Board of Governors of the Federal Reserve System

Annual Report of Holding Companies—FR Y-6

Report at the close of business as of the end of fiscal year

This Report is required by law: Section 5(c)(1)(A) of the Bank Holding Company Act (12 U.S.C. § 1844(c)(1)(A)); sections 8(a) and 13(a) of the International Banking Act (12 U.S.C. §§ 3106(a) and 3108(a)); sections 11(a)(1), 25, and 25A of the Federal Reserve Act (12 U.S.C. §§ 248(a)(1), 602, and 611a); and sections 113, 165, 312, 618, and 809 of the Dodd-Frank Act (12 U.S.C. §§ 5361, 5365, 5412, 1850a(c)(1), and 5468(b)(1)). Return to the appropriate Federal Reserve Bank the original and the number of copies specified.

This report form is to be filed by all top-tier bank holding companies, top-tier savings and loan holding companies, and U.S. intermediate holding companies organized under U.S. law, and by any foreign banking organization that does not meet the requirements of and is not treated as a qualifying foreign banking organization under Section 211.23 of Regulation K (12 C.F.R. § 211.23). (See page one of the general instructions for more detail of who must file.) The Federal Reserve may not conduct or sponsor, and an organization (or a person) is not required to respond to, an information collection unless it displays a currently valid OMB control number.

NOTE: The *Annual Report of Holding Companies* must be signed by one director of the top-tier holding company. This individual should also be a senior official of the top-tier holding company. In the event that the top-tier holding company does not have an individual who is a senior official and is also a director, the chairman of the board must sign the report. If the holding company is an ESOP/ESOT formed as a corporation or is an LLC, see the General Instructions for the authorized individual who must sign the report.

I, Jeffrey F. Turner
Name of the Holding Company Director and Official

Chairman of the Board of Delmar Bancorp
Title of the Holding Company Director and Official

attest that the *Annual Report of Holding Companies* (including the supporting attachments) for this report date has been prepared in conformance with the instructions issued by the Federal Reserve System and are true and correct to the best of my knowledge and belief.

With respect to information regarding individuals contained in this report, the Reporter certifies that it has the authority to provide this information to the Federal Reserve. The Reporter also certifies that it has the authority, on behalf of each individual, to consent or object to public release of information regarding that individual. The Federal Reserve may assume, in the absence of a request for confidential treatment submitted in accordance with the Board's "Rules Regarding Availability of Information," 12 C.F.R. Part 261, that the Reporter <ins>*and*</ins> *individual consent to public release of all details in the report concerning that individual.*

Signature of Holding Company Director and Official

3-19-19
Date of Signature

For holding companies <ins>*not*</ins> *registered with the SEC–*
Indicate status of Annual Report to Shareholders:

- ☒ is included with the FR Y-6 report
- ☐ will be sent under separate cover
- ☐ is not prepared

For Federal Reserve Bank Use Only

RSSD ID ______
C.I. ______

Date of Report (top-tier holding company's fiscal year-end):
December 31, 2018
Month / Day / Year

N/A
Reporter's Legal Entity Identifier (LEI) (20-Character LEI Code)

Reporter's Name, Street, and Mailing Address

Delmar Bancorp
Legal Title of Holding Company

2245 Northwood Drive
(Mailing Address of the Holding Company) Street / P.O. Box

Salisbury	MD	21801
City	State	Zip Code

N/A
Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Betsy Eicher	CFO & SVP
Name	Title

410-548-1722 X18305
Area Code / Phone Number / Extension

410-548-7895
Area Code / FAX Number

beicher@bankofdelmarva.com
E-mail Address

www.bankofdelmarva.com
Address (URL) for the Holding Company's web page

Is confidential treatment requested for any portion of this report submission? .... 0=No 1=Yes **0**

In accordance with the General Instructions for this report (check only one),

1. a letter justifying this request is being provided along with the report .... ☐
2. a letter justifying this request has been provided separately ... ☐

NOTE: Information for which confidential treatment is being requested must be provided separately and labeled as "confidential."

Public reporting burden for this information collection is estimated to vary from 1.3 to 101 hours per response, with an average of 5.50 hours per response, including time to gather and maintain data in the required form and to review instructions and complete the information collection. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden to: Secretary, Board of Governors of the Federal Reserve System, 20th and C Streets, NW, Washington, DC 20551, and to the Office of Management and Budget, Paperwork Reduction Project (7100-0297), Washington, DC 20503.

For Use By Tiered Holding Companies

Top-tiered holding companies must list the names, mailing address, and physical locations of each of their subsidiary holding companies below.

Legal Title of Subsidiary Holding Company

(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box

City State Zip Code

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

(Mailing Address of the Subsidiary Holding Company) Street / P.O. Box

City State Zip Code

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City State Zip Code

Physical Location (if different from mailing address)

Annual Report of Bank Holding Companies - FR Y 6

Report Item 2a: Organization Chart

Delmar Bancorp
No LEI
Salisbury, Maryland
State of Incorporation - MD

The Bank of Delmarva
549300T77W6SEYOH0U64
Seaford, Delaware
Delmar Bancorp Owns 100%
State of Incorporation - DE

Delmarva Real Estate Holdings LLC
No LEI
Salisbury, Maryland
The Bank of Delmarva Owns 100%
State of Incorporation - MD
Managing Member

Data Action	Effective Date	Branch Service Type	Branch ID_RSSD*	Popular Name	Street Address	City	State	Zip Code	County	Country	FDIC UNINUM*	Office Number*	Head Office	Head Office ID_RSSD*	Comments
OK		Full Service (Head Office)	885225	BANK OF DELMARVA, THE	910 NORMAN ESKRIDGE HIGHWAY	SEAFORD	DE	19973	SUSSEX	UNITED STATES	Not Required	Not Required	BANK OF DELMARVA, THE	885225	
OK		Full Service	664411	MAIN AND CLAYTON BRANCH	28280 CLAYTON STREET	DAGSBORO	DE	19939	SUSSEX	UNITED STATES	Not Required	Not Required	BANK OF DELMARVA, THE	885225	
OK		Full Service	852816	DELAWARE AVENUE AND MARKET STREET BRANCH	200 EAST MARKET STREET	LAUREL	DE	19956	SUSSEX	UNITED STATES	Not Required	Not Required	BANK OF DELMARVA, THE	885225	
OK		Full Service	3283233	REHOBOTH BRANCH	18572 COASTAL HIGHWAY	REHOBOTH BEACH	DE	19971	SUSSEX	UNITED STATES	Not Required	Not Required	BANK OF DELMARVA, THE	885225	
OK		Full Service	3877995	NEW DELMAR BRANCH	9550 OCEAN HIGHWAY	DELMAR	MD	21875	WICOMICO	UNITED STATES	Not Required	Not Required	BANK OF DELMARVA, THE	885225	
OK		Full Service	2944359	OCEAN CITY BRANCH	12505 COASTAL HIGHWAY	OCEAN CITY	MD	21842	WORCESTER	UNITED STATES	Not Required	Not Required	BANK OF DELMARVA, THE	885225	
OK		Full Service	5191677	WEST OCEAN CITY BRANCH	12720 OCEAN GATEWAY, UNIT 4	OCEAN CITY	MD	21842	WORCESTER	UNITED STATES	Not Required	Not Required	BANK OF DELMARVA, THE	885225	
OK		Full Service	2431699	2727 NORTH SALISBURY BRANCH	2727 NORTH SALISBURY BOULEVARD	SALISBURY	MD	21801	WICOMICO	UNITED STATES	Not Required	Not Required	BANK OF DELMARVA, THE	885225	
OK		Full Service	1169070	921 EASTERN SHORE BRANCH	921 EASTERN SHORE DRIVE	SALISBURY	MD	21804	WICOMICO	UNITED STATES	Not Required	Not Required	BANK OF DELMARVA, THE	885225	
OK		Full Service	886820	BEAGLIN PARK DRIVE BRANCH	241 BEAGLIN PARK DRIVE	SALISBURY	MD	21804	WICOMICO	UNITED STATES	Not Required	Not Required	BANK OF DELMARVA, THE	885225	
OK		Full Service	2063876	PECAN SQUARE BRANCH	1206 NANTICOKE ROAD	SALISBURY	MD	21801	WICOMICO	UNITED STATES	Not Required	Not Required	BANK OF DELMARVA, THE	885225	
OK		Full Service	3372276	CHERRY HILL BRANCH	2099 ROUTE 70 EAST	CHERRY HILL	NJ	08003	CAMDEN	UNITED STATES	Not Required	Not Required	BANK OF DELMARVA, THE	885225	
OK		Full Service	3205253	EVESHAM BRANCH	145 NORTH MAPLE AVENUE	MARLTON	NJ	08053	BURLINGTON	UNITED STATES	Not Required	Not Required	BANK OF DELMARVA, THE	885225	
OK		Full Service	3312311	MOORESTOWN BRANCH	227 WEST CAMDEN AVENUE	MOORESTOWN	NJ	08057	BURLINGTON	UNITED STATES	Not Required	Not Required	BANK OF DELMARVA, THE	885225	

Annual Report of Bank Holding Companies – FR Y-6

Report Item 3: Shareholders

Part 1:

The following persons were known by the Bank to own beneficially, directly or indirectly, more than 5% of the common stock of Delmar Bancorp.

Kenneth R. Lehman
Arlington, Virginia, USA
USA
4,117,936 shares 41%

CEDE & Company (holds certificate for shareholders in street name)
New York, NY, USA
USA
4,273,234 shares 43%

Part 2:

None

Annual Report of Bank Holding Companies – FR Y-6

Report Item 4: Directors and Officers

Wade H. Insley, III
Salisbury, MD, USA
Director of Delmar Bancorp
Director of The Bank of Delmarva
Principal Occupation: Attorney in the Law Firm of Laws, Insley and Benson P.A.

4a. 1%
4b. N/A
4c. 50% interest in W&L Real Estate Partnership,
100% interest in Insley Enterprises, LLC

Mark Granger
Salisbury, MD, USA
Director of Delmar Bancorp
Director of The Bank of Delmarva
Principal Occupation: Principal of Granger & Company, P.A.

4a. <1%
4b. N/A
4c. 100% interest in Granger & Company, P.A.
100% interest in Granger Financial Services LLC
50% interest in Sam & Max LLC

Joseph A. Maressa, Jr.
Waterford Works, NJ, USA
Director of Delmar Bancorp
Director of The Bank of Delmarva
Principal Occupation: Licensed Title Insurance Agent

4a. 1%
4b. N/A
4c. 32% interest in Aloe Village IV Limited Partnership
50% interest in Boardwalk Settlement Service, LLC
33.33% interest in Buena Terrace II, LP
33.33% interest in Buena Terrace IV Limited Partnership
26.66% interest in Clayton Apartments Limited Partnership
33.34% interest in Delsea View Limited Partnership
50% interest in Edgewood Acres IV LTD Partnership
50% interest in Hays Mill Associates
50% interest in Hays Mill Associates Limited Partnership
25% interest in Henwood Associates LLC
100% interest in Joseph A. Maressa Jr. Inc.
100% interest in Joseph A. Maressa Jr., Esq
50% interest in Liverpool Estates Limited Partnership
25% interest in MAJ Enterprises Inc.
25% interest in Maressa Family Real Estate Holdings, LLC
50% interest in Maressa Patterson, LLC
25% interest in Medford Development Group, LLC
50% interest in Monroe Towne East LP
25% interest in Neck Road Associates, LLC
25% interest in Paxson Associates, LLC
100% interest in Title Agency of America
100% interest in Title America Corporation
100% interest in Title America Delaware Inc.

James A. Tamburro
Medford, NJ, USA
Director of Delmar Bancorp
Director of The Bank of Delmarva
Principal Occupation: Attorney in the Law Firm of Tamburro Law Office

4a. <1%
4b. N/A
4c. 100% interest in Tamburro Law Office

David C. Doane
Dagsboro, DE, USA
Director of Delmar Bancorp
Director of The Bank of Delmarva
Principal Occupation: Certified Public Accountant at the Firm of Jefferson, Urian, Doane & Sterner P.A.

4a. <1%
4b. N/A
4c. N/A

Edward M. Thomas
Salisbury, MD, USA
Director of Delmar Bancorp
Director of The Bank of Delmarva
Principal Occupation: Trustee of the Jack and Anne Smith Family Foundation

4a. 1%
4b. N/A
4c. N/A

Robert C. Wheatley
Seaford, DE, USA
Director of Delmar Bancorp
Director of The Bank of Delmarva
Principal Occupation: Associate Broker at Keller Williams Commercial and Principal Partner of The Whayland Group, LLC

4a. <1%
4b. N/A
4c. 100% interest in The Whayland Group LLC
100% interest in KEB Properties LLC
33.33% interest in The Porvenir Group, LLC

J. Phillip Wright, Jr.
Hebron, MD, USA
Director of Delmar Bancorp
Director of The Bank of Delmarva
Principal Occupation: Chairman of VP Enterprises and President of SAS Shore Footwear, Inc.

4a. <1%
4b. N/A
4c. 60% interest in VP Enterprises
60% interest in Delmarva Footwear, Inc.
72% interest in SAS Shore Footwear, Inc.

Henry H. Hanna, III
Salisbury, MD, USA
Director of Delmar Bancorp
Director of The Bank of Delmarva
Principal Occupation: Senior advisor for Sperry Van Ness/Miller Commercial Real Estate

4a. <1%
4b. N/A
4c. 100% Eastland Development Corporation
50% Northwood Business Center LLC
33.33% HTL Inc.
50% H&D Johnson Road LLC

Jeffrey F. Turner
Chance, MD, USA
Chairman of the Board of Delmar Bancorp
Chairman of the Board of The Bank of Delmarva
Principal Occupation: Retired President and Chief Executive Officer of Mercantile Peninsula Bank

4a. <1%
4b. N/A
4c. 100% JFT, LLC

Heidi J. A. Gilmore
Millsboro, DE USA
Director of Delmar Bancorp
Director of The Bank of Delmarva
Principal Occupation: Partner in the law firm Baird Mandalas Brockstedt LLC
4a. <1%
4b. N/A
4c. 25 % interest in 6 South State Street LLC

Laura Deeley Bren
Ocean City, MD, USA
Director of Delmar Bancorp
Director of The Bank of Delmarva
Principal Occupation: President of insurance agency Deeley Insurance Group, LLC.

4a. <1%
4b. N/A
4c. 40% interest in Smith, Cropper & Deeley, Inc.
100% interest in LDB Insurance, Inc.

Kenneth R. Lehman
Arlington, VA USA
Director of Delmar Bancorp
Director of The Bank of Delmarva
Principal Occupation: Private investor and former banking and securities attorney
4a. 41%
4b. N/A
4c. 44% Marine Bancorp and Marine Bank & Trust Company
100% BVC Capital LLC
50% Village Bank & Trust Financial Corporation and Village Bank
45% Heritage Bancorporation and The Heritage Bank
42% Virginia Partners Bank
57% CCF Holding Company and Heritage Bank
51% ABB Financial Group and Affinity Bank
49% Providence Bank
21% IMF Hemika SACA LLC

John W. Breda
Delmar, MD, USA
Principal Occupation: President and Chief Executive Officer of The Bank of Delmarva and Delmar Bancorp

4a. <1%
4b. N/A
4c. N/A

Deborah S. Abbott
Ocean City, MD, USA
Principal Occupation: Executive Vice President and Chief Operating Officer of The Bank of Delmarva and Vice-President of Delmar Bancorp

4a. <1%
4b. N/A
4c. 50% interest in Friendship Cottage Antiques & Neat Stuff

DELMAR BANCORP

Annual Report

December 31, 2018

DELMAR BANCORP
AND SUBSIDIARIES
SELECTED FINANCIAL DATA

At year end:		2018	2017	2016
Total assets		$ 739,415,724	$ 562,259,537	$ 512,367,907
Loans receivable, net		625,513,347	462,701,244	424,077,145
Investment securities		51,300,284	46,661,741	48,345,417
Federal funds sold		1,254,413	3,492,835	1,262,322
Demand and NOW deposits		239,956,769	193,740,208	177,300,080
Savings and time deposits		374,968,578	271,716,506	256,182,857
Stockholders' equity		65,988,052	49,065,999	46,181,505
Tangible Common equity per share		5.98	5.97	5.62
For the year:				
Total income		36,693,223	26,209,385	23,820,488
Total expenses		31,210,485	22,795,001	19,802,761
Net income (loss)		5,482,738	3,414,384	4,017,727
Basic earnings per share		0.566	0.415	0.489
Basic earnings per share, excluding intangibles		0.598	0.415	0.489
Key ratios:				
Yield on earning assets		4.96%	4.60%	4.45%
Net interest income		27,814,071	20,303,669	18,078,746
Return on average assets		0.84%	0.64%	0.81%
Return on average equity		9.53%	7.17%	8.98%
Average equity to average assets		8.84%	8.86%	8.99%
Tier I risk-based capital	(Bank)	10.49%	11.09%	11.74%
Total risk-based capital	(Bank)	11.68%	12.34%	13.00%
Leverage capital ratio	(Bank)	8.74%	9.18%	9.38%
(See Note 15)				
Number of branch offices		14	10	10
Loan production offices		1	1	-
Number of administrative offices		2	2	2
Number of employees		161	129	120

March 25, 2019

Dear Shareholders,

Delmar Bancorp and its wholly-owned subsidiary, The Bank of Delmarva, realized another successful year during 2018. We completed the merger with Liberty Bell Bank, while delivering on organic growth, asset quality, capital management and profitability. Assets, loans and deposits were $739.4 million, $625.5 million and $614.9 million, respectively, at December 31, 2018, up 31.5%, 35.2%, and 32.1%, respectively, over year-end 2017. Net income grew $2.1 million, or 60.6%, in 2018, mainly as a result of the acquired and organic loan growth, margin management and the benefit from lower tax rates as a result of the 2017 tax reform. In addition, the Bank sold its investment division for a one-time gain of approximately $300,000 during November 2018. Increases in income were offset by merger expenses related to both the consummated Liberty transaction and the future acquisition of Virginia Partners Bank of $1.6 million. We view these expenses as an investment in future growth and profitability. Basic earnings per share for the year ended December 31, 2018 were $0.57, which is 36.3% higher than 2017, giving proof to the return on that investment.

The federal tax overhaul enacted in December of 2017 lowered the corporate statutory tax rate to 21% for tax years beginning after December 31, 2017, which was significantly below the roughly 35% effective rate regularly recorded by community banks since the credit crisis. While the legislation prompted us to revalue our deferred tax assets during 2017 and resulted in a write-down that negatively impacted earnings in that year, the lower rates considerably boosted results during the current year. Earnings before taxes increased in 2018, but tax expense decreased approximately $857,000 and tax expense as a percentage of pretax income decreased 18.4% from the prior year.

We were pleased to welcome Liberty Bell Bank into The Bank of Delmarva family in 2018. The integration of the acquisition was successful, and the seamless transition for clients is a testament to the customer-centric culture shared across each organization. The Liberty merger has enabled us to establish a presence in the South Jersey and Philadelphia metro markets.

The Bank possesses an experienced, talented team which works diligently to build strong customer relationships. We continue to attract customers who value the desirable combination of premium, personalized service with timely, local decision making. Moreover, our customers appreciate the fact that their deposits are put to work in their very own community.

Our branches continue to be important. While we process fewer transactions at branches than in the past, branches continue to be places that project our brand, solve customer problems, and house multiple lines of business. Business owners want to interact face to face with our branch employees, and they also want a convenient place for their employees to cash their checks. Additionally, individual customers appreciate being recognized and greeted each time they enter one of our branches to transact business.

We take great pride in providing tailored solutions that help individuals, families and businesses achieve their financial goals. This customer-focused approach to banking continues to differentiate us in the markets we serve and positions us well for further profitable growth.

We continually look for ways to deepen customer relationships and develop new ones. We remain committed to helping our customers succeed. We have aligned technology-based offerings with knowledgeable bankers across business lines, including mobile and online capabilities, putting human interaction at the center. This will deliver a unique integrated customer experience and enable us to better cross-sell relevant products and services.

We recognize the value of investing in community. This remains a core value for us today. Not only do we invest in our communities via donations and sponsorships, we also encourage our employees to participate in worthwhile community service projects, offering them paid volunteer time to empower them to do so. Our employees took this passion to a new level, donating over 5,400 hours over the course of this past year. They are a truly remarkable group of people who account for every bit of our success.

The bylaws of the company require directors to step down at the end of the calendar year in which they reach the mandatory retirement age. I regret to announce that Directors Wade "Beau" Insley and Phillip Wright retired from the Board effective December 31st. We have benefited greatly from both Beau and Phil's leadership on the Board for almost four decades. We thank them for their dedicated service and outstanding contributions to our organization, and they will be deeply missed. We extend our gratitude and best wishes to Beau & Shan Insley and Phil & Carol Wright.

The adoption in 2020 of a new accounting standard, dubbed the Current Expected Credit Loss model, or CECL, will mark a considerable shift in how banks reserve for loan losses. Today, banks record loan losses when it becomes probable that a loan will be impaired, dispersing reserves over time. This process will change under CECL and banks will begin significantly building their allowance for loan losses on the date of adoption. The new CECL requirements may increase an institution's operating cost in the form of personnel, technological and governance costs of implementation, and it is also possible the amount of capital set aside in loan loss reserves could increase. We have been diligently working on our implementation plan, and will be ready when required to adopt CECL standards next year.

On December 13, 2018 , Virginia Partners Bank ("Partners") entered into a share exchange agreement with Delmar Bancorp ("Delmar"), pursuant to which Partners shareholders will exchange shares of common stock for shares of Delmar common stock (the "share exchange"). Partners and Delmar believe the combination of the two companies will provide benefits from increased efficiencies and economies of scale, and enhance the ability of the combine company to access the public capital markets in order to support further growth, bolster the company's capital ratios, and enhance shareholder value and liquidity. Partners and Delmar expect to complete the share exchange shortly after all of the conditions to the share exchange are fulfilled, including obtaining the approval of Partners shareholders at a special meeting, and the approval of the applicable regulatory agencies. Delmar and Partners anticipate this will occur in the second or third quarter of 2019.

Overall, the Bank possesses a strong capital base which provides a solid foundation for continued growth. We look forward to a prosperous 2019 and beyond. Thank you for your continued support.

Sincerely,

John W. Breda
President and Chief Executive Officer

EXECUTIVE OVERVIEW

Delmar Bancorp is a bank holding company whose primary asset is The Bank of Delmarva. The financial statements of Delmar Bancorp consolidate the financial statements of Delmar Bancorp, The Bank of Delmarva, Davie Circle LLC, Delmarva Real Estate Holdings LLC, Delmarva BK Holdings, LLC, DHB Development LLC of which the Bank holds a 40.55% interest, West Nithsdale Enterprises LLC of which the Bank holds a 10.00% interest and FBW Delmarva LLC of which the Bank holds a 50.00% interest. The discussion and analysis which follow pertain to the operation of all the entities during 2018, but with the primary focus on the Bank.

Consolidated assets of Delmar Bancorp increased 31.5% to end the year at $739.4 million, which was an annual increase of $177.2 million. A significant part of this increase was due to the acquisition of Liberty Bell Bank, which contributed $151.5 million in assets. The remaining $25.6 million, or 4.6%, was organic growth.

The Bank's investment portfolio consists of Federal Agency, municipal, mortgage-backed and equity securities. The investment portfolio was $51.3 million at the end of 2018 or an increase of $4.6 million from $46.7 million in 2017.

The Bank's loan portfolio, net of the Allowance for Credit Losses, was $625.5 million at the end of 2018 or an increase of $162.8 million from $462.7 million in 2017. The acquisition of Liberty Bell Bank contributed $121.7 million in loan balances. The remaining $41.1 million, or 8.9%, was organic growth.

The Bank's Allowance for Credit Losses was $7.1 million at year end and represents 1.1% of ending loan balances. A total of $1.2 million was expensed from operations and added to the Allowance in 2018. Charge-offs of $1.2 million and recoveries of $339,000 in addition to the $1.2 million which was expensed from operations accounted for the change in the Allowance for 2018. Management believes that the Allowance for Credit Losses is considered adequate based upon the nature of the Bank's loan portfolio, historical loan losses and the credit quality of the current loan portfolio as of December 31, 2018, however there can be no guarantees that additional charge-offs or additional provisions for nonperforming loans will not be required or that currently performing loans will continue to perform at their current levels.

The primary source of funding for the Bank's loan and investment activities comes from deposit accounts owned by individuals, corporations, partnerships and other entities and from Federal Home Loan Bank borrowings. Total deposits increased by $149.5 million to $614.9 million. The acquisition of Liberty Bell Bank contributed approximately $138.2 million in deposit balances. The remaining increase of $11.2 million, or 2.4% was organic growth. Non-interest bearing demand accounts were 30.2% of total deposits and were $185.5 million at the end of 2018, an increase of $31.3 million or 20.3% compared to 2017. Interest bearing deposits were $429.4 million at the end of 2018. NOW accounts, savings accounts, money market accounts and certificates of deposit with balances greater than $100,000 increased by 38.8% while certificates of deposits with balances less than $100,000 increased by 36.3% compared to 2017.

Federal Home Loan Bank borrowings provide additional funding for short term and long term needs. The Bank ended 2018 with $43.5 million in long term borrowings compared to $44.1 million at December 31, 2017. The Bank had $7.0 million in short term borrowings at the end of 2018. There were no short term borrowings as of December 31, 2017.

The Bank had an additional $6.5 million of long term borrowings from an institution other than the Federal Home Loan Bank at the end of 2018.

Total capital at the holding company increased by approximately $16.9 million or 34.5%. Adjustments to capital in 2018 include net income of approximately $5.5 million and the issuance of common stock to Liberty Bell stockholders of approximately $12.8 million. Tangible capital at year end was $59.7 million in comparison to $49.1 million at the end of 2017. The holding company and the Bank are subject to various regulatory capital requirements administered by Federal banking agencies. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the holding company and Bank must meet specific capital adequacy 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 classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. At December 31, 2018 the holding company and Bank met all capital adequacy requirements to which they are subject and are considered to be "Well Capitalized". Management's goal is to maintain capital levels in excess of minimum regulatory capital guidelines that are sufficient to support potential growth and absorb potential losses. During each quarter of 2018 the Bank paid a dividend to common stock shareholders.

The Bank's primary source of income is interest income derived from the loan and bond portfolios. Total interest income in 2018 was $33.2 million, an increase of approximately $9.8 million from 2017. Interest income from the loan portfolio was $31.4 million at the end of 2018. Interest income from the bond portfolio was approximately $1.2 million, which included approximately $554,000 in income exempt from federal taxation.

The primary source of interest expense is interest paid to depositors and for other borrowed money. Interest paid to depositors totaled $3.8 million, an increase of approximately $1.8 million from 2017. Total interest expense in 2018 was $5.4 million, an increase of approximately $2.3 million from 2017.

Net interest income for 2018 totaled $27.8 million. This is an increase of 37.0% over the prior year's $20.3 million in net interest income. The net interest margin in 2018 was 4.15%, compared to 4.01% in 2017.

Other income includes service charges on deposit products, rental of safe deposit boxes, the brokerage of stock and bond products, and gains on the sale of assets and securities. Other income increased approximately $638,000 in 2018.

Operating expenses, including net write downs on other real estate owned of approximately $384,000, were $22.3 million in 2018 compared to $15.6 million in 2017, representing an increase of $6.7 million or 43.0%. The operating expense to average asset ratio of the holding company, excluding any impairment losses, was 3.4% in 2018 compared to 2.9% in 2017.

Net income was approximately $5.5 million in 2018 compared to net income of approximately $3.4 million reported in 2017. This is an increase of approximately $2.1 million. Total shares outstanding at year end 2018 were 9,985,321 and at year end 2017 were 8,219,576. The basic earnings per share were $.566 per share in 2018 compared to $.415 per share in 2017.

Herbert J. Geary III
Corey N. Duncan
Roy J. Geiser
Chris A. Hall
Ronald W. Hickman
Craig A. Walter
Mark A. Welsh

TGM GROUP LLC
CERTIFIED PUBLIC ACCOUNTANTS
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Delmar Bancorp
Salisbury, Maryland

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Delmar Bancorp and subsidiaries, which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of income, statements of comprehensive income, changes in stockholders' equity, and cash flows for the three years ended December 31, 2018, and the related notes to the consolidated 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the 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.

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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 consolidated financial position of Delmar Bancorp and its subsidiaries as of December 31, 2018 and 2017, and the results of their operations and their cash flows for the three years ended December 31, 2018, in accordance with accounting principles generally accepted in the United States of America.

TGM Group LLC

Salisbury, Maryland
March 14, 2019

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DELMAR BANCORP

CONSOLIDATED BALANCE SHEETS
December 31, 2018 and 2017

	2018	2017
ASSETS		
Cash and due from banks	$ 24,346,568	$ 22,057,980
Interest bearing deposits in other financial institutions	4,093,198	7,031,667
Federal funds sold	1,254,413	3,492,835
Cash and cash equivalents	29,694,179	32,582,482
Securities available for sale, at fair value	51,300,284	46,661,741
Loans, less allowance for credit losses 2018 **$7,063,310** ; 2017 $6,702,599	625,513,347	462,701,244
Accrued interest receivable on loans and investment securities	2,102,891	1,597,819
Premises and equipment, at cost, less accumulated depreciation	10,047,960	7,841,470
Federal Home Loan Bank stock, at cost	2,651,800	2,353,700
Maryland Financial Bank stock, at cost	-	30,000
Atlantic Central Bankers Bank stock, at cost	131,250	75,000
Other investments	1,537,007	1,500,000
Deferred tax asset	4,829,420	1,876,261
Other real estate owned	3,660,354	3,654,958
Core deposit intangible	1,069,000	-
Goodwill	5,237,067	-
Other assets	1,641,165	1,384,862
Total assets	$ 739,415,724	$ 562,259,537
LIABILITIES		
Deposits:		
Non interest bearing demand	$ 185,475,609	$ 154,188,173
NOW	54,481,160	39,552,035
Savings and money market	123,948,577	107,316,819
Time, $100,000 or more	115,030,083	64,622,631
Other time	135,989,918	99,777,056
	614,925,347	465,456,714
Accrued interest payable on deposits	391,579	229,540
Short-term borrowings	7,000,000	-
Long-term borrowings	43,488,929	44,147,500
Notes payable	6,500,000	2,000,000
Other liabilities	1,121,817	1,359,784
Total liabilities	673,427,672	513,193,538
COMMITMENTS, CONTINGENCIES & SUBSEQUENT EVENT		
STOCKHOLDERS' EQUITY		
Common stock, par value $.01, authorized 20,000,000 shares, issued and outstanding 2018 **9,985,321** and 2017 8,219,576	99,853	82,196
Surplus	29,469,680	16,622,245
Retained earnings	37,149,484	32,614,597
Accumulated other comprehensive loss, net of deferred tax benefits 2018 **$263,365** ; 2017 $91,355	(730,965)	(253,039)
Total stockholders' equity	65,988,052	49,065,999
Total liabilities and stockholders' equity	$ 739,415,724	$ 562,259,537

The Selected Notes to Consolidated Financial Statements are an integral part of these consolidated financial statements.

DELMAR BANCORP

CONSOLIDATED STATEMENTS OF INCOME
Years Ended December 31, 2018, 2017, and 2016

	2018	2017	2016
INTEREST INCOME ON:			
Loans, including fees	$ 31,361,506	$ 22,028,091	$ 19,882,956
Investment securities:			
Taxable	647,398	523,159	517,580
Exempt from Federal income tax	554,480	480,721	456,740
Federal funds sold	113,650	62,064	44,492
Other interest income	496,038	232,682	143,191
	33,173,072	23,326,717	21,044,959
INTEREST EXPENSE ON:			
Deposits	3,790,361	2,008,974	2,097,797
Borrowings	1,568,640	1,014,074	868,416
	5,359,001	3,023,048	2,966,213
NET INTEREST INCOME	27,814,071	20,303,669	18,078,746
Provision for credit losses	1,175,000	945,000	862,000
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	26,639,071	19,358,669	17,216,746
OTHER INCOME:			
Service charges on deposit accounts	1,316,933	1,349,098	1,283,313
(Losses) gains on other real estate owned	(383,861)	21,756	21,397
(Losses) gains on investment securities	-	(7,974)	48,069
Gain on sale of investment division	299,868	-	-
Gains on disposal of other assets	105,201	-	-
Other income	1,798,149	1,511,814	1,444,147
	3,136,290	2,874,694	2,796,926
OTHER EXPENSES:			
Salaries and employee benefits	10,649,070	8,279,178	7,329,731
Premises and equipment	3,257,629	2,056,579	1,945,646
Write down of Maryland Financial bank stock	30,000	-	-
Amortization of core deposit intangible	420,000	-	-
Other expenses	7,577,396	5,268,161	4,345,210
	21,934,095	15,603,918	13,620,587
INCOME BEFORE TAXES ON INCOME	7,841,266	6,629,445	6,393,085
Federal and state income taxes	2,358,528	3,215,061	2,375,358
NET INCOME	$ 5,482,738	$ 3,414,384	$ 4,017,727
Earnings per common share			
Basic	$ 0.566	$ 0.415	$ 0.489
Diluted	$ 0.565	$ 0.411	$ 0.480

The Selected Notes to Consolidated Financial Statements are an integral part of these consolidated financial statements.

DELMAR BANCORP

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years Ended December 31, 2018, 2017, and 2016

	2018	2017	2016
NET INCOME	$ 5,482,738	$ 3,414,384	$ 4,017,727
OTHER COMPREHENSIVE (LOSS) INCOME, NET OF TAX			
Unrealized holding (losses) gains on securities available for sale arising during the period	(650,151)	80,873	(776,930)
Deferred income tax benefits (liabilities)	172,225	(21,431)	306,499
Other comprehensive (loss) income, net of tax	(477,926)	59,442	(470,431)
Reclassification adjustment for losses (gains) included in net income	-	7,974	(48,069)
Deferred income tax (benefits) liabilities	-	(2,114)	18,963
Other comprehensive income (loss), net of tax	-	5,860	(29,106)
TOTAL OTHER COMPREHENSIVE (LOSS) INCOME	(477,926)	65,302	(499,537)
COMPREHENSIVE INCOME	$ 5,004,812	$ 3,479,686	$ 3,518,190

The Selected Notes to Consolidated Financial Statements are an integral part of these consolidated financial statements.

DELMAR BANCORP

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years Ended December 31, 2018, 2017, and 2016
(Unaudited)

	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balances, December 31, 2015	81,743	16,688,173	26,369,200	181,196	43,320,312
COMPREHENSIVE INCOME					
Net income	-	-	4,017,727	-	4,017,727
Other comprehensive loss, net of tax:					
Unrealized holding losses on securities available for sale arising during the period	-	-	-	(470,431)	
Reclassification adjustment for gains included in net income	-	-	-	(29,106)	
					(499,537)
TOTAL COMPREHENSIVE INCOME					3,518,190
Cash dividends, $0.070 per share	-	-	(573,771)	-	(573,771)
Restricted stock issuance	453	(453)	-	-	-
Stock exchanged for employee tax obligation related to stock-based compensation	-	(83,226)	-	-	(83,226)
Balances, December 31, 2016	82,196	16,604,494	29,813,156	(318,341)	46,181,505
COMPREHENSIVE INCOME					
Net income	-	-	3,414,384	-	3,414,384
Other comprehensive income, net of tax:					
Unrealized holding gains on securities available for sale arising during the period	-	-	-	59,442	
Reclassification adjustment for losses included in net income	-	-	-	5,860	
					65,302
TOTAL COMPREHENSIVE INCOME					3,479,686
Cash dividends, $0.080 per share	-	-	(657,566)	-	(657,566)
Reclassification adjustment for stranded income tax effects in accumulated other comprehensive income	-	-	44,623	-	44,623
Stock-based compensation expense recognized in earnings, net of employee tax obligation	-	17,751	-	-	17,751
Balances, December 31, 2017	82,196	16,622,245	32,614,597	(253,039)	49,065,999
COMPREHENSIVE INCOME					
Net income	**-**	**-**	**5,482,738**	**-**	**5,482,738**
Other comprehensive loss, net of tax:					
Unrealized holding losses on securities available for sale arising during the period	**-**	**-**	**-**	**(477,926)**	
					(477,926)
TOTAL COMPREHENSIVE INCOME					**5,004,812**
Cash dividends, $0.095 per share	**-**	**-**	**(947,851)**	**-**	**(947,851)**
Restricted stock issuance	**25**	**-**	**-**	**-**	**25**
Common stock issued for stock options exercised	**100**	**30,731**	**-**	**-**	**30,831**
Common stock issued to shareholders of Liberty Bell Bank	**17,532**	**12,780,704**	**-**	**-**	**12,798,236**
Stock-based compensation expense recognized in earnings, net of employee tax obligation	**-**	**36,000**	**-**	**-**	**36,000**
Balances, December 31, 2018	**$ 99,853**	**$ 29,469,680**	**$ 37,149,484**	**$ (730,965)**	**$ 65,988,052**

The Selected Notes to Consolidated Financial Statements are an integral part of these consolidated financial statements.

DELMAR BANCORP

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2018, 2017, and 2016

		2018		2017		2016
CASH FLOWS FROM OPERATING ACTIVITIES:						
Net income	$	5,482,738	$	3,414,384	$	4,017,727
Adjustments to reconcile net income to net cash provided by operating activities:						
Provision for credit losses and unfunded commitments		1,175,000		945,000		862,000
Depreciation		925,314		590,060		632,067
Amortization and accretion		638,635		219,574		213,067
(Gain) loss on disposal of assets		(375,069)		7,974		(49,368)
Net losses (gains) on other real estate owned, including write-downs		385,172		(20,550)		(24,723)
Deferred income tax expenses (benefits)		1,494,161		(103,612)		390,545
Stock-based compensation expense, net of employee tax obligation		36,000		17,751		(83,226)
Reclassification adjustment for stranded income tax effects in accumulated other comprehensive income		-		44,623		-
Changes in assets and liabilities:						
Increase in accrued interest receivable		(147,502)		(199,545)		(181,192)
Decrease (increase) in other assets		682,166		(214,939)		244,479
Increase (decrease) in accrued interest payable		127,027		31,835		(2,998)
Decrease (increase) in other liabilities		(1,513,677)		660,095		103,746
Net cash provided by operating activities		8,909,965		5,392,650		6,122,124
CASH FLOWS FROM INVESTING ACTIVITIES:						
Purchases of securities available for sale		(9,093,578)		(5,527,748)		(28,530,621)
Purchases of other investments		-		(500,000)		-
Proceeds from maturities and paydowns of securities available for sale		8,600,754		4,831,450		8,849,264
Proceeds from sales of securities available for sale		2,590,883		2,333,637		2,040,840
Net increase in loans		(42,692,636)		(41,344,746)		(32,286,446)
Proceeds from sale of assets		973,113		-		-
Cash received in the purchase of Liberty Bell Bank		11,830,975		-		-
Purchases of premises and equipment		(1,450,807)		(1,427,562)		(546,138)
Cash paid to shareholders of Liberty Bell Bank		(4,471,302)		-		-
Proceeds from the sales of foreclosed assets		934,425		708,010		914,123
Proceeds from sales of Federal Home Loan Bank stock		978,700		-		-
Purchase of Federal Home Loan Bank stock		(1,152,800)		(630,800)		(253,000)
Net cash used by investing activities		(32,952,273)		(41,557,759)		(49,811,978)
CASH FLOWS FROM FINANCING ACTIVITIES:						
(Decrease) increase in demand, NOW, money market, and savings deposits, net		(9,978,516)		27,245,432		29,208,086
Cash received for the exercise of stock options		30,856		-		-
Increase (decrease) in time deposits, net		21,206,634		4,728,345		(8,282,756)
Proceeds from borrowings to fund acquisition of Liberty Bell Bank, net of loan costs		4,450,000		-		-
Increase in borrowings, net		6,341,429		14,341,429		4,806,071
Dividends paid		(896,398)		(657,566)		(491,123)
Net cash provided by financing activities		21,154,005		45,657,640		25,240,278
Net (decrease) increase in cash and cash equivalents		(2,888,303)		9,492,531		(18,449,576)
Cash and cash equivalents, beginning		32,582,482		23,089,951		41,539,527
Cash and cash equivalents, ending	$	29,694,179	$	32,582,482	$	23,089,951

The Selected Notes to Consolidated Financial Statements are an integral part of these consolidated financial statements.

(Continued)

DELMAR BANCORP

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2018, 2017, and 2016
(Continued)

	2018	2017	2016
Supplementary cash flow information:			
Interest paid	$ 5,196,962	$ 2,991,213	$ 2,969,211
Income taxes paid	1,777,052	2,859,011	1,908,779
Total (depreciation) appreciation on securities available for sale	(650,151)	88,846	(824,999)
SUPPLEMENTARY NON-CASH INVESTING ACTIVITIES			
Fair value of assets acquired, net of cash and cash equivalents	$ 139,701,280	$ -	$ -
Fair value of liabilities assumed, net of cash and cash equivalents	139,499,784	-	-
Value of shares provided to Liberty Bell Bank stockholders	12,798,236	-	-
Loans converted to other real estate owned	379,389	1,775,647	500,548

The Selected Notes to Consolidated Financial Statements are an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Nature of Business and Its Significant Accounting Policies

Delmar Bancorp is a bank holding company which owns all the outstanding shares of capital stock of The Bank of Delmarva, a commercial bank operating in Wicomico and Worcester counties in Maryland, Sussex County in Delaware, and Camden and Burlington counties in New Jersey. The Bank provides financial services to individual and corporate customers, and is subject to competition from other financial institutions. The Bank is also subject to the regulations of certain Federal and state agencies and undergoes periodic examinations by those regulatory authorities. The accounting policies of the Bank conform to generally accepted accounting principles and practices within the banking industry.

Significant accounting policies not disclosed elsewhere in the consolidated financial statements are as follows:

Principles of Consolidation:

The consolidated financial statements include the accounts of Delmar Bancorp, a bank holding company (the Company); its wholly owned subsidiary - The Bank of Delmarva (the "Bank"), a commercial bank engaged in general commercial banking operations in Maryland, Delaware and New Jersey; Delmarva Real Estate Holdings, LLC., a wholly owned subsidiary of The Bank of Delmarva, which is a real estate holding company; Davie Circle, LLC, a wholly owned subsidiary of The Bank of Delmarva, which is a real estate holding company; Delmarva BK Holdings, LLC, a wholly owned subsidiary of The Bank of Delmarva, which is a real estate holding company; DHB Development, LLC, of which the Bank holds a 40.55% interest, and is a real estate holding company; West Nithsdale Enterprises, LLC, of which the Bank holds a 10% interest, and is a real estate holding company; and FBW, LLC, of which the Bank holds 50% interest, and is also a real estate holding company. All significant intercompany accounts and transactions have been eliminated.

Use of Estimates:

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

Securities Available for Sale:

Marketable debt and equity securities not classified as held to maturity are classified as available for sale. Securities available for sale are acquired as part of the Bank's asset/liability management strategy and may be sold in response to changes in interest rates, loan demand, changes in prepayment risk, and other factors. Securities available for sale are carried at fair value as determined by quoted market prices. Unrealized gains or losses based on the difference between amortized cost and fair value are reported in other comprehensive income, net of deferred tax. Realized gains and losses, using the specific identification method, are included as a separate component of other income (expense) and, when applicable, are reported as a reclassification adjustment, net of tax, in other comprehensive income. Premiums and discounts are recognized in interest income using the interest method over the period to maturity. Additionally, declines in the fair value of individual investment securities below their cost that are other than temporary are reflected as realized losses in the consolidated statements of income.

Other Securities:

Federal Home Loan Bank ("FHLB"), Atlantic Central Bankers Bank ("ACBB"), and Maryland Financial Bank ("MFB") are equity interests in the FHLB, ACBB, and MFB respectively. These securities do not have a readily determinable fair value for purposes of ASC 320-10 Investments-Debts and Equity Securities because their ownership is restricted and they lack an active market. As there is no readily determinable fair value for these securities, they are carried at cost less any other-than-temporary impairment (OTTI). Other Investments consists of an equity ownership of Solomon Hess SBA Loan Fund LLC which the value is adjusted for its prorata share of assets in the Fund.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Nature of Business and Its Significant Accounting Policies (Continued)

Loans and the Allowance for Credit Losses:

Loans are generally carried at the amount of unpaid principal, adjusted for unearned loan fees, which are amortized over the term of the loan using the effective interest rate method. Interest on loans is accrued based on the principal amounts outstanding. It is the Bank's policy to discontinue the accrual of interest when a loan is specifically determined to be impaired or when principal or interest is delinquent for ninety days or more. When a loan is placed on nonaccrual status, all interest previously accrued but not collected is reversed against current period interest income. Interest income generally is not recognized on specific impaired loans unless the likelihood of further loss is remote. Cash collections on such loans are applied as reductions of the loan principal balance and no interest income is recognized on those loans until the principal balance has been collected. Interest income on other nonaccrual loans is recognized only to the extent of interest payments received. The carrying value of impaired loans is based on the present value of the loan's expected future cash flows or, alternatively, the observable market price of the loan or the fair value of the collateral.

The allowance for loan losses is maintained at a level believed adequate by management to absorb probable losses inherent in the loan portfolio and is based on the size and current risk characteristics of the loan portfolio, an assessment of individual problem loans and actual loss experience, the value of the underlying collateral, and current economic events in specific industries and geographical areas, including unemployment levels, and other pertinent factors, including regulatory guidance and general economic conditions. Determination of the allowance is inherently subjective, as it requires significant estimates, including the amounts and timing on historical loss experience, and consideration of current economic trends, all of which may be susceptible to significant change. Loan losses are charged off against the allowance, while recoveries of amounts previously charged off are credited to the allowance. A provision for credit losses is charged to operations based on management's periodic evaluation of the factors previously mentioned, as well as other pertinent factors. Evaluations are conducted at least monthly and more often if deemed necessary.

The allowance for credit losses typically consists of an allocated component and an unallocated component. The allocated component of the allowance for credit losses reflects expected losses resulting from analyses developed through specific credit allocations for individual loans and historical loss experience for each loan category.

The specific credit allocations are based on regular analyses of all loans over a fixed-dollar amount where the internal credit rating is at or below a predetermined classification. The historical loan loss element is determined statistically using an informal loss migration analysis that examines loss experience and the related internal gradings of loans charged off over a current 3 year period. The loss migration analysis is performed quarterly and loss factors are updated regularly based on actual experience. The allocated component of the allowance for credit losses also includes consideration of concentrations and changes in portfolio mix and volume.

Any unallocated portion of the allowance reflects management's estimate of probable inherent but undetected losses within the portfolio due to uncertainties in economic conditions, delays in obtaining information, including unfavorable information about a borrower's financial condition, the difficulty in identifying triggering events that correlate perfectly to subsequent loss rates, and risk factors that have not yet manifested themselves in loss allocation factors. In addition, the unallocated allowance includes a component that explicitly accounts for the inherent imprecision in loan loss migration models. The historical losses used in the migration analysis may not be representative of actual unrealized losses inherent in the portfolio. It is management's intent to continually refine the methodology for the allowance for credit losses in an attempt to directly allocate potential losses in the loan portfolio under ASC Topic 310 and minimize the unallocated portion of the allowance for credit losses.

Loan Charge-off Policies

Loans are generally fully or partially charged down to the fair value of securing collateral when:

- management deems the asset to be uncollectible
- repayment is deemed to be made beyond the reasonable time frames
- the asset has been classified as a loss by internal or external review
- the borrower has filed bankruptcy and the loss becomes evident owing to a lack of assets

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Nature of Business and Its Significant Accounting Policies (Continued)

Acquired Loans

Loans acquired in connections with business combinations are recorded at their acquisition-date fair value with no carry over of related allowance for credit losses. Any allowance for loan loss on these pools reflect only losses incurred after the acquisition (meaning the present value of all cash flows expected at acquisition that ultimately are not to be received). Determining the fair value of the acquired loans involves estimating the principal and interest cash flows expected to be collected on the loans and discounting those cash flows at a market rate of interest. Management considers a number of factors in evaluating the acquisition-date fair value including the remaining life of the acquired loans, delinquency status, estimated prepayments, payment options and other loan features, internal risk grade, estimated value of the underlying collateral and interest rate environment.

Acquired loans that met the criteria for nonaccrual of interest prior to the acquisition may be considered performing upon acquisition, regardless of whether the customer is contractually delinquent, if we can reasonably estimate the timing and amount of the expected cash flows on such loans and if we expect to fully collect the new carrying value of the loans, including the impact of any accretable yield.

Loans acquired with deteriorated credit quality are accounted for in accordance with Accounting Standards Codification ("ASC") 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality (ASC 310-30) if, at acquisition, the loans have evidence of credit quality deterioration since origination and it is probable that all contractually required payments will not be collected. At acquisition, the Company considers several factors as indicator that and acquired loan has evidence of deterioration in credit quality. These factors include; loans 90 days or more past due, loans with an internal risk grade of substandard or below, loans classified as non-accrual by the acquired institution, and loans that have been previously modified in a troubled debt restructuring.

Under the ASC 310-30 model, the excess of cash flows expected to be collected at acquisition over recorded fair value is referred to as the accretable yield and is the interest component of expected cash flow. The accretable yield is recognized into income over the remaining life of the loan if the timing and/or amount of cash flows expected to be collected can be reasonable estimated (the accretion method). If the timing or amount of cash flows expected to be collected cannot be reasonably estimated, the cost recovery method of income recognition is used. The difference between the loan's total scheduled principal and interest payment over all cash flows expected to be collected at acquisition, considering the impact of prepayments, is referred to as the non-accretable difference. The non-accretable difference represents contractually required principal and interest payments which the Company does not expect to collect.

Over the life of the loan, management continues to estimate cash flows expected to be collected. Decreases in expected cash flows are recognized as impairments through a charge to the provision for loan losses resulting in an increase in the allowance for loan losses. Subsequent improvements in cash flows result in first, reversal of existing valuation allowances recognized subsequent to acquisition, if any, and next, an increase in the amount of accretable yield to be subsequently recognized as interest income on a prospective basis over the loan's remaining life.

Acquired loans that were not individually determined to be purchased with deteriorated credit quality are accounted for in accordance with ASC 310-20, Nonrefundable Fees and Other Costs (ASC 310-20), whereby the premium or discount derived from the fair market value adjustment, on a loan-by-loan or pooled basis, is recognized into interest income on a level yield basis over the remaining expected life of the loan or pool.

Other Real Estate Owned (OREO):

OREO comprises properties acquired in partial or total satisfaction of problem loans. The properties are recorded at the lower of cost or fair value at the date acquired. Losses arising at the time of acquisition of such properties are charged against the allowance for credit losses. Subsequent write-downs that may be required and expenses of operation are included in other expenses. Gains and losses realized from the sale of OREO are included in other income. At December 31, 2018 there were nine properties with a combined value of **$3,660,354** included in other real estate owned, and at December 31, 2017 there were eleven properties with a combined value of $3,654,958.

Note 1. Nature of Business and Its Significant Accounting Policies (Continued)

Bank Premises and Equipment and Depreciation:

Bank premises and equipment are stated at cost less accumulated depreciation. The provision for depreciation is computed using primarily the straight-line method over the estimated useful lives of the assets, ranging from two to fifty years. Leasehold improvements are depreciated over the lesser of the terms of the leases or their estimated useful lives. Expenditures for improvements that extend the life of an asset are capitalized and depreciated over the asset's remaining useful life. Gains or losses realized on the disposition of premises and equipment are reflected in the consolidated statements of income. Expenditures for repairs and maintenance are charged to other expenses as incurred. Computer software is recorded at cost and amortized over three to five years.

Intangible Assets and Amortization:

During 2012, the Bank restructured three borrowings with the FHLB and incurred a total prepayment penalty of $1,645,571 (see Note 8). The prepayment penalty was amortized to final maturity as an adjustment to interest expense and was fully amortized at December 31, 2018.

During 2018 the Bank acquired Liberty Bell Bank. ASC 350, Intangibles-Goodwill and Other (ASC350), prescribes accounting for intangible assets subsequent to initial recognition. Acquired intangible assets (such as core deposit intangibles) are separately recognized if the benefit of the assets can be sold, transferred, licensed, rented, or exchanged, and amortized over their useful lives. Intangible assets related to the acquisition are amortized (see Note 18).

Long-Lived Assets:

The carrying value of long-lived assets and certain identifiable intangibles is reviewed by management for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable as prescribed by ASC 360-10 Property, Plant, and Equipment. As of December 31, 2018 and 2017, certain loans were deemed to be impaired (see Note 3).

Income Taxes:

The Company and its subsidiaries file a consolidated Federal tax return. The provision for Federal and state income taxes is based upon the consolidated results of operations, adjusted for tax-exempt income. Deferred income taxes are provided under ASC 740-10 Income Taxes by applying enacted statutory rates to temporary differences between financial and tax bases of assets and liabilities.

Temporary differences, which give rise to deferred tax assets relate principally to the allowance for credit losses, accumulated amortization of intangibles, impairment loss on securities, net operating loss carryforward, net losses on other real estate owned, and unrealized depreciation on securities available for sale. Temporary differences which give rise to deferred tax liabilities relate to accumulated depreciation, deferred gains and accumulated accretion of discount on debt securities.

Credit Risk:

The Bank has deposits in other financial institutions in excess of amounts insured by the Federal Deposit Insurance Corporation (FDIC). The Bank has not experienced any losses in such accounts and management does not believe it is exposed to any significant credit risks with respect to such deposits.

Cash and Cash Equivalents:

The Bank has included cash and due from banks, interest bearing deposits in other financial institutions, and Federal funds sold as cash and cash equivalents for purposes of reporting cash flows.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Nature of Business and Its Significant Accounting Policies (Continued)

Accounting for Stock Based Compensation:

The Company follows ASC 718-10, *Compensation – Stock Compensation* for accounting and reporting for stock-based compensation plans. ASC 718-10 defines a fair value at grant date to be used for measuring compensation expense for stock-based compensation plans to be recognized in the statement of income.

During 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Updated (ASU) 2016-10 *Technical Corrections and Improvements,* which replaced the definition of fair value previously used in ASC 718 with the definition of fair value from ASC 820, *Fair Value Measurement.* The amendments affecting ASC 718-40 were effective and applied prospectively by the Company beginning January 1, 2016. Management believes the resulting change in fair value measurement methodology is immaterial to the financial statements.

Earnings (Loss) Per Share

Basic earnings (loss) per common share are determined by dividing net income (loss) adjusted for preferred stock dividends declared and/or accumulated and accretion of warrants by the weighted average number of shares outstanding for each year, giving retroactive effect to stock splits and dividends. Weighted average shares outstanding were **9,691,459**, and 8,219,576 for the years ended December 31, 2018 and 2017, respectively. Calculations of diluted earnings per common share include the average dilutive common stock equivalents outstanding during the year, unless they are anti-dilutive. Dilutive common equivalent shares consist of stock options calculated using the treasury stock method and restricted stock awards (See Note 14).

Recent Accounting Pronouncements

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities." ASU 2016-01, among other things, (i) requires equity investments, with certain exceptions, to be measured at fair value with changes in fair value recognized in net income, (ii) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment, (iii) eliminates the requirement for public business entities to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet, (iv) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, (v) requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments, (vi) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements and (viii) clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities. ASU 2016-01 becomes effective for public companies for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The adoption of ASU 2016-01 is not expected to have a material impact on the Company's consolidated financial statements.

Note 1. Nature of Business and Selected Accounting Policies (Continued)

On February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)." ASU 2016-02 will, among other things, require lessees to recognize the following for all leases (with the exception of short-term leases) at the commencement date: (1) A lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) A right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align, where necessary, lessor accounting with the lessee accounting model and Topic 606, Revenue from Contracts with Customers. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted upon issuance. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earlies comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earlies comparative period presented. Lessees and lessors may not apply a full retrospective transition approach. The Company is currently assessing the impact that ASU 2016-02 will have on its consolidated financial statements.

During June 2016, the FASB issued ASU 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." ASU 2016-13 requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts and requires enhanced disclosures related to the significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. In addition, ASU 2016-13 amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. ASU 2016-13 will be effective for U.S. Securities and Exchange Commission (SEC) filers for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. For public companies that are not SEC filers, the amendments in this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. The Company is currently evaluating the potential impact of ASU 2016-13 on our consolidated financial statements. We are currently working through our implementation plan which includes assessment and documentation of processes, internal controls and data sources; model development and documentation; and systems configuration, among other things. We are also in the process of implementing a third-party vendor solution to assist us in the application of the ASU 2016-13.

The adoption of the ASU 2016-13 could result in an increase in the allowance for loan losses as a result of changing from an "incurred loss" model, which encompasses allowances for current known and inherent losses within the portfolio, to an "expected loss" model, which encompasses allowances for losses expected to be incurred over the life of the portfolio. Furthermore, ASU 2016-13 will necessitate that we establish an allowance for expected credit losses for certain debt securities and other financial assets. While we are currently unable to reasonably estimate the impact of adopting ASU 2016-13, we expect that the impact of adoption will be significantly influenced by the composition, characteristics and quality of our loan and securities portfolios as well as the prevailing economic conditions and forecasts as of the adoption date.

Financial Statement Presentation

Certain amounts in the prior years' financial statements have been reclassified to conform to the current year's presentation.

Note 2. Investment Securities

Securities available for sale are as follows:

December 31, 2018								
		Amortized Cost		Gross Unrealized Gains		Gross Unrealized Losses		Fair Value
Obligations of U.S. Government agencies and corporations	$	9,469,319	$	46,713	$	(95,660)	$	9,420,372
Obligations of States and political subdivisions		21,383,017		139,006		(425,575)		21,096,448
Mortgage-backed securities		19,942,155		14,643		(553,197)		19,403,601
Equity securities		1,500,000		-		(120,137)		1,379,863
	$	52,294,491	$	200,362	$	(1,194,569)	$	51,300,284

December 31, 2017								
		Amortized Cost		Gross Unrealized Gains		Gross Unrealized Losses		Fair Value
Obligations of U.S. Government agencies and corporations	$	9,032,578	$	-	$	(99,657)	$	8,932,921
Obligations of States and political subdivisions		18,482,221		222,477		(148,096)		18,556,602
Mortgage-backed securities		17,991,213		29,420		(277,074)		17,743,559
Equity securities		1,500,000		-		(71,341)		1,428,659
	$	47,006,012	$	251,897	$	(596,168)	$	46,661,741

Note 2. Investment Securities (Continued)

Gross unrealized losses and fair values, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2018, are as follows:

Securities available-for-sale:

	December 31, 2018					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Obligations of U.S. Government agencies and corporations	$ 3,972,577	$ 17,592	$ 5,927,110	$ 78,068	$ 9,899,687	$ 95,660
Mortgage-backed securities	5,484,532	110,915	13,439,754	442,282	18,924,286	553,197
Obligations of States and political subdivisions	9,119,431	80,935	11,977,018	344,640	21,096,449	425,575
Equity Securities	-	-	1,379,863	120,137	1,379,863	120,137
Total securities with unrealized losses	$18,576,540	$ 209,442	$32,723,745	$ 985,127	$ 51,300,285	$ 1,194,569

For individual securities classified as either available for sale or held to maturity, the Bank must determine whether a decline in fair value below the amortized cost basis is other than temporary. In estimating other-than-temporary impairment losses, management considers, among other things, (i) the length of time and the extent to which the fair value has been less than cost, (ii) the financial condition and near-term prospects of the issuer, and (iii) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. If the decline in fair value is considered to be other than temporary, the cost basis of the individual security shall be written down to the fair value as a new cost basis and the amount of the write-down shall be included in earnings (that is, accounted for as a realized loss).

At December 31, 2018 there were six agency securities, fourteen mortgage-backed securities (MBS), nine collateralized mortgage obligations (CMO), twenty municipal securities, and one equity investment that have been in a continuous unrealized loss position for more than twelve months. As of December 31, 2018, management also believes it has the ability and intent to hold the securities for a period of time sufficient for a recovery of cost.

During the period ending December 31, 2018, the Bank did not sell any securities. During 2017, the Bank sold two securities resulting in a net loss of $7,974. Four securities were either matured or called during 2018, resulting in no gain or loss. Three securities were either matured or called during 2017, resulting in a net gain of $120.

Contractual maturities of investment securities at December 31, 2018 are shown below. Actual maturities may differ from contractual maturities because debtors may have the right to call or prepay obligations with or without call or prepayment penalties. Mortgage-backed securities have no stated maturity and primarily reflect investments in various Pass-through and Participation Certificates issued by the Federal National Mortgage Association and the Government National Mortgage Association. Repayment of mortgage-backed securities is affected by the contractual repayment terms of the underlying mortgages collateralizing these obligations and the current level of interest rates.

Note 2. Investment Securities (Continued)

The following is a summary of maturities, calls, or repricing of securities available for sale:

	December 31, 2018 Securities Available for Sale	
	Amortized Cost	Fair Value
Due in one year or less	$ 5,175,223	$ 5,166,175
Due after one year through five years	4,726,945	4,648,996
Due after five years through ten years	10,566,469	10,521,838
Due after ten years or more	11,883,699	11,559,674
Mortgage-backed, due in monthly installments	19,942,155	19,403,601
	$ 52,294,491	$ 51,300,284

	December 31, 2017 Securities Available for Sale	
	Amortized Cost	Fair Value
Due in one year or less	$ 3,479,444	$ 3,467,948
Due after one year through five years	9,149,578	9,100,375
Due after five years through ten years	7,017,986	7,152,837
Due after ten years or more	9,367,791	9,197,022
Mortgage-backed, due in monthly installments	17,991,213	17,743,559
	$ 47,006,012	$ 46,661,741

The Bank has pledged certain securities as collateral for qualified customers' deposit accounts at December 31, 2018 and 2017 as follows:

	2018	2017
Amortized cost	$ 8,596,502	$ 7,654,104
Fair value	8,632,414	7,829,179

Note 3. Loans, Allowance for Credit Losses and Impaired Loans

Major categories of loans as of December 31 are as follows:

		2018		2017
Originated Loans				
Other real estate secured	$	356,141,275	$	314,179,741
1 - 4 Family residential secured		116,770,781		110,843,248
Other		48,959,611		44,380,854
		521,871,667		469,403,843
Acquired Loans				
Other real estate secured	$	70,080,062	$	-
1 - 4 Family residential secured		29,532,014		-
Other		12,419,883		-
		112,031,959		-
Total Loans				
Other real estate secured	$	426,221,337	$	314,179,741
1 - 4 Family residential secured		146,302,795		110,843,248
Other		61,379,494		44,380,854
		633,903,626		469,403,843
Less: Unamortized discounts on acquired loans		(1,326,969)		-
Less: Allowance for loan losses		(7,063,310)		(6,702,599)
	$	625,513,347	$	462,701,244

Allowance for Loan Losses

Management has an established methodology to determine the adequacy of the allowance for loan losses that assesses the risks and losses inherent in the loan portfolio. For purposes of determining the allowance for loan losses, the Bank has segmented the loan portfolio into the following classifications:

- Other Real Estate Secured
  - Commercial Real Estate
  - Construction and Land Development
  - Farmland
  - Multifamily
- 1 – 4 Family Residential Secured
- Other
  - Commercial and Industrial
  - Consumer Loans
  - Other Loans

Note 3. Loans, Allowance for Credit Losses and Impaired Loans

Each of these segments are reviewed and analyzed quarterly using the weighted average historical charge-offs over a current three year period for their respective segments as well as the following qualitative factors:

- Changes in the levels and trends in delinquencies, non-accruals, classified assets and troubled debt restructurings
- Changes in the nature and volume of the portfolio
- Effects of any changes in lending policies, procedures, including underwriting standards and collections, charge off and recovery practices
- Changes in the experience, depth and ability of management
- Changes in the national and local economic conditions and developments, including the condition of various market segments
- Changes in the concentration of credits within each pool
- Changes in the quality of the Bank's loan review system and the degree of oversight by the Board
- Changes in external factors such as competition and the legal environment

The above factors result in a FAS 5, as codified in FASB ASC 450-10- 20, calculated reserve for environmental factors.

All credit exposures graded at a rating of "5", "6", "7" or "8" with outstanding balances less than $250,000 and credit exposures graded at a rating of "1", "2", "3" or "4" are reviewed and analyzed quarterly using the weighted average historical charge-offs over a current three year period as a percentage of total charge-offs for the same period for their respective segments as well as the qualitative factors discussed above. The weighted average historical percentage is further adjusted based on delinquency risk trend assessments and concentration risk assessments.

All credit exposures graded at a rating of "5", "6", "7" or "8" with outstanding balances greater than $250,000 are to be reviewed no less than quarterly for the purpose of determining if a specific allocation is needed for that credit. The determination for a specific reserve is measured based on the present value of expected future cash flows, discounted at the loan's effective interest rate, except when the sole (remaining) source of repayment for the loan is the operation or liquidation of the collateral. In these cases management uses the current fair value of the collateral, less selling cost when foreclosure is probable, instead of discounted cash flows. If management determines that the value of the loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs and unamortized premium or discount), impairment is recognized through an allowance estimate or a charge-off to the allowance.

The establishment of a specific reserve does not necessarily mean that the credit with the specific reserve will definitely incur loss at the reserve level. It is only an estimation of potential loss based upon anticipated events. A specific reserve will not be established unless loss elements can be determined and quantified based on known facts. The total allowance reflects management's estimate of loan losses inherent in the loan portfolio as of December 31, 2018 and 2017.

Note 3. Loans, Allowance for Credit Losses and Impaired Loans (Continued)

The following table presents the total allowance by loan segment.

	Other Real Estate Secured	1 - 4 Family Residential Secured	Other	Unallocated	Total
Balance at December 31, 2017	$ 3,857,599	$ 1,744,000	$ 536,000	$ 565,000	$ 6,702,599
Charge-offs - originated loans	(510,854)	(352,578)	(289,425)	-	(1,152,857)
Recoveries - originated loans	89,700	150,620	98,248	-	338,568
Provision - originated loans	839,555	100,958	309,177	(74,690)	1,175,000
Allowance allocation adjustment	(9,229)	(6,632)	(16,416)	-	(32,277)
Total Allowance on originated loans	4,266,771	1,636,368	637,584	490,310	7,031,033
Charge-offs - acquired loans	-	-	-	-	-
Recoveries - acquired loans	-	-	-	-	-
Provision - acquired loans	-	-	-	-	-
Allowance allocation adjustment	9,229	6,632	16,416	-	32,277
Total Allowance on acquired loans	9,229	6,632	16,416	-	32,277
Balance at December 31, 2018	$ 4,276,000	$ 1,643,000	$ 654,000	$ 490,310	$ 7,063,310
Individually evaluated for impairment:					
Balance in allowance	$ 278,083	$ 585,748	$ 177,965	$ -	$ 1,041,796
Related loan balance	14,947,227	8,774,800	1,732,429	-	25,454,456
Collectively evaluated for impairment:					
Balance in allowance	$ 3,997,917	$ 1,057,252	$ 476,035	$ 490,310	$ 6,021,514
Related loan balance	410,527,078	137,191,904	59,403,219	-	607,122,201

Note: The balances above include unamortized discounts on acquired loans of $1,329,969.

	Other Real Estate Secured	1 - 4 Family Residential Secured	Other	Unallocated	Total
Balance at December 31, 2016	$ 3,392,596	$ 2,140,000	$ 588,000	$ 265,000	$ 6,385,596
Charge-offs	(335,831)	(339,890)	(290,873)	-	(966,594)
Recoveries	234,948	21,819	81,830	-	338,597
Provision	565,886	(77,929)	157,043	300,000	945,000
Balance at December 31, 2017	$ 3,857,599	$ 1,744,000	$ 536,000	$ 565,000	$ 6,702,599
Individually evaluated for impairment:					
Balance in allowance	$ 372,726	$ 766,955	$ -	$ -	$ 1,139,681
Related loan balance	12,481,262	7,759,545	231,861	-	20,472,668
Collectively evaluated for impairment:					
Balance in allowance	$ 3,484,873	$ 977,045	$ 536,000	$ 565,000	$ 5,562,918
Related loan balance	301,698,479	103,083,703	44,148,993	-	448,931,175

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3. Loans, Allowance for Credit Losses and Impaired Loans (Continued)

The Bank had an unallocated amount (overage) of approximately **$490,000** in the allowance that is reflected in the above table as of December 31, 2018. The Bank had an unallocated amount (overage) of approximately $565,000 in the allowance that is reflected in the above table as of December 31, 2017. Management is comfortable with this amount as they feel it is adequate to absorb additional inherent potential losses in the loan portfolio.

Credit Quality Information

The following table represents credit exposures by creditworthiness category for the period ending December 31, 2018. The use of creditworthiness categories to grade loans permits management to estimate a portion of credit risk. The Bank's internal creditworthiness is based on experience with similarly graded credits. Loans that trend upward toward higher credit grades typically have less credit risk and loans that migrate downward typically have more credit risk.

The Bank's internal risk ratings are as follows:

1 Excellent – minimal risk. (normally supported by pledged deposits, United States government securities, etc.)
2 Superior – low risk. (all of the risks associated with this credit based on each of the bank's creditworthiness criteria are minimal)
3 Good – moderately low risk. (most of the risks associated with this credit based on each of the bank's creditworthiness criteria are minimal)
4 Fair/Watch – moderate risk. (the weighted overall risk associated with this credit based on each of the bank's creditworthiness criteria is acceptable)
5 Marginal – moderately high risk. (possesses deficiencies which corrective action by the bank would remedy; potential watch list)
6 Substandard – (the bank is inadequately protected and there exists the distinct possibility of sustaining some loss if not corrected)
7 Doubtful – (weaknesses make collection or liquidation in full, based on currently existing facts, improbable)
8 Loss – (of little value; not warranted as a bankable asset)

Non-accruals

In general, a loan will be placed on non-accrual status at the end of the reporting month in which the interest or principal is past due more than 90 days. Exceptions to the policy are those loans that are in the process of collection and are well secured. A well-secured loan is secured by collateral with sufficient market value to repay principal and all accrued interest.

Note 3. Loans, Allowance for Credit Losses and Impaired Loans (Continued)

A summary of loans by risk rating is as follows:

December 31, 2018	Other Real Estate Secured	1-4 Family Residential Secured	Other	Total
Excellent	$ 1,142,530	$ -	$ 9,756,062	$ 10,898,592
Superior	7,523,315	266,516	2,014,925	9,804,756
Good	402,092,509	133,401,022	45,802,235	581,295,766
Fair	8,083,929	4,598,314	2,105,674	14,787,917
Marginal	406,863	111,786	268,043	786,692
Substandard	7,071,034	7,589,065	342,835	15,002,934
TOTAL	$ 426,320,180	$ 145,966,703	$ 60,289,774	$ 632,576,657
Non-Accrual	$ 4,422,958	$ 4,546,889	$ 177,965	$ 9,147,812
Troubled debt restructures	$ 10,341,307	$ 7,268,955	$ 206,220	$ 17,816,482
Number of TDR accounts	28	21	3	52
Breakdown of TDRs				
TDRs on Non-accrual	$ 2,545,978	$ 3,290,222	$ 175,424	$ 6,011,624
TDRs Past Due 30-89	639,929	-	30,796	670,725
Performing TDRs	7,155,400	3,978,733	-	11,134,133
TOTAL	$ 10,341,307	$ 7,268,955	$ 206,220	$ 17,816,482
Total Non-performing TDR accounts	$ 3,185,907	$ 3,290,222	$ 206,220	$ 6,682,349
Number of non-performing TDRs	10	10	3	23

December 31, 2017	Other Real Estate Secured	1-4 Family Residential Secured	Other	Total
Excellent	$ 625,329	$ -	$ 5,378,931	$ 6,004,260
Superior	8,110,900	174,212	507,889	8,793,001
Good	287,176,446	98,618,796	37,040,922	422,836,164
Fair	10,298,246	4,687,720	958,592	15,944,558
Marginal	411,409	112,509	140,000	663,918
Substandard	7,557,411	7,250,011	354,520	15,161,942
TOTAL	$ 314,179,741	$ 110,843,248	$ 44,380,854	$ 469,403,843
Non-Accrual	$ 2,938,218	$ 1,548,668	$ -	$ 4,486,886
Troubled debt restructures	$ 10,315,841	$ 7,692,542	$ 182,602	$ 18,190,985
Number of TDR accounts	26	19	2	47
Breakdown of TDRs				
TDRs on Non-accrual	$ 1,707,672	$ 1,053,940	$ -	$ 2,761,612
TDRs Past Due 30-89	1,471,940	4,093,902	139,882	5,705,724
Performing TDRs	7,136,229	2,544,700	42,720	9,723,649
TOTAL	$ 10,315,841	$ 7,692,542	$ 182,602	$ 18,190,985
Total Non-performing TDR accounts	$ 3,179,612	$ 5,147,842	$ 139,882	$ 8,467,336
Number of non-performing TDRs	7	14	1	22

Note 3. Loans, Allowance for Credit Losses and Impaired Loans (Continued)

The following table includes an aging analysis of the recorded investment of past due financing receivables as of December 31, 2018 and 2017:

December 31, 2018	30-59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days Past Due *	Total Past Due	Current Balance	Total Financing Receivables **	Recorded Investment > 90 Days Past Due and Accruing
Other Real Estate Secured	$ 876,434	$ 1,741,807	$ 3,129,254	$ 5,747,495	$ 420,473,842	$ 426,221,337	$ 338,017
1 - 4 Family Residential	1,291,783	383,046	1,722,032	3,396,861	142,905,934	146,302,795	-
Other	1,035,158	33,336	268,043	1,336,537	60,042,957	61,379,494	268,043
TOTAL	$ 3,203,375	$ 2,158,189	$ 5,119,329	$ 10,480,893	$ 623,422,733	$ 633,903,626	$ 606,060

* Includes $4,513,269 of non-accrual loans.
** These balances do not include unamortized discounts of $1,329,969.

December 31, 2017	30-59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days Past Due *	Total Past Due	Current Balance	Total Financing Receivables	Recorded Investment > 90 Days Past Due and Accruing
Other Real Estate Secured	$ 2,571,701	$ 966,488	$ 3,399,244	$ 6,937,433	$ 307,242,308	$ 314,179,741	$ 1,021,447
1 - 4 Family Residential	3,069,290	2,782,736	804,573	6,656,598	104,186,650	110,843,248	309,845
Other	403,715	-	2,582	406,297	43,974,557	44,380,854	2,582
TOTAL	$ 6,044,706	$ 3,749,224	$ 4,206,399	$ 14,000,328	$ 455,403,515	$ 469,403,843	$ 1,333,874

* Includes $2,872,525 of non-accrual loans.

Impaired Loans

Impaired loans are defined as non-accrual loans, troubled debt restructurings, purchase credit impaired loans ("PCI") and loans risk rated a "6" or above. When management identifies a loan as impaired, the impairment is measured for potential loss based on the present value of expected future cash flows, discounted at the loan's effective interest rate, except when the sole (remaining) source of repayment for the loan is the operation or liquidation of the collateral. In these cases management used the current fair value of the collateral, less selling cost when foreclosure is probable, instead of discounted cash flows. If management determines that the value of the impaired loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs and unamortized premium or discount), impairment is recognized through an allowance estimate or a charge-off to the allowance.

When the ultimate collectability of the total principal of an impaired loan is in doubt and the loan is on non-accrual status, all payments are applied to principal, under the cost recovery method. When the ultimate collectability of the total principal of an impaired loan is not in doubt and the loan is on non-accrual status, contractual interest is credited to interest income when received, under the cash basis method.

Note 3. Loans, Allowance for Credit Losses and Impaired Loans (Continued)

The following table includes the recorded investment and unpaid principal balances for impaired financing receivables with the associated allowance amount, if applicable. Management determined the specific reserve in the allowance based on the present value of expected future cash flows, discounted at the loan's effective interest rate, except when the remaining source of repayment for the loan is the operation or liquidation of the collateral. In those cases, the current fair value of the collateral, less selling costs was used to determine the specific allowance recorded.

Also presented are the average recorded investments in the impaired loans and the related amount of interest recognized during the time within the period that the impaired loans were impaired. When the ultimate collectability of the total principal of an impaired loan is in doubt and the loan is on non-accrual status, all payments are applied to principal, under the cost recovery method.

December 31, 2018	Recorded Investment	Unpaid Principal Balance	Interest Income Recognized	Specific Reserve	Average Recorded Investment
Impaired loans with specific reserves:					
Other Real Estate Secured	$ 3,276,082	$ 3,276,082	$ 246,460	$ 412,331	$ 3,689,970
1 - 4 Family Residential Secured	3,947,359	4,075,065	173,648	585,748	4,989,366
Other	43,717	43,717	1,574	43,717	21,859
Total impaired loans with specific reserv	$ 7,267,158	$ 7,394,864	$ 421,682	$ 1,041,796	$ 8,701,194
Impaired loans with no specific reserve:					
Other Real Estate Secured	$ 12,848,564	$ 13,905,179	$ 1,015,835	$ -	$ 10,690,806
1 - 4 Family Residential Secured	5,761,271	7,011,277	256,019	-	3,901,900
Other	1,805,018	1,805,018	111,976	-	1,079,769
Total impaired loans with no specific res	$ 20,414,853	$ 22,721,474	$ 1,383,830	$ -	$ 15,672,474
TOTAL	$ 27,682,011	$ 30,116,338	$ 1,805,512	$ 1,041,796	$ 24,373,668

Total impaired loans of **$27,682,011** at December 31, 2018 include PCI loan balances of $1,109,739, which are net of a discount of $582,062. Total impaired loans also included $1,117,816 of loans which did not meet the criteria whereby an individual evaluation for impairment was required. These loans were pooled with all other loans not requiring an evaluation for individual impairment and reviewed and analyzed using the weighted average historical charge-offs over a current three year period for their respective segments along with the qualitative factors stated previously in this disclosure, to result in a ASC 450-10-20 (FAS 5) calculated reserve.

December 31, 2017	Recorded Investment	Unpaid Principal Balance	Interest Income Recognized	Specific Reserve	Average Recorded Investment
Impaired loans with specific reserves:					
Other Real Estate Secured	$ 4,103,857	$ 4,243,908	$ 174,905	$ 372,726	$ 4,270,534
1 - 4 Family Residential Secured	6,031,372	6,798,449	221,854	766,955	5,787,372
Other	-	-	-	-	43,642
Total impaired loans with specific reserves	$ 10,135,229	$ 11,042,357	$ 396,759	$ 1,139,681	$ 10,101,548
Impaired loans with no specific reserve:					
Other Real Estate Secured	$ 8,533,047	$ 8,615,541	$ 790,684	$ -	$ 11,040,502
1 - 4 Family Residential Secured	2,042,528	2,138,675	121,242	-	3,032,103
Other	354,520	354,520	25,421	-	379,498
Total impaired loans with no specific reserve	$ 10,930,095	$ 11,108,736	$ 937,347	$ -	$ 14,452,102
TOTAL	$ 21,065,324	$ 22,151,093	$ 1,334,106	$ 1,139,681	$ 24,553,650

Note 3. Loans, Allowance for Credit Losses and Impaired Loans (Continued)

All acquired loans were initially recorded at fair value at the acquisition date. The outstanding balance and the carrying amount of acquired loans included in the consolidated balance sheet are as follows:

		December 31, 2018
Accountable for under ASC 310-30 (PCI loans)		
Outstanding balance	$	**1,691,801**
Carrying amount		**1,109,739**
Accountable for under ASC 310-20 (non-PCI loans)		
Outstanding balance	$	**110,340,158**
Carrying amount		**109,595,251**
Total acquired loans		
Outstanding balance	$	**112,031,959**
Carrying amount		**110,704,990**

The following table provides changes in accretable yield for all acquired loans accounted for under ASC 310-20:

		December 31, 2018
Balance at beginning of period	$	-
Acquisitions		**1,702,914**
Accretion		**(958,007)**
Balance at end of period	$	**744,907**

Non-accretable yield on purchased credit impaired loans was $462,580 at December 31, 2018.

The Bank makes loans to customers located primarily within Wicomico and Worcester Counties, Maryland, Sussex County, Delaware and Camden and Burlington Counties, New Jersey. A substantial portion of its loan portfolio consists of residential and commercial real estate mortgages.

Included in the amounts listed above are loans receivable from directors, principal officers, and stockholders of **$5,179,000** and $7,266,000 at December 31, 2018 and 2017, respectively. During 2018 loan additions totaled **$120,000**. There were no new loans during 2017. During 2018 and 2017 repayments totaled **$2,207,000** and $669,000, respectively. These loans were made in the ordinary course of business on substantially the same terms and conditions as those prevailing at the same time for comparable transactions with other customers, including interest rates and collateral. They do not involve more than normal risk of collectability or present other unfavorable terms.

The Bank had no commitments to loan additional funds to the borrowers of restructured, impaired, or non-accrual loans as of December 31, 2018.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Premises, Equipment and Depreciation

A summary of premises and equipment, at cost, and accumulated depreciation is as follows:

		2018		2017
Land	$	**2,752,560**	$	1,752,560
Buildings and improvements		**8,724,280**		6,607,491
Furniture and equipment		**12,841,417**		8,491,564
Total premises and equipment		**24,318,257**		16,851,615
Less: accumulated depreciation		**14,270,297**		9,010,145
Net premises and equipment	$	**10,047,960**	$	7,841,470

Depreciation expense totaled **$925,314** and $590,060 for the years ended December 31, 2018, and 2017, respectively.

Note 5. Income Taxes

Components of income tax expense for the years ended December 31, 2018, 2017 and 2016 are as follows:

		2018		2017		2016
Current						
Federal	$	**64,391**	$	2,774,373	$	1,760,954
State		**812,365**		568,378		398,602
Total current		**876,756**		3,342,751		2,159,556
Deferred income tax (liabilities) benefits:						
Federal		**1,586,095**		26,424		86,356
State		**(104,323)**		(154,114)		129,446
Total deferred		**1,481,772**		(127,690)		215,802
Income tax expense	$	**2,358,528**	$	3,215,061	$	2,375,358

A reconciliation of tax computed at the Federal statutory income tax rate of 21% to the actual expense for the year ended December 31, 2018, as well as 34% for the years ended December 31, 2017 and 2016 is as follows:

		2018		2017		2016
Tax at Federal statutory income tax rate	$	**1,646,666**	$	2,254,011	$	2,173,649
Tax effect of:						
Tax exempt income		**(89,194)**		(372,271)		(348,290)
One-time adjustment to deferred tax asset due to the Tax Cuts and Jobs Act of 2017		**-**		762,784		-
Other		**241,703**		156,274		21,952
State income taxes, net of Federal tax benefit		**559,353**		414,263		528,047
Income tax expense	$	**2,358,528**	$	3,215,061	$	2,375,358

Note 5. Income Taxes (Continued)

Income taxes included in the balance sheets are as follows:

	2018	2017
Federal income tax payable	$ -	$ 768,802
State franchise tax receivable and prepaid state taxes	**(249,877)**	(56,622)
Deferred income tax assets:		
Allowance for credit losses and unfunded commitments	**$ 1,168,851**	$ 681,105
Net operating loss carryforward	**1,948,709**	99,038
Accumulated amortization on intangibles	**35,629**	42,778
Impairment loss on investment securities	**26,709**	30,994
Net losses on other real estate owned	**1,145,554**	1,217,239
Stock option expense	**24,843**	3,225
Discounts on acquired loans	**354,420**	-
Other real estate owned valuation	**432,107**	-
Merger costs	**-**	196,803
Net depreciation on securities available for sale	**263,365**	91,355
Other	**21,282**	7,793
	5,421,469	2,370,330
Deferred tax liabilities:		
Accumulated depreciation	**169,891**	360,887
Accumulated amortization on core deposit intangible	**285,523**	-
Deferred gain	**135,945**	132,677
Accumulated securities discount accretion	**690**	505
	592,049	494,069
Net deferred income tax asset	**$ 4,829,420**	$ 1,876,261

The change in net deferred tax assets also includes deferred tax assets recorded in connection with the Liberty Bell acquisition of $4,263,012.

On December 22, 2017 the Tax Cuts and Jobs Act was signed into law which, among other items, reduced the corporate tax rate from a graduated set of rates with a maximum of 35% to a flat 21% beginning with taxable years starting after December 31, 2017. As required under ASC Topic 740, the Bank re-measured its deferred income tax assets and liabilities for temporary differences from the current corporate tax rate to the new corporate tax rate of 21% as of December 31, 2017. The cumulative adjustment was recognized in income tax expense from continuing operations as a discrete item in the period that included the enactment date, December 31, 2017. Beginning in 2018 the Company's federal statutory tax rate was 21%.

Management has determined that no valuation allowance is required as it is more likely than not that the deferred tax assets will be fully realizable in the future. At December 31, 2018 and 2017, management believes there are no uncertain tax positions under ASC Topic 740 Income Taxes. The Bank's Federal and state income tax returns are subject to examination by the IRS and/or state tax authorities. The tax years that remain subject to examination by the Federal government and the State of Maryland include the years ended December 31, 2015, 2016 and 2017. The tax years that remain subject to examination by the State of New Jersey include the years ended December 31, 2014, 2015, 2016 and 2017. The 2018 tax returns will be filed in 2019.

Note 6. Deposits

Time deposits and their remaining maturities at December 31, 2018 are as follows:

2019	$ 110,180,610
2020	73,689,976
2021	20,288,223
2022	29,099,631
2023	17,726,417
2024 and thereafter	35,144
Total time deposits	$ 251,020,001

Interest expense on deposits for the years ended December 31, 2018 and 2017 and 2016 is as follows:

		2018		2017		2016
NOW	**$**	**118,031**	$	61,052	$	31,667
Money market		**201,875**		133,016		132,401
Savings		**96,009**		79,707		73,277
Time, $100,000 or more		**1,691,699**		760,380		735,363
Other time		**1,682,747**		974,819		1,125,089
	$	**3,790,361**	$	2,008,974	$	2,097,797

Deposit balances of officers and directors and their affiliated interests totaled approximately **$7,009,000** and $4,938,000 as of December 31, 2018 and 2017, respectively.

Deposit accounts in an overdraft position totaled approximately **$255,000** and $261,000 as of December 31, 2018 and 2017, respectively.

Some of the Company's CD deposits are through participation in the Certificate of Deposit Account Registry Service (CDARS). These deposits totaled **$2,145,571** and $5,345,621 at December 31, 2018 and 2017, respectively.

Note 7. Other Income

Other income consists of the following:

		2018		2017		2016
Investment fees and commissions	**$**	**64,160**	$	98,194	$	143,477
Safe deposit box rentals		**45,215**		42,377		43,149
Visa debit income		**871,708**		765,987		734,163
Other non-interest income		**817,066**		605,256		523,358
	$	**1,798,149**	$	1,511,814	$	1,444,147

Note 8. Credit Facilities

The Bank owns capital stock of the Federal Home Loan Bank of Atlanta (FHLB) as a condition for a $184,445,750 convertible advance credit facility from the FHLB. As of December 31, 2018, the Bank had remaining credit availability of $133,956,821 under this facility.

In June 2005, the Bank borrowed $5,000,000 from the FHLB with interest payable quarterly fixed at 3.78% through June 2010, maturing in June 2015. The FHLB had the option of converting the rate on this borrowing to a three month LIBOR based floating rate in 2010, however it chose not to do so, therefore the rate on this borrowing would have remained at 3.78% until maturity. During 2012, this borrowing was restructured to a three month LIBOR based floating rate for the first two years, then adjusting to 1.83% until maturity in December 2018. Due to a prepayment penalty of $405,011, which was amortized to final maturity as an adjustment to interest expense, the effective rate was the three month LIBOR based floating rate plus 1.35% for the first two years, adjusting to 3.18% until maturity. As of December 31, 2018 the premium was fully amortized.

In September 2005, the Bank borrowed an additional $5,000,000 with interest payable quarterly fixed at 4.06% through September 2009, maturing in September 2015. The FHLB had the option of converting the rate on this borrowing to a three month LIBOR based floating rate in 2009, however it chose not to do so, therefore the rate on this borrowing would have remained at 4.06% until maturity. During 2012, this borrowing was restructured to a three month LIBOR based floating rate for the first two years, then adjusting to 1.83% until maturity in December 2018. Due to a prepayment penalty of $500,195, which was amortized to final maturity as an adjustment to interest expense, the effective rate was the three month LIBOR based floating rate plus 1.67% for the first two years, adjusting to 3.50% until maturity. As of December 31, 2018 the premium was fully amortized.

In September 2006, the Bank borrowed an additional $5,000,000 with interest payable quarterly fixed at 4.57% through September 2011, maturing in September 2016. The FHLB has the option of converting the rate on this long-term borrowing to a three month LIBOR-based floating rate in 2011, however it chose not to do so, therefore the rate on this borrowing would have remained at 4.57% until maturity. During 2012, this borrowing was restructured to a three month LIBOR based floating rate for the first two years, then adjusting to 1.83% until maturity in December 2018. Due to a prepayment penalty of $740,365, which was amortized to final maturity as an adjustment to interest expense, the effective rate was the three month LIBOR based floating rate plus 2.47% for the first two years, adjusting to 4.30% until maturity. As of December 31, 2018 the premium was fully amortized.

In May 2015, the Bank borrowed an additional $10,000,000 with interest payable quarterly fixed at 1.08%, maturing in May 2020. The FHLB had the option of converting the rate on this long-term borrowing to a three month LIBOR-based floating rate at any time. In May of 2018 the FHLB exercised the convertible option and the Bank paid off the advance.

In March 2016, the Bank borrowed an additional $3,000,000 with interest payable monthly fixed at 1.62%, maturing in March 2023. The principal portion of this borrowing was $1,821,429 at December 31, 2018.

In March 2016, the Bank borrowed an additional $2,300,000 with interest payable monthly fixed at 1.99%, maturing in March 2026. The principal portion of this borrowing was $1,667,500 at December 31, 2018.

In June 2017, the Bank borrowed an additional $15,000,000 with interest payable quarterly fixed at 1.51%, maturing in June 2019.

In May 2018 the Bank borrowed an additional $10,000,000 with interest payable quarterly fixed at $2.68%, maturing in May 2021. The FHLB has the option of converting the rate on this long-term borrowing to a three month LIBOR-based floating rate in May 2020.

In October 2018, the Bank borrowed an additional $5,000,000 with interest payable quarterly fixed at 3.15%, maturing in October 2022.

In November 2018, the Bank borrowed two additional amounts of $5,000,000 each with interest payable quarterly fixed at 3.04% and 2.91%. Both amounts mature in November 2020.

Note 8. Credit Facilities (Continued)

Average short-term borrowing under FHLB approximated **$1,389,041** and $547,945 for the years ended December 31, 2018 and 2017, respectively.

The Bank has pledged a portion of its residential and commercial mortgage loan portfolio as collateral for these credit facilities. Principal balances outstanding on these pledged loans totaled approximately **$135,318,000** and $96,188,000 at December 31, 2018 and 2017, respectively.

In addition to the FHLB credit facility, in October 2015, the Company entered into a subordinated loan agreement for an aggregate principal amount of $2,000,000. Interest-only payments are due quarterly at 6.71% per annum, and the outstanding principal balance matures in October 2025. In January 2018, the Company entered into a subordinated loan agreement for an aggregate principal amount of $4,500,000 to fund the acquisition of Liberty Bell Bank, net of loan costs. Interest-only payments are due quarterly at 6.875% per annum, and the outstanding principal balance matures in April 2028.

The proceeds of these long-term borrowings were generally used to purchase higher yielding investment securities, fund additional loans, redeem preferred stock, or fund acquisitions. Additionally, the Bank has secured credit availability of $5,000,000 with a correspondent bank for short-term liquidity needs, if necessary. This facility must be collateralized by specific securities at the time of any usage. At December 31, 2018, there were no borrowings outstanding, and securities pledged under this credit facility had an amortized cost and fair value of **$7,988** and **$9,059**, respectively. At December, 2017 there were no borrowings outstanding, and securities pledged under this credit facility had an amortized cost and fair value of $9,873 and $11,415, respectively.

Maturities on long-term debt over the next five years are as follows:

2019	$ 15,658,572
2020	10,658,572
2021	10,658,572
2022	5,658,572
2023	694,286

Note 9. Profit Sharing Plan

The Bank has a defined contribution 401(k) profit sharing plan covering substantially all full-time employees. Under the 401(k) provision the Bank is currently matching 50% of employee contributions of up to 6% of their compensation as defined under the plan. Additional employer contributions are at the discretion of the Board of Directors. The Bank's contributions to this plan totaled **$169,467,** $124,493 and $111,814, and for the years ended December 31, 2018, 2017 and 2016, respectively.

Note 10. Lease Commitment

The Bank has a branch facility lease for its Seaford, Delaware branch through December 31, 2023. The Bank also has a fifteen-year land lease for its Rehoboth, Delaware branch, with (5) five-year renewal options for a total of twenty-five years, which began in 2000. In 2008 the Bank entered into a six-year lease agreement for its North Ocean City branch with an eight-year renewal option, for a total of 14 years. In February 2014, this renewal option was exercised. In March 2016, the Bank renewed the Ocean City lease, extending the maturity date from October 31, 2019 to October 31, 2022. The Bank has the option to extend the lease for an additional five-year period. In December 2016 the Bank entered into a three-year agreement for its Rehoboth loan office with a three-year renewal option. In October 2017 the Bank entered into a five-year agreement for its West Ocean City branch beginning in January 2018, with three five-year renewal options. In August 2017 the Bank entered into a five-year agreement for the Accounting Department at the Plaza with two additional five-year renewal options. Rent expense under this agreement did not commence until April of 2018, once renovations to the space were complete. In August 2018 the Bank entered into a thirty-month agreement for basement storage at the Plaza building. The terms of the agreement stipulated that the first six months of rents would be waived by the lessor and the remaining two years of payments would be due upon signing the lease. In December of 2018 the Bank entered into a two-year agreement for space on the second floor of the Rehoboth loan office with a three-year renewal option. With the acquisition of Liberty Bell Bank in 2018 the Bank assumed three separate leases pertaining to two branches located in New Jersey. The Cherry Hill branch has two leases, one for the main branch and one for additional space located in the same building. Both leases expire in May 2020. The other assumed lease is for the Moorestown branch location, which expires in January 2021 and includes a five-year renewal option. Rent expense under these arrangements was **$514,910,** $227,817 and $203,838 for the years ended December 31, 2018, 2017, and 2016, respectively.

Minimum lease payments for the next five years, assuming renewal options are exercised, are approximately as follows:

2019	$	495,515
2020		433,376
2021		390,073
2022		393,715
2023		403,462

Note 11. Other Operating Expenses

Other operating expenses include the following:

		2018		2017		2016
Professional services	**$**	**308,761**	$	182,423	$	119,552
Stationery, printing and supplies		**281,932**		151,711		149,273
Postage and delivery		**180,863**		136,277		146,495
FDIC assessment		**583,512**		352,981		357,806
State bank assessment		**2,835**		1,000		1,000
Directors fees and expenses		**297,725**		209,650		229,176
Marketing		**267,489**		259,183		226,466
Correspondent bank services		**84,327**		68,526		76,367
ATM expenses		**703,214**		590,110		572,539
Telephones and mobile devices		**432,498**		256,771		164,276
Membership dues and fees		**80,578**		62,373		59,460
Legal fees		**273,088**		108,417		285,735
Audit and related professional fees		**111,698**		170,288		94,175
Insurance		**177,608**		118,935		130,110
Bank acquisition costs (See Note 20)		**1,636,648**		787,350		-
Other		**2,154,620**		1,812,166		1,732,780
	$	**7,577,396**	$	5,268,161	$	4,345,210

Note 12. Stock Option Plans

Delmar Bancorp Stock Option Plan

The Bank has employee and director stock option plans and has reserved 18,409 shares of stock for issuance thereunder. Options granted under these plans have a ten-year life with a four-year vesting period that begins one year after date of grant, and are exercisable at a price equal to the fair value of the Company's stock on the date of the grant. Each award from all plans is evidenced by an award agreement that specifies the option price, the duration of the option, the number of shares to which the option pertains, and such other provisions as the grantor determines. The plan term ended in 2014, therefore no new options can be granted.

Options for 18,409 shares were outstanding as follows:

	Employees			Directors		
	Shares	Average Price	Amount	Shares	Average Price	Amount
December 31, 2015	86,104	18.01	1,550,459	32,764	18.33	600,745
Forfeited in 2016	(3,212)	19.05	(61,173)	-	-	-
December 31, 2016	82,892	$ 17.97	$ 1,489,286	32,764	$ 18.33	$ 600,745
Forfeited in 2017	(32,348)	23.09	(746,925)	(15,020)	21.69	(325,722)
December 31, 2017	50,544	$ 14.69	$ 742,361	17,744	$ 15.50	$ 275,023
Exercised in 2018	**(5,000)**	**1.98**	**(9,900)**	-	-	-
Forfeited in 2018	**(31,649)**	**19.17**	**(606,711)**	**(13,230)**	**17.70**	**(234,171)**
December 31, 2018	**13,895**	**$ 9.05**	**$ 125,750**	**4,514**	**$ 9.05**	**$ 40,852**

No stock options were exercised in 2016 or 2017. During 2018 5,000 stock options were exercised from the Delmar Bancorp stock option plan at an exercise price of $1.98. Shares issued in connection with stock option exercises are issued from available authorized shares.

Liberty Bell Stock Option Plan

In 2004 Liberty Bell Bank adopted the 2004 Incentive Stock Option Plan and the 2004 Non-Qualified Stock Option Plan, which were stock-based incentive compensation plans (the Plans). In February 2014 the Plans expired pursuant to their terms. Options under these plans had a 10 year life and vested over 5 years. Remaining options under these plans became fully vested with the signing of the Agreement of Merger with Delmar Bancorp in February 2018. In accordance with the terms of the Agreement of Merger between Delmar and Liberty, the Plan was assumed by Delmar, and the options were converted into and became an option to purchase an adjusted number of shares of the common stock of Delmar at an adjusted exercise price per share. The number of shares was determined by multiplying the number of shares of Liberty common stock for which the option was exercisable by the number of shares of Delmar common stock into which shares of Liberty common stock were convertible in the Merger, which was 0.2857 (the "Conversion Ratio"), rounded to the next lower whole share. The exercise price was determined by dividing the exercise price per share of Liberty common stock by the Conversion Ratio, rounded up to the nearest cent. At the effective time of the merger there were 48,225 options outstanding at an exercise price of $1.18. These shares were converted to 13,771 options outstanding at an exercise price of $4.14. During 2018, 5,062 options were exercised at an exercise price of $4.14.

Note 12. Stock Option Plans (Continued)

Remaining options for 8,709 shares were outstanding as follows:

	Employees					Directors				
		Average					Average			
	Shares		Price		Amount	Shares		Price		Amount
March 1, 2018	5,361	$	4.14	$	22,195	8,410	$	4.14	$	34,818
Exercised in 2018	**(3,006)**		**4.14**		**(12,445)**	**(2,056)**		**4.14**		**(8,512)**
December 31, 2018	**2,355**	**$**	**4.14**	**$**	**9,750**	**6,354**	**$**	**4.14**	**$**	**26,306**

As stated in Note 1, the Company follows ASC Topic 718-10 which requires that stock-based compensation to employees and directors be recognized as compensation cost in the income statement based on their fair values on the measurement date, which, for the Company, is the date of the grant. All stock option expenses had been fully recognized prior to 2018.

Note 13. Restricted Stock Plan

The Bank has an employee and director restricted stock plan and has reserved **405,805** shares of stock for issuance thereunder. The Company has adopted the Plan, pursuant to which employee and directors of the Company may acquire shares of common stock. The Plan was adopted by the Company's Board of Directors in April 2014, and, subject to the right of the Board of Directors to terminate the Plan at any time, terminates on June 30, 2018. The termination of the Plan, either at the scheduled termination date or before such date, will not affect any award issued prior to termination. Shares awarded in 2016 had a four-year vesting period, with the number of shares to vest based on the Company's performance relative to pre-established performance goals during the four year vesting period. During 2016, no shares of stock were awarded under the restricted stock plan. During 2017 and 2018 the Company awarded 5,000 and $9,000 shares, respectively, to individual employees based on certain employment criteria. These shares will vest over two or three years, based on the specific employment agreement. Each award from the plan is evidenced by an award agreement that specifies the vesting period of the restricted stock plan, the number of shares to which the award pertains, and such other provisions as the grantor determines.

As of December 31, 2018 non-vested restricted stock awards totaling 9,000 were outstanding as follows:

	Employees			Directors		
		Weighted			Weighted	
		Average			Average	
	Shares	Fair Value		Shares	Fair Value	
Nonvested Awards December 31, 2016	60,870	$	4.17	23,050	$	4.19
Granted in 2017	5,000		7.10	-		-
Vested in 2017	(2,500)		7.10	-		-
Forfeited in 2017	(60,870)		4.17	(23,050)		4.18
Nonvested Awards December 31, 2017	2,500	$	7.10	-	$	-
Granted in 2018	**9,000**		**7.30**	-		-
Vested in 2018	**(2,500)**		**7.10**	-		-
Forfeited in 2018	-		-	-		-
Nonvested Awards December 31, 2018	**9,000**	**$**	**7.30**	-	**$**	-

Note 13. Restricted Stock Plan (Continued)

As stated in Note 1, the Company follows ASC Topic 718-10 which requires that restricted stock-based compensation to employees and directors be recognized as compensation cost in the income statement based on their fair values on the measurement date. The fair value of restricted stock granted in 2017 and 2018 is equal to the underlying fair value of the stock. No restricted stock-based compensation expense was recognized 2016. As a result of applying the provisions of ASC Topic 718-10, during 2017 the Company recognized restricted stock-based compensation expense of $17,751, or $10,917 net of tax, related to the 2014 restricted stock awards. During 2018 the Company recognized stock-based compensation expense of $36,000, or $26,460 net of tax, related to the 2014 restricted stock awards. Unrecognized restricted stock-based compensation expense related to 2014 restricted stock awards totaled approximately **$47,000** at December 31, 2018. The remaining period over which this unrecognized expense is expected to be recognized is approximately two years.

Note 14. Earnings Per Share

Diluted earnings (loss) per share are calculated as follows:

	2018	2017	2016
Net income applicable to basic earnings per common share	**$ 5,482,738**	$ 3,414,384	$4,017,727
Weighted average shares outstanding	**9,691,459**	8,219,576	8,209,667
Basic earnings per share	**0.566**	0.415	0.489
Effect of dilutive securities:			
Weighted average shares outstanding under options Delmar 2004 stock option plan (1)	**26,852**	68,288	116,653
Weighted average exercise price	**$ 9.05**	$ 14.90	$ 18.07
Assumed proceeds on exercise	**$ 243,011**	$ 1,017,218	$2,107,920
Average market value	**$ 7.47**	$ 6.73	$ 6.04
Weighted average shares outstanding under options Liberty 2004 stock option plan	**12,139**	68,288	116,653
Weighted average exercise price	**$ 3.98**	$ 14.90	$ 18.07
Assumed proceeds on exercise	**$ 48,313**	$ 1,017,218	$2,107,920
Average market value	**$ 7.47**	$ 6.73	$ 6.04
Less: Treasury stock purchased with assumed proceeds from exercise	**6,474**		
Weighted average shares outstanding under restricted stock plans (2)	**10,038**	86,211	167,607
Diluted weighted average shares and common stock equivalents	**9,707,162**	8,305,787	8,377,274
Diluted earnings per share	**$ 0.565**	$ 0.411	$ 0.480

(1) Options were excluded from the calculation of dilutive earnings per share because they are anti-dilutive.
(2) Includes vested shares not yet issued and nonvested shares as of December 31.

Note 15. Regulatory Capital Requirements

The Company and the Bank are subject to various regulatory capital requirements administered by Federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory - and possibly additional discretionary - actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital adequacy 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 classifications are also subject to qualitative judgments by the regulators about components, risk weighting, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (as defined in the regulations) of total and Tier I capital to risk-weighted assets, Tier I capital to average assets, and beginning in 2015, common equity Tier I capital to risk-weighted assets. Management believes as of December 31, 2018 that the Company and the Bank meet all capital adequacy requirements to which they are subject.

As of December 31, 2018, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain minimum total risk-based, Tier I risk-based, Tier I leverage and, beginning in 2015, common equity Tier I risk-based ratios. There are no conditions or events since that notification that management believes have changed the Bank's category.

The Common Equity Tier I (beginning in 2015), Tier I and Total capital ratios are calculated by dividing the respective capital amounts by risk-weighted assets. Risk-weighted assets are calculated based on regulatory requirements and include total assets, with certain exclusions, allocated by risk weight category, and certain off-balance-sheet items, among other things. The leverage ratio is calculated by dividing Tier I capital by adjusted quarterly average total assets, which exclude goodwill and other intangible assets, among other things.

When fully phased in on January 1, 2019, the Basel III Capital Rules will require the Bank and Bancorp to maintain (i) a minimum ratio of Common Equity Tier I capital to risk-weighted assets of at least 4.5%, plus a 2.5% "capital conservation buffer" (which is added to the 4.5% Common Equity Tier I capital ratio as that buffer is phased in, effectively resulting in a minimum ratio of Common Equity Tier I capital to risk-weighted assets of at least 7.0% upon full implementation), (ii) a minimum ratio of Tier I capital to risk-weighted assets of at least 6.0%, plus the capital conservation buffer (which is added to the 6.0% Tier I capital ratio as that buffer is phased in, effectively resulting in a minimum Tier I capital ratio of 8.5% upon full implementation), (iii) a minimum ratio of Total capital (that is, Tier I plus Tier 2) to risk-weighted assets of at least 8.0%, plus the capital conservation buffer (which is added to the 8.0% total capital ratio as that buffer is phased in, effectively resulting in a minimum total capital ratio of 10.5% upon full implementation) and (iv) a minimum leverage ratio of 4.0%, calculated as the ratio of Tier I capital to average quarterly assets.

The implementation of the capital conservation buffer began on January 1, 2016 at the 0.625% level and be phased in over a four-year period (increasing by that amount on each subsequent January 1, until it reaches 2.5% on January 1, 2019). The Basel III Capital Rules also provide for a "countercyclical capital buffer" that is applicable to only certain covered institutions and does not have any current applicability to the Bank or Bancorp. The capital conservation buffer is designed to absorb losses during periods of economic stress and, as detailed above, effectively increases the minimum required risk-weighted capital ratios. Banking institutions with a ratio of Common Equity Tier I capital to risk-weighted assets below the effective minimum (4.5% plus the capital conservation buffer and, if applicable, the countercyclical capital buffer) will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall.

Note 15. Regulatory Capital Requirements (Continued)

The following table presents actual and required capital ratios as of December 31, 2018 and 2017 for the Bank and Bancorp under the Basel III Capital Rules. The minimum required capital amounts presented include the minimum required capital levels as of December 31, 2018 based on the phase-in provisions of the Basel III Capital Rules and the minimum required capital levels as of January 1, 2019 when the Basel III Capital Rules have been fully phased-in. Capital levels required to be considered well capitalized are based upon prompt corrective action regulations, as amended to reflect the changes under the Basel III Capital Rules. A comparison of the Company's and the Bank's capital amounts and ratios as of December 31, 2018 and 2017 with the minimum requirements are presented below.

In Thousands	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2018						
Total Capital Ratio						
(To Risk Weighted Assets)						
Delmar Bancorp	**$ 72,344**	**11.8 %**	**$ 60,466**	**9.9 %**	**$ -**	**N/A**
The Bank of Delmarva	**71,498**	**11.7 %**	**60,425**	**9.9 %**	**61,190**	**10.0 %**
Tier I Capital Ratio						
(To Risk Weighted Assets)						
Delmar Bancorp	**58,516**	**9.6 %**	**48,220**	**7.9 %**	**-**	**N/A**
The Bank of Delmarva	**64,170**	**10.5 %**	**48,187**	**7.9 %**	**48,952**	**8.0 %**
Common Equity Tier I Ratio						
(To Risk Weighted Assets)						
Delmar Bancorp	**58,516**	**9.6**	**39,035**	**6.4 %**	**-**	**N/A**
The Bank of Delmarva	**64,170**	**10.5**	**39,009**	**6.4 %**	**39,774**	**6.5 %**
Tier I Leverage Ratio						
(To Average Assets)						
Delmar Bancorp	**58,516**	**8.0 %**	**29,377**	**4.0 %**	**-**	**N/A**
The Bank of Delmarva	**64,170**	**8.7 %**	**29,377**	**4.0 %**	**36,721**	**5.0 %**
As of December 31, 2017						
Total Capital Ratio						
(To Risk Weighted Assets)						
Delmar Bancorp	$ 56,775	12.4 %	$ 42,457	9.3 %	$ -	N/A
The Bank of Delmarva	56,656	12.3 %	42,457	9.3 %	45,899	10.0 %
Tier I Capital Ratio						
(To Risk Weighted Assets)						
Delmar Bancorp	49,023	10.7 %	33,277	7.3 %	-	N/A
The Bank of Delmarva	50,904	11.1 %	33,277	7.3 %	36,719	8.0 %
Common Equity Tier I Ratio						
(To Risk Weighted Assets)						
Delmar Bancorp	49,023	10.7 %	26,392	5.8 %	-	N/A
The Bank of Delmarva	50,904	11.1 %	26,392	5.8 %	29,834	6.5 %
Tier I Leverage Ratio						
(To Average Assets)						
Delmar Bancorp	49,023	8.8 %	22,184	4.0 %	-	N/A
The Bank of Delmarva	50,904	9.2 %	22,184	4.0 %	27,730	5.0 %

Note 15. Regulatory Capital Requirements (Continued)

Banking regulations also limit the amount of dividends that may be paid without prior approval of the Bank's regulatory agencies. Regulatory approval is required to pay dividends, which exceed the Bank's net profits for the current year plus its retained net profits for the preceding two years.

Note 16. Fair Values of Financial Instruments

The following table shows the estimated fair value and the related carrying values of the Company's financial instruments at December 31, 2018 and 2017. Items that are not financial instruments are not included. Amounts are shown in thousands (000).

	2018		2017	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Cash and due from banks	$ 24,347	$ 24,347	$ 22,058	$ 22,058
Interest bearing deposits	4,093	4,093	7,032	7,032
Federal funds sold	1,254	1,254	3,493	3,493
Securities:				
Available for sale	51,300	51,300	46,662	46,662
Loans, net of allowance for credit losses	625,513	604,290	462,701	454,957
Accrued interest receivable	2,103	2,103	1,598	1,598
Federal Home Loan Bank stock	2,652	2,652	2,354	2,354
Maryland Financial Bank stock	-	-	30	30
Atlantic Central Bankers stock	131	131	75	75
Other investments	1,537	1,537	1,500	1,500
Financial liabilities:				
Deposits	$ 614,925	$ 570,509	$ 465,457	$ 427,297
Accrued interest payable	392	392	230	230
Long-term borrowings and note payable	49,989	56,979	46,148	46,795
Unrecognized financial instruments:				
Commitments to extend credit	$ 114,395	$ 114,395	$ 81,496	$ 81,496
Standby letters of credit	3,276	3,276	3,211	3,211

For purposes of the above disclosures of estimated fair value, the following assumptions were used.

Cash and cash equivalents:

The estimated fair value for cash and due from banks, interest-bearing deposits in other banks, and Federal funds purchased is considered to approximate cost because of their short-term nature.

Investment securities:

Estimated fair values are based on quoted market prices for actual or similar instruments or estimated using discounted cash flows. The discounts used are estimated using comparable market rates for similar types of instruments adjusted to be commensurate with the audit risk, overhead costs, and optionality of such investments. See Note 17 for further discussion.

Note 16. Fair Values of Financial Instruments (Continued)

Loans:

The estimated fair value for certain homogeneous categories of loans, such as residential mortgages, is based on the quoted market price for securities backed by similar loans, adjusted for differences in loan characteristics. The estimated fair value of other loans is determined by discounting future cash flows using current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

Deposits:

The estimated fair value of deposits with no stated maturity, such as noninterest-bearing demand deposits, savings, NOW accounts and money market accounts, is equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The fair value of certificates of deposit is based on the rates currently offered for deposits of similar maturities and using a discounted cash flow analysis. The fair value estimates do not include the benefit that results from the low-cost funding provided by the deposit liabilities compared to the cost of borrowing funds in the market.

Borrowings:

The fair value of long-term fixed rate borrowings is estimated by discounting future cash flows using current interest rates currently offered for similar financial instruments.

Unrecognized financial instruments:

The fair value of unrecognized financial instruments would be estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements, the current interest rates, and the present creditworthiness of the customers.

Other assets and liabilities:

Other assets and liabilities of the Bank that are not defined as financial instruments are not included in the above disclosures, such as property and equipment. Also, non-financial instruments typically not recognized in the financial statements nevertheless may have value but are not included in the above disclosures. These include, among other items, the estimated earnings power of core deposit accounts, the trained work force, customer goodwill, and similar items.

The following table presents the carrying amount, fair value, and placement in the fair value hierarchy of the Company's financial instruments not disclosed elsewhere as of December 31, 2018. This table excludes financial instruments for which the carrying amount approximates fair value.

	2018		Fair Value Hierarchy		
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Loans, net	$ 625,513,347	$ 604,289,837	$ -	$ 604,289,837	$ -
Financial liabilities:					
Interest-bearing deposits	$ 429,449,738	$ 393,813,120	$ 138,193,893	$ 255,619,227	$ -
Long-term borrowings and note payable	49,988,929	56,979,216	-	56,979,216	-

Note 17. Fair Value Measurements

Effective January 1, 2008, the Company adopted ASC 820-10 Fair Value Measurements and Disclosures which provides a framework for measuring and disclosing fair value under generally accepted accounting principles. ASC Topic 820 requires disclosures about the fair value of assets and liabilities recognized in the balance sheet in periods subsequent to initial recognition, whether the measurements are made on a recurring basis (for example, available-for-sale investments securities) or on a nonrecurring basis (for example, impaired loans).

ASC Topic 820 defines fair value as 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. ASC Topic 820 also 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 standard describes three levels of inputs that may be used to measure fair value
Fair Value Hierarchy

Level 1 – Quoted prices in active markets for identical assets or liabilities
Level 2 – Other significant observable inputs (including quoted prices in active markets for similar assets or liabilities)
Level 3 – Significant unobservable inputs (including the Bank's own assumptions in determining the fair value of assets or liabilities)

In determining the appropriate levels, the Bank performs a detailed analysis of assets and liabilities that are subject to ASC Topic 820.

The following table presents fair value measurements on a recurring basis as of December 31, 2018:

	Level 1	Level 2	Level 3	Fair Value
Securities available for sale:				
Obligations of U.S				
Government agencies	$ -	$ 9,420,372	$ -	$ 9,420,372
Obligations of States and				
political subdivisions	-	21,096,448	-	21,096,448
Mortgage-backed securities	-	19,403,601	-	19,403,601
Equity securities	-	1,379,863	-	1,379,863
Total securities available for sale	$ -	$ 51,300,284	$ -	$ 51,300,284

Securities available-for-sale are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments, which are considered level 2 inputs. For these securities, management obtains fair value measurements from an independent pricing service.

The Bank may also be required, from time to time, to measure certain other financial and non-financial assets and liabilities at fair value on a non-recurring basis in accordance with GAAP. The following table presents all fair value measurements on a non-recurring basis as of December 31, 2018:

	Level 1	Level 2	Level 3	Fair Value
Impaired loans	$ -	$ -	$ 26,640,215	$ 26,640,215
OREO	-	3,660,354	-	3,660,354
Total	$ -	$ 3,660,354	$ 26,640,215	$ 30,300,569

Note 17. Fair Value Measurements (Continued)

Measured on a Non-Recurring Basis:

Financial Assets and Liabilities

The Bank is predominantly a cash flow lender with real estate serving as collateral on a majority of loans. Loans which are deemed to be impaired financial assets are primarily valued on a nonrecurring basis at the fair values of the underlying real estate collateral. The Bank determines such fair values from independent appraisals, which management considers level 3 inputs.

Non Financial Assets and Non Financial Liabilities

The Company has no non-financial assets and non-financial liabilities measured at fair value on a recurring basis. Certain non-financial assets and non-financial liabilities typically measured at fair value on a non-recurring basis include foreclosed assets (upon initial recognition or subsequent impairment), non-financial assets and non-financial liabilities measured at fair value in the second step of a goodwill impairment test, and intangible assets and other non-financial long-lived assets measured at fair value for impairment assessment.

Foreclosed real estate were adjusted to their fair values, resulting in an impairment charge, which was included in earnings for the year. Foreclosed real estate, which are considered to be non-financial assets, have been valued using a market approach at the time they are recorded in OREO. The values were determined using current market prices of similar real estate assets, which the Bank considers to be level 2 inputs.

Note 18. Goodwill and Intangible Assets

The Company accounts for goodwill and other intangible assets in accordance with ASC Topic 350, "Intangibles – Goodwill and Other." The Company records the excess of cost acquired entities over the fair value of identifiable tangible and intangible assets acquired, less liabilities assumes, as goodwill. The Company amortizes acquired intangible assets with definite useful economic lives over their useful economic lives. On a periodic basis, management assesses whether events or changes in circumstances indicate that the carrying amount of the intangible assets may be impaired. The Company does not amortize goodwill or any acquired intangible assets with an indefinite useful economic life, but reviews them for impairment on an annual basis, or when events or changes in circumstances indicate that the carrying amounts may be impaired. The Company has performed the required goodwill impairment test and has determined that goodwill was not impaired as of December 31, 2018.

Note 18. Goodwill and Intangible Assets (Continued)

Goodwill: The Company acquired goodwill in the purchase of Liberty Bell Bank (see Note 20). The following table provides changes in goodwill for the periods ended December 31, 2018 and December 31, 2017:

	Period ended December 31,	
	2018	2017
Balance at the beginning of the period	$ -	$ -
Liberty Bell Bank acquisition	**5,237,067**	-
Impairment	-	-
Balance at the end of the period	**5,237,067**	-

Core Deposit Intangible: The Company acquired a core deposit intangible in the acquisition of Liberty Bell Bank (see Note 9). The Company utilizes the double declining balance method of amortization, in which the straight line amortization rate is doubled and applied to the remaining unamortized portion of the intangible asset. The amortization method changes to the straight line method of amortization when the straight line amortization amount exceeds the amount that would be calculated under the double declining balance method. The core deposit intangible will be amortized over seven years. The following table provides changes in the core deposit intangible for the periods ended December 31, 2018 and December 31, 2017:

	Period ended December 31,	
	2018	2017
Balance at the beginning of the period	$ -	$ -
Liberty Bell Bank acquisition	**1,489,000**	-
Accumulated amortization	**(420,000)**	-
Balance at the end of the period	**1,069,000**	-

Deposits Purchased Premium: The Company paid a deposit premium in the acquisition of Liberty Bell Bank (see Note 9), which is included in the balances of time deposits on the balance sheets. The premium amount is amortized as a reduction in interest expense over the life of the acquired time deposits. The premium on deposits will be amortized over five years. The following table provides changes in the deposit premium for the periods ended December 31, 2018 and December 31, 2017:

	Period ended December 31,	
	2018	2017
Balance at the beginning of the period	$ -	$ -
Liberty Bell Bank acquisition	**108,212**	-
Accumulated accretion	**(80,712)**	-
Balance at the end of the period	**27,500**	-

Note 19. Parent Company Financial Information

Presented below are comparative balance sheets of the parent company, Delmar Bancorp, as of December 31, 2018 and 2017, and statements of operations and cash flows for each of the years ended December 31, 2018, 2017 and 2016.

BALANCE SHEETS
December 31, 2018 and 2017

	2018	2017
ASSETS		
Cash	**$ 353,616**	$ 1,118
Investment in subsidiaries, at equity	**71,641,862**	50,694,111
Other assets	**902,984**	577,361
Total assets	**$ 72,898,462**	$ 51,272,590
LIABILITIES		
Other liabilities	**$ 410,410**	$ 206,591
Note payable	**6,500,000**	2,000,000
Total liabilities	**$ 6,910,410**	$ 2,206,591
STOCKHOLDERS' EQUITY		
Common stock, par value $.01 per share, authorized 20,000,000 shares; issued and outstanding 2018 **9,985,021** and 2017 8,219,576	**$ 99,853**	$ 82,196
Surplus	**29,469,680**	16,622,245
Retained earnings	**37,149,484**	32,614,597
Accumulated other comprehensive loss, net of deferred tax benefits 2018 **$263,365**; 2017 $91,355	**(730,965)**	(253,039)
Total stockholders' equity	**65,988,052**	49,065,999
Total liabilities and stockholders' equity	**$ 72,898,462**	$ 51,272,590

Note 19. Parent Company Financial Information (Continued)

STATEMENTS OF INCOME
Years Ended December 31, 2018, 2017, and 2016

	2018	2017	2016
Stock-based compensation expense	$ -	$ -	$ -
Interest expense on borrowings	(427,765)	(136,064)	(136,437)
Merger related expenses	(248,142)	-	-
Other expenses, net	(140,643)	(54,600)	(54,393)
Loss before income taxes and equity in undistributed net income of subsidiaries	(816,550)	(190,664)	(190,830)
Income tax benefits (1)	223,149	25,273	109,343
Equity in undistributed net income of subsidiaries	6,076,139	3,579,775	4,099,214
Net income	$ 5,482,738	$ 3,414,384	$ 4,017,727

(1) Benefits from filing consolidated Federal income tax return.

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2018, 2017, and 2016

	2018	2017	2018
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 5,482,738	$ 3,414,384	$ 4,017,727
Adjustments to reconcile net income to net cash used in operating activities:			
Equity in undistributed net income of subsidiaries	(6,076,139)	(3,579,775)	(4,099,214)
Stock-based compensation expense	-	-	-
Changes in assets and liabilities:			
Increase in other assets	(325,623)	(41,410)	(206,255)
Increase in other liabilities	203,819	21,662	5,823
Net cash used in operating activities	(715,205)	(185,139)	(281,919)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Cash paid to shareholders of Liberty Bell Bank	(4,471,302)	-	-
Net cash used by investing activities	(4,471,302)	-	-
CASH FLOWS FROM FINANCING ACTIVITIES:			
Dividends paid	(947,851)	(657,566)	(491,123)
Proceeds from long-term borrowings	4,500,000	-	-
Dividends received from subsidary	1,956,000	843,823	585,561
Cash received for the exercise of stock options	30,856	-	-
Issuance of restricted stock	-	-	-
Redemption of preferred stock	-	-	-
Net cash provided by (used in) financing activities	5,539,005	186,257	94,438
Net increase (decrease) in cash	352,498	1,118	(187,481)
Cash, beginning of year	1,118	-	187,481
Cash, end of year	$ 353,616	$ 1,118	$ -

Note 20. Liberty Bell Transaction

On March 1, 2018, the Company completed its acquisition of Liberty Bell Bank ("LBB"), a New Jersey chartered commercial bank. LBB shareholders received 0.2857 shares of the Company's common stock for each share of LBB common stock they owned as of the effective date of the acquisition, cash consideration of $1.70 per share or a combination thereof. The aggregate consideration paid to LBB shareholders was $17.3 million. The results of LBB's operations are included in the Company's consolidated statements of income for the year ended December 31, 2018 for the period beginning March 1, 2018, the date of the acquisition.

The acquisition of LBB added market share in Burlington and Camden Counties in Southern New Jersey. The acquisition resulted in three new branches in Evesham, Cherry Hill, and Moorestown, New Jersey.

The acquisition of LBB was accounted for using the acquisition method of accounting and, accordingly, assets acquired, liabilities assumed and consideration paid were recorded at their estimated fair values as of the acquisition date. The excess consideration paid over the fair value of net assets acquired has been reported as goodwill in the Company's consolidated statements of financial condition as of December 31, 2018.

The assets acquired and liabilities assumed in the acquisition of LBB were recorded at their estimated fair values based on management's best estimates using information available at the date of the acquisition and are subject to adjustment for up to one year after the closing date of the acquisition. The items most susceptible to adjustment are the credit fair value adjustments on loans, core deposit intangible and the deferred income tax assets resulting from the acquisition.

Note 20. Liberty Bell Transaction (Continued)

In connection with the acquisition, the consideration paid and the fair value of identifiable assets acquired and liabilities assumed as of the date of acquisition are summarized in the following table:

		Estimated Fair Value as of March 1, 2018
Consideration paid:		
Cash	$	4,471,302
Common stock issued in acquisition		12,798,236
Total consideration paid		17,269,538
Assets acquired:		
Cash and cash equivalents		11,830,975
Investment securities		7,605,174
Investments in correspondent bank stock		180,250
Loans		121,673,856
Premises and equipment		2,148,041
Other real estate owned		945,604
Accrued interest receivable		357,570
Core deposit intangible		1,489,000
Deferred tax asset		4,263,012
Other assets		1,038,773
Total assets acquired	$	151,532,255
Liabilities assumed:		
Deposits	$	138,240,515
Other liabilities		1,259,269
Total liabilities assumed	$	139,499,784
Net assets acquired	$	12,032,471
Goodwill recorded in acquisition		5,237,067

Acquired loans (impaired and non-impaired) are initially recorded at their acquisition-date fair values using Level 3 inputs. Fair values are based on a discounted cash flow methodology that involves assumptions and judgments as to credit risk, expected life- time losses, environmental factors, collateral values, discount rates, expected payments and expected prepayments. Specifically, the Company has prepared three separate loan fair value adjustments that it believes a market participant might employ in estimating the entire fair value adjustment necessary under ASC 820-10 for the acquired loan portfolio. The three separate fair valuation methodologies employed are: (i) an interest rate loan fair value adjustment, (ii) a general credit fair value adjustment, and (iii) a specific credit fair value adjustment for purchased credit impaired loans subject to ASC 310-30 provisions. The acquired loans were recorded at fair value at the acquisition date without carryover of LBB's previously established allowance for loan losses. The fair value of the financial assets acquired included loans receivable with a principal balance, prior to fair value adjustments, of $124.5 million.

Note 20. Liberty Bell Transaction (Continued)

The table below illustrates the fair value adjustments made to the amortized cost basis to present a fair value of the loans acquired:

		At March 1, 2018
Gross principal balance	$	124,545,302
Fair value adjustment on pools of non-credit impaired loans		(1,702,986)
Fair value adjustment on purchased credit impaired loans		(1,168,460)
Fair value of acquired loans	$	121,673,856

The credit adjustment on acquired impaired loans is derived in accordance with ASC 310-30 and represents the portion of the loan balances that have been deemed uncollectible based on the Company's expectations of future cash flows for each respective loan:

		At March 1, 2018
Contractually required principal and interest at acquisition	$	2,469,059
Contractual cashflows not expected to be collected (non-accretable discount)		(922,038)
Expected cash flows at acquisition		1,547,021
Interest component of expected cash flows		(246,422)
Fair value for loans acquired under ASC 310-30	$	1,300,599

The fair value of savings and transaction deposit accounts acquired from LBB provide value to the Company as a source of below market rate funds. The fair value of the core deposit intangible was determined based on a discounted cash flow analysis using a discount rate based on the estimated cost of capital for a market participant. To calculate cash flows, the sum of deposit account servicing costs (net of deposit fee income) and interest expense on deposits were compared to the cost of alternative funding sources available to the Company. The expected cash flows of the deposit base included estimated attrition rates. The core deposit intangible was valued at $1.49 million or 2.04% of core deposits. The core deposit intangible asset is being amortized on a double declining basis over 7 years.

Direct costs related to the merger were accrued and expensed as incurred. During the years ended December 31, 2018 and 2017, the Company incurred **$1,388,506** and $787,350, respectively in Liberty merger-related expenses.

Note 21. Bank Acquisition

On December 13, 2018 the Company entered into a share exchange agreement with Virginia Partners Bank ("Partners"). Partners is a commercial bank chartered by the Commonwealth of Virginia Bureau of Financial Institutions and insured by the Federal Deposit Insurance Corporation. Partners is headquartered in Fredericksburg, Virginia, which is the location of the operations center and administrative headquarters and three branch offices. An additional branch office is located in La Plata, Maryland, and a loan production office is located in Annapolis, Maryland. Each share of Partners common stock will be converted into the right to receive 1.7179 shares of Delmar Bancorp common stock. From and after the effective time of the share exchange, former holders of Partners Common Stock shall be shareholders of Delmar, and shall have no rights or interest as a shareholder of Partners. As of December 31, 2018, there were 4,085,181 shares of Partners common stock outstanding which were held be approximately 342 holders of record. Partners will continue to conduct its business as a wholly owned first tier subsidiary of Delmar, under the name "Virginia Partners Bank". The share exchange is anticipated to become effective during the second quarter of 2019.

Direct costs related to the merger were accrued and expensed as incurred. During the year ended December 31, 2018, the Company incurred $248,142 in Partners merger-related expenses.

Note 22. Stranded Income Tax Effects in Accumulated Other Comprehensive Income

During 2017, the Bank elected to early adopt Accounting Standards Update (ASU), *Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. The ASU is intended to help organizations reclassify certain stranded income tax effects in accumulated other comprehensive income resulting from the Tax Cuts and Jobs Act of 2017. As a result of the change, the Bank reclassified stranded tax effects within accumulated other comprehensive income to retained earnings totaling $44,623 based on the change in the U.S. federal corporate income tax rate from a historical rate of 34% to the newly enacted corporate income tax rate of 21%.

Note 23. Date of Management's Review

In preparing the financial statements, management has evaluated events and transactions for potential recognition or disclosure through March 14, 2019, the date that the financial statements were available to be issued.

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TeleBANC

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The Bank of Delmarva's quarterly Statement of Condition and Results of Operations as filed with the Federal Deposit Insurance Corporation can be viewed by visiting www.bankofdelmarvahb.com/home/about/investorrealtaions or https://cdr.ffiec.gov/public/ManageFacsimiles.aspx and searching for report "Call\TFR" and name "Bank of Delmarva".

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