31, 2020 | \$ <u>2,986</u> |

(continued)

# MARINE BANCORP OF FLORIDA, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements, Continued

### (10) Off-Balance Sheet Financial Instruments

The Company 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 are commitments to extend credit, unused lines of credit and standby letters of credit and may involve, to varying degrees, elements of credit and interest-rate risk in excess of the amount recognized in the balance sheet. The contract amounts of these instruments reflect the extent of involvement the Company has in these financial instruments.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and unused lines of credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments as it does for on-balance sheet instruments.

Commitments to extend credit and unused lines of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Because some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company, upon extension of credit, is based on management's credit evaluation of the counterparty.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit to customers is essentially the same as that involved in extending loan facilities to customers. The Company generally holds collateral supporting those commitments. Standby letters of credit generally have expiration dates within one year.

Commitments to extend credit, unused lines of credit and standby letters of credit typically result in loans with a market interest rate when funded. A summary of the contractual amounts of the Company's financial instruments with off-balance sheet risk at December 31, 2020 follows (in thousands):

|                              |                  |
|------------------------------|------------------|
| Commitments to extend credit | \$ <u>6,680</u>  |
| Unused lines of credit       | \$ <u>44,677</u> |
| Standby letters of credit    | \$ <u>399</u>    |

(continued)

**MARINE BANCORP OF FLORIDA, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements, Continued**

**(11) Fair Value of Financial Instruments**

The estimated fair values of the Company's financial instruments were as follows (in thousands):

|   | <u>At December 31,</u>           |                             |                                  |                             |
|---|----------------------------------|-----------------------------|----------------------------------|-----------------------------|
|   | <u>2020</u>                      |                             | <u>2019</u>                      |                             |
|   | <u>Carrying</u><br><u>Amount</u> | <u>Fair</u><br><u>Value</u> | <u>Carrying</u><br><u>Amount</u> | <u>Fair</u><br><u>Value</u> |
| Financial assets:                       |                                  |                             |                                  |                             |
| Cash and cash equivalents               | \$ 66,433                        | 66,433                      | 8,984                            | 8,984                       |
| Time deposits                           | 1,480                            | 1,480                       | 5,875                            | 5,875                       |
| Debt securities available for sale      | 13,941                           | 13,941                      | 23,545                           | 23,545                      |
| Loans held for sale                     | 1,154                            | 1,170                       | 219                              | 226                         |
| Loans, net                              | 325,233                          | 320,985                     | 239,291                          | 240,837                     |
| Accrued interest receivable             | 1,439                            | 1,439                       | 692                              | 692                         |
| FHLB stock                              | 257                              | 257                         | 328                              | 328                         |
| Financial liabilities:                  |                                  |                             |                                  |                             |
| Deposits                                | 391,412                          | 391,727                     | 256,321                          | 256,583                     |
| FHLB advances                           | -                                | -                           | 2,000                            | 2,000                       |
| Note payable                            | 2,000                            | 2,000                       | -                                | -                           |
| Subordinated debt                       | 2,986                            | 3,231                       | 2,981                            | 3,032                       |
| Off-balance sheet financial instruments | -                                | -                           | -                                | -                           |

**(12) Legal Contingencies**

Various legal claims arise from time to time in the normal course of business. In the opinion of management, none have occurred that will have a material effect on the Company's consolidated financial statements.

**(13) Income Taxes**

Income taxes consist of the following (in thousands):

|                    | <u>Year Ended December 31,</u> |             |
|--------------------|--------------------------------|-------------|
|                    | <u>2020</u>                    | <u>2019</u> |
| Current:           |                                |             |
| Federal            | \$ 938                         | 461         |
| State              | <u>195</u>                     | <u>98</u>   |
| Total current      | <u>1,133</u>                   | <u>559</u>  |
| Deferred:          |                                |             |
| Federal            | (147)                          | (11)        |
| State              | <u>(40)</u>                    | <u>(2)</u>  |
| Total deferred     | <u>(187)</u>                   | <u>(13)</u> |
| Total income taxes | \$ <u>946</u>                  | <u>546</u>  |

(continued)

**MARINE BANCORP OF FLORIDA, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements, Continued**

**(13) Income Taxes, Continued**

The reasons for the differences between the statutory Federal income tax rate and the effective tax rate are summarized as follows (\$ in thousands):

|   | <u>Year Ended December 31,</u> |                                     |               |                                     |
|---|--------------------------------|-------------------------------------|---------------|-------------------------------------|
|   | <u>2020</u>                    |                                     | <u>2019</u>   |                                     |
|   | <u>Amount</u>                  | <u>% of<br/>Pretax<br/>Earnings</u> | <u>Amount</u> | <u>% of<br/>Pretax<br/>Earnings</u> |
| Income taxes at statutory rate          | \$ 822                         | 21.0%                               | \$ 454        | 21.0%                               |
| Increase resulting from:                |                                |                                     |               |                                     |
| State taxes, net of Federal tax benefit | 122                            | 3.1                                 | 76            | 3.5                                 |
| Nondeductible expenses                  | <u>2</u>                       | <u>.1</u>                           | <u>16</u>     | <u>.8</u>                           |
| Income taxes                            | \$ <u>946</u>                  | <u>24.2%</u>                        | \$ <u>546</u> | <u>25.3%</u>                        |

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are as follows (in thousands):

|  | <u>At December 31,</u> |              |
|--|------------------------|--------------|
|  | <u>2020</u>            | <u>2019</u>  |
| Deferred tax assets:                             |                        |              |
| Allowance for loan losses                        | \$ 677                 | 429          |
| Stock-based compensation                         | 34                     | 49           |
| Start-up and organization                        | 6                      | 7            |
| Amortization                                     | 42                     | 41           |
| Other  | <u>4</u>               | <u>1</u>     |
| Deferred tax assets                              | <u>763</u>             | <u>527</u>   |
| Deferred tax liabilities:                        |                        |              |
| Accumulated depreciation                         | (112)                  | (150)        |
| Prepaid expenses                                 | (60)                   | (55)         |
| Loan costs                                       | (312)                  | (230)        |
| Unrealized gain on securities available for sale | <u>(125)</u>           | <u>(53)</u>  |
| Deferred tax liabilities                         | <u>(609)</u>           | <u>(488)</u> |
| Net deferred tax asset                           | \$ <u>154</u>          | <u>39</u>    |

The Company files consolidated income tax returns in the U.S. federal jurisdiction and the State of Florida. The Company is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years before 2017.

(continued)

**MARINE BANCORP OF FLORIDA, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements, Continued**

**(14) Stock Option Plan**

On January 21, 2016, the Company's stock option plan terminated, and no options remain available for grant. All options granted under the plan have ten-year terms.

A summary of stock option activity relating to the plan follows:

|  | <u>Number of<br/>Options</u> | <u>Weighted-<br/>Average<br/>Exercise<br/>Price</u> | <u>Weighted-<br/>Average<br/>Remaining<br/>Contractual<br/>Term</u> |
|--|------------------------------|---|---|
| Outstanding and exercisable at December 31, 2018 | 8,440                        | \$ 50.00  |   |
| Expired  | <u>(1,168)</u>               | 50.00   |   |
| Outstanding and exercisable at December 31, 2019 | 7,272                        | 50.00   |   |
| Expired  | <u>(1,356)</u>               | 50.00   |   |
| Outstanding and exercisable at December 31, 2020 | <u>5,916</u>                 | \$ <u>50.00</u>                                     | <u>2.5 years</u>  |

**(15) Stock-Based Compensation**

In August 2017, the Company adopted the 2017 stock incentive plan (the "2017 Plan") which consists of Incentive Stock Options, Non-Qualified Stock Options, Performance Units, Performance Shares, Stock Appreciation Rights, Restricted Stock and Restricted Stock Units (collectively "Incentive Awards"). The maximum number of Incentive Awards that may be issued under the Plan shall be an amount equal to 130,000 shares (each type of incentive award is considered a share). Under the Plan, Incentive Awards may be issued to employees and nonemployee directors. At December 31, 2020, 105,599 shares are available to grant as Incentive Awards.

A summary of restricted stock transactions follows (\$ in thousands, except per share amounts):

|  | <u>Number of<br/>Shares</u> | <u>Weighted-<br/>Average<br/>Grant Date<br/>Fair Value<br/>Per Share</u> |
|--|-----------------------------|--|
| Nonvested restricted stock outstanding at December 31, 2018 and 2019 | 8,456                       | \$ 15.43   |
| Nonvested restricted stock granted                                   | 7,704                       | 17.72  |
| Restricted stock vested in 2020                                      | <u>(8,456)</u>              | 15.43  |
| Nonvested restricted stock outstanding at December 31, 2020          | <u>7,704</u>                | \$ <u>17.72</u>  |

(continued)

# MARINE BANCORP OF FLORIDA, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements, Continued

### (15) Stock-Based Compensation, Continued

During the years ending December 31, 2020 and 2019, the Company expensed \$68,000 and \$54,000, respectively, related to the restricted stock. The remaining unrecognized expense related to the nonvested restricted stock outstanding at December 31, 2020 was approximately \$68,000, all of which will be recognized in 2021.

During the year ended December 31, 2020, the Company recorded an expense of \$31,000 in connection with 1,740 shares of common stock issued to employees as a form of a bonus. There was no such expense during 2019.

### (16) Profit Sharing Plan

The Company sponsors a 401(k) profit sharing plan which is available to all employees meeting certain length-of-service requirements. The Company's contributions to the profit sharing plan are discretionary and are determined annually. The Company's contribution for the years ended December 31, 2020 and 2019 was approximately \$148,000 and \$126,000, respectively.

### (17) Related Parties

In the ordinary course of business, the Company has granted loans to and accepted deposits from principal officers and directors and their affiliates. These amounts are summarized as follows (in thousands):

|                         | At or During the Year Ended |               |
|-------------------------|-----------------------------|---------------|
|                         | December 31,                |               |
|                         | <u>2020</u>                 | <u>2019</u>   |
| Loans:                  |                             |               |
| Beginning balance       | \$ 5,467                    | 3,192         |
| Additions               | 3,947                       | 2,700         |
| Principal repayments    | <u>(401)</u>                | <u>(425)</u>  |
| Ending balance          | \$ <u>9,013</u>             | <u>5,467</u>  |
| Deposits at end of year | \$ <u>20,805</u>            | <u>16,857</u> |

### (18) Dividend Restrictions

Banking regulations place certain restrictions on dividends and loans, or advances made by the Bank to the Holding Company. The Bank is limited in the amount of cash dividends that may be paid. The amount of cash dividends that may be paid is based on the Bank's net earnings of the current year combined with the Bank's retained earnings of the preceding two years, as defined by state banking regulations. However, for any dividend declaration, the Bank must consider additional factors such as the amount of current period net earnings, liquidity, asset quality, capital adequacy and economic conditions. It is likely that these factors would further limit the amount of dividend which the Bank could declare. In addition, bank regulators have the authority to prohibit banks from paying dividends if they deem such payment to be an unsafe or unsound practice.

(continued)

**MARINE BANCORP OF FLORIDA, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements, Continued**

**(19) Regulatory Matters**

The Bank is subject to various regulatory capital requirements administered by the 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 Company's and the Bank's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts, and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

The Bank is subject to the capital conservation buffer rules which place limitations on distributions, including dividend payments, and certain discretionary bonus payments to executive officers. In order to avoid these limitations, a bank must hold a capital conservation buffer above its minimum risk-based capital requirements. As of December 31, 2020, the Bank's capital conservation buffer exceeds the minimum requirement of 2.50%.

As of December 31, 2020, the Bank was well capitalized under the regulatory framework for prompt corrective action. To be categorized as adequately capitalized the Bank must maintain a minimum Common equity tier 1 capital ratio, Tier 1 capital ratio, Total capital ratio and Tier 1 leverage ratio as set forth in the table. Management believes, as of December 31, 2020, that the Bank meets all capital adequacy requirements to which it is subject. The Bank's actual capital amounts and percentages are presented in the table (dollars in thousands):

|                                    | <u>Actual</u> |          | <u>For Capital Adequacy Purposes</u> |          | <u>For Well Capitalized Purposes</u> |          |
|------------------------------------|---------------|----------|--------------------------------------|----------|--------------------------------------|----------|
|                                    | <u>Amount</u> | <u>%</u> | <u>Amount</u>                        | <u>%</u> | <u>Amount</u>                        | <u>%</u> |
| <i>As of December 31, 2020:</i>    |               |          |                                      |          |                                      |          |
| Common equity tier 1 capital ratio | \$ 30,410     | 12.35%   | \$ 11,084                            | 4.50%    | \$ 16,010                            | 6.50%    |
| Tier 1 capital ratio               | 30,410        | 12.35    | 14,778                               | 6.00     | 19,705                               | 8.00     |
| Total capital ratio                | 33,497        | 13.60    | 19,705                               | 8.00     | 24,631                               | 10.00    |
| Tier 1 leverage ratio              | 30,410        | 7.34     | 16,570                               | 4.00     | 20,713                               | 5.00     |
| <i>As of December 31, 2019:</i>    |               |          |                                      |          |                                      |          |
| Common equity tier 1 capital ratio | 25,216        | 12.71    | 8,929                                | 4.50     | 12,897                               | 6.50     |
| Tier 1 capital ratio               | 25,216        | 12.71    | 11,905                               | 6.00     | 15,873                               | 8.00     |
| Total capital ratio                | 27,698        | 13.96    | 15,873                               | 8.00     | 19,842                               | 10.00    |
| Tier 1 leverage ratio              | 25,216        | 8.90     | 11,328                               | 4.00     | 14,160                               | 5.00     |

## **APPENDIX B**

**MARINE BANCORP OF FLORIDA, INC. AND SUBSIDIARIES**

**Condensed Consolidated Balance Sheets**  
(\$ in thousands, except per share amounts)

|  | <u>At June 30,</u><br><u>2021</u><br>(Unaudited) | <u>At December 31,</u><br><u>2020</u> |
|--|--|---------------------------------------|
| <b>Assets</b>  |  |                                       |
| Cash and due from banks  | \$ 4,504   | 3,682                                 |
| Interest-bearing deposits with banks   | <u>88,666</u>                                    | <u>62,751</u>                         |
| Total cash and cash equivalents  | 93,170   | 66,433                                |
| Time deposits  | 1,480  | 1,480                                 |
| Debt securities available for sale   | 49,316   | 13,941                                |
| Loans held for sale  | 2,052  | 1,154                                 |
| Loans, net of allowance for loan losses of \$3,968 and \$3,637   | 324,656  | 325,233                               |
| Accrued interest receivable  | 1,382  | 1,439                                 |
| Premises and equipment, net  | 5,675  | 5,699                                 |
| Operating lease right-of-use assets  | 801  | 939                                   |
| Deferred tax asset   | 223  | 154                                   |
| Federal Home Loan Bank stock   | 213  | 257                                   |
| Bank-owned life insurance  | 8,118  | 8,000                                 |
| Other assets   | <u>1,203</u>                                     | <u>590</u>                            |
| Total assets   | \$ <u>488,289</u>                                | <u>425,319</u>                        |
| <b>Liabilities and Stockholders' Equity</b>  |  |                                       |
| Liabilities:   |  |                                       |
| Noninterest-bearing demand deposits  | 163,014  | 125,961                               |
| Savings, NOW and money-market deposits   | 255,100  | 224,335                               |
| Time deposits  | <u>33,346</u>                                    | <u>41,116</u>                         |
| Total deposits   | 451,460  | 391,412                               |
| Note payable   | 2,000  | 2,000                                 |
| Subordinated debt, net   | 2,989  | 2,986                                 |
| Operating lease liabilities  | 845  | 976                                   |
| Official checks  | 1,482  | 900                                   |
| Accrued interest payable and other liabilities   | <u>906</u>                                       | <u>992</u>                            |
| Total liabilities  | <u>459,682</u>                                   | <u>399,266</u>                        |
| Stockholders' equity:  |  |                                       |
| Preferred stock, \$5 par value; 5,000,000 shares authorized;<br>none issued or outstanding                             | -  | -                                     |
| Common stock, \$1.50 par value; 20,000,000 shares authorized,<br>1,382,080 and 1,374,076 shares issued and outstanding | 2,060  | 2,060                                 |
| Additional paid-in capital, common   | 17,169   | 17,099                                |
| Retained earnings  | 9,078  | 6,510                                 |
| Accumulated other comprehensive income   | <u>300</u>                                       | <u>384</u>                            |
| Total stockholders' equity   | <u>28,607</u>                                    | <u>26,053</u>                         |
| Total liabilities and stockholders' equity   | \$ <u>488,289</u>                                | <u>425,319</u>                        |

**MARINE BANCORP OF FLORIDA, INC. AND SUBSIDIARIES**

**Condensed Consolidated Statements of Earnings (Unaudited)**

(\$ in thousands, except per share amounts)

|   | <u>Six Months Ended June 30,</u> |                  |
|---|----------------------------------|------------------|
|   | <u>2021</u>                      | <u>2020</u>      |
| Interest income:                                    |                                  |                  |
| Loans   | \$ 7,836                         | 6,229            |
| Debt securities                                     | 316                              | 283              |
| Other   | <u>57</u>                        | <u>65</u>        |
| Total interest income                               | <u>8,209</u>                     | <u>6,577</u>     |
| Interest expense:                                   |                                  |                  |
| Deposits  | 246                              | 792              |
| Borrowings  | <u>133</u>                       | <u>120</u>       |
| Total interest expense                              | <u>379</u>                       | <u>912</u>       |
| Net interest income                                 | 7,830                            | 5,665            |
| Provision for loan losses                           | <u>280</u>                       | <u>685</u>       |
| Net interest income after provision for loan losses | <u>7,550</u>                     | <u>4,980</u>     |
| Noninterest income:                                 |                                  |                  |
| Service charges on deposit accounts                 | 208                              | 145              |
| Swap referral fees                                  | 121                              | 317              |
| Interchange fees                                    | 241                              | 147              |
| Gain on sale of loans held for sale                 | 404                              | 199              |
| Other   | <u>260</u>                       | <u>85</u>        |
| Total noninterest income                            | <u>1,234</u>                     | <u>893</u>       |
| Noninterest expenses:                               |                                  |                  |
| Salaries and employee benefits                      | 3,257                            | 2,288            |
| Occupancy and equipment                             | 503                              | 482              |
| Data processing                                     | 561                              | 491              |
| Professional fees                                   | 189                              | 231              |
| Advertising   | 174                              | 176              |
| Other   | <u>745</u>                       | <u>566</u>       |
| Total noninterest expenses                          | <u>5,429</u>                     | <u>4,234</u>     |
| Earnings before income taxes                        | 3,355                            | 1,639            |
| Income taxes  | <u>788</u>                       | <u>398</u>       |
| Net earnings  | <u>\$ 2,567</u>                  | <u>1,241</u>     |
| Basic and diluted earnings per common share         | <u>\$ 1.86</u>                   | <u>0.90</u>      |
| Weighted-average number of common shares            | <u>1,376,518</u>                 | <u>1,372,571</u> |