DELMAR BANCORP

March 31, 2018

Federal Reserve Bank of Richmond
Statistics Department – 18th Floor
Attn: Phyllis Strum
701 East Byrd Street
Richmond, VA 23219

Dear Madam:

Please find enclosed our Annual Report of Bank Holding Companies – FR Y-6, for the period ending December 31, 2017.

Report Item:	1a:	Annual Report is included with the FR Y-6 report
	1b:	N/A
	1c:	N/A
	2a :	Chart Enclosed
	2b:	List Enclosed
	3 :	List Enclosed
	4 :	List Enclosed

If I may be of further assistance, please let me know.

Sincerely,

Betsy Eicher

Betsy Eicher, CPA
Senior Vice President
Chief Financial Officer
The Bank of Delmarva

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 and individual consent to public release of all details in the report concerning that individual.

Signature of Holding Company Director and Official

5-29-18
Date of Signature

For holding companies not registered with the SEC–
Indicate status of Annual Report to Shareholders:

- [x] 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, 2017
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

City	State	Zip Code
Salisbury	MD	21801

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

Person to whom questions about this report should be directed:

Name	Title
Betsy Eicher	CFO & SVP

410-548-1722 X105
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)

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City State Zip Code

Physical Location (if different from mailing address)

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	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	

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
3,347,936 shares 41%

CEDE & Company (holds certificate for shareholders in street name)
New York, NY, USA
USA
3,519,844 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

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: Consultant to The Bank of Delmarva

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
25% interest in SVN Delaware, LLC (d/b/a Alliance Real Estate)
33.33% interest in The Porvenir Group, LLC

J. Phillip Wright, Jr.
Salisbury, 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% Princess Anne Plaza LLC
50% Northwood Business Center LLC
100% JD Hanna LLC
100% JD Twilley LLC
33.33% HTL Inc.

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
Principal Occupation: President of insurance agency Atlantic/Smith, Cropper and Deeley

4a. <1%
4b. N/A
4c. 40% interest in Smith, Cropper & Deeley, 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. 45% Marine Bancorp and Marine Bank & Trust Company
100% BVC Capital LLC
40% Village Bank & Trust Financial Corporation
47% Heritage Bancorporation and The Heritage Bank
43% Liberty Bell Bank
43% Virginia Partners Bank
58% CCF Holding Company and Heritage Bank
51% ABB Financial Group and Affinity Bank
49% Providence Bank

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. N/A

DELMAR BANCORP

Annual Report

December 31, 2017

DELMAR BANCORP
AND SUBSIDIARIES
SELECTED FINANCIAL DATA

At year end:		2017	2016	2015
Total assets		$ 562,259,537	$ 512,367,907	$ 483,591,917
Loans receivable, net		462,701,244	424,077,145	393,153,247
Investment securities		46,661,741	48,345,417	31,693,529
Federal funds sold		3,492,835	1,262,322	9,735,562
Demand and NOW deposits		193,740,208	177,300,080	155,715,954
Savings and time deposits		271,716,506	256,182,857	256,841,653
Stockholders' equity		49,065,999	46,181,505	43,320,312
Common equity per share		5.97	5.62	5.30
For the year:				
Total income		26,179,655	23,820,488	22,987,471
Total expenses		22,765,271	19,802,761	19,092,755
Net income (loss)		3,414,384	4,017,727	3,894,716
Basic earnings (loss) per share		0.415	0.489	0.474
Basic earnings (loss) per share, excluding intangibles		0.415	0.489	0.482
Key ratios:				
Yield on earning assets		4.60%	4.43%	4.53%
Net interest income		20,303,669	18,078,746	17,403,294
Return on average assets		0.64%	0.81%	0.84%
Return on average equity		7.17%	8.98%	8.81%
Average equity to average assets		8.86%	8.99%	9.49%
Tier I risk-based capital	(Bank)	11.09%	11.74%	11.45%
Total risk-based capital	(Bank)	12.34%	13.00%	12.71%
Leverage capital ratio	(Bank)	9.18%	9.38%	9.17%
(See Note 15)				
Number of branch offices		10	10	10
Number of administrative offices		2	2	2
Number of employees		129	120	115

DELMAR BANCORP

March 15, 2018

Dear Shareholders,

Delmar Bancorp and its wholly-owned subsidiary, The Bank of Delmarva, completed another successful year, reporting consolidated net income of $3.4 million at December 31, 2017. Prior to year-end, we were on target to report net income of approximately $4.2 million. The Tax Cuts and Jobs Act was signed by President Trump on December 22, 2017, and resulted in reduced corporate tax rates, from a maximum of 35% to 21%, among other changes. Accounting rules required banks to reduce the value of their net deferred tax assets to reflect the new 21% tax rate when the legislation was enacted. This adjustment was recorded as additional tax expense of approximately $763,000 in the fourth quarter, and is a one-time nonrecurring event that will not affect our efforts to accelerate long term profitability. We expect lower taxes to augment profitability in 2018 and beyond. The significant tax rate reduction in the future will aid in our strategy of measured growth.

Total assets rose $50.0 million or 9.8% to end the year at $562.3 million. Continued loan growth was the main driver of this increase. The Bank's loan portfolio grew by $38.6 million, net of the allowance. The growth was funded by an increase in deposit account balances of $32.0 million. All of our core deposit categories grew in 2017. We also added $14.3 million of long term borrowed money from various out of market sources. The Bank's tax equivalent net interest margin remained in the 4% range throughout the year. Our strong capital base provides a solid foundation for continued growth. Credit quality of our loan portfolio has remained stable. Cash dividends totaling $657,566 were paid to common stock shareholders of Delmar Bancorp during 2017.

The Bank's experienced and talented team has worked diligently to build deep customer relationships. We continue to attract customers who value our combination of premium, personalized service with timely, local decision making. We remain committed to helping our customers succeed.

The post Presidential election year of 2017 and the accompanying administration brought about significant change. Investment and retirement portfolio growth contributed to increased consumer spending. Equity markets also performed exceptionally well. As mentioned above, the most significant tax legislation since the Tax Reform Act of 1986 was passed at the end of the year. The primary intent of these tax cuts is to stimulate the economy with the anticipation that the tax savings for both businesses and individuals will promote additional spending and, thus, generate positive economic results. In addition to tax rate reductions, the new law also provides accelerated deductions for capital expenditures for businesses. Corporate America has also been provided the opportunity to "repatriate" previously sheltered "offshore" earnings at favorable rates. These changes are expected to increase consumer spending and promote business expansion, bringing economic growth and prosperity to our region.

The economic outlook on Delmarva appears to be positive and stable. Delaware's downstate economy is flourishing, with strong investments in both commercial and residential real estate construction. Sussex County continues to attract new residents with its advantageous tax laws and relaxed, coastal environment. Home sales and business performance around Delmarva's beach resort towns are promising. Community banking on Delmarva has rebounded nicely with respectable earnings and growth. Loan demand is strong, and improved profitability is occurring in the current rising interest rate environment. Effective March 1, 2018, we completed our merger with

Liberty Bell Bank located in Marlton, New Jersey. The acquisition of Liberty, with three branches in Burlington and Camden Counties, is our initial entry into the Southern New Jersey/Suburban Philadelphia market. This merger provides a significant opportunity for us to expand our market area by capitalizing on the strong relationships Liberty has fostered over the years. The merger enables us to enhance our growth opportunities by leveraging our larger capital base and legal lending limit with Liberty's customer base.

We look forward to serving Liberty's customers with our portfolio of deposit, cash management, and loan products for businesses and consumers. We plan to work very closely with the Liberty team to provide a seamless transition, and make Liberty's customers feel that nothing has changed except an increased capacity to serve them. Liberty has established a strong brand in the market it serves; therefore, the legacy Liberty Bell Bank offices will continue to operate under the name Liberty Bell Bank, A Division of The Bank of Delmarva.

We are excited about the opportunities this merger affords both of our organizations. The expanded franchise, increased asset size and stronger earnings enhance shareholder value through stronger valuation metrics. The combined company has in excess of $710 million in assets, $580 million in loans and $600 million in deposits.

In December of 2017 we announced the addition of David Doane, CPA, to the Board of Directors of both the Holding Company and the Bank. David brings an extensive knowledge of Sussex County businesses and non-profits. He is a seasoned resource for clients in the area of family-owned business enterprises as well as estate and succession planning. We are fortunate to have David as part of our team. In March of 2018 we welcomed an additional two new members to our Board of Directors. Joining us from New Jersey are Joseph Maressa, Esq. and James Tamburro Esq. Both are former directors of Liberty Bell Bank. They bring a wealth of experience to our Board and their business expertise will be of great value to the Bank as we expand into the southern Jersey market. I look forward to even larger contributions as they become fully acclimated to the Bank.

Looking ahead, much of our industry will continue to be challenged by the operating pressures that will result from economic transition, regulatory expectations and advancing technologies. At the same time, our expectation is that our culture, performance and experience will provide us with a competitive advantage in an environment where we will likely see continued opportunities to expand our business. As we navigate these currents, we will do so while maintaining our strategic focus and building for our future. Our expectations are high as we look to 2018 and beyond. We accomplished in 2017 what we set out to do and, as a result, look forward to what lies ahead. We have built a strong organization that is equipped with the talent to continue to improve our company's performance.

Thank you for your continued support of the bank's management team and directors. There will be new challenges ahead of us, but I'm confident that we'll work together to achieve great things for our shareholders, employees and customers.

Our Annual Stockholders Meeting is scheduled for 3:00 p.m., May 15th at Baywood Greens Clubhouse in Long Neck, DE. I look forward to seeing many of you there.

Sincerely,

John W. Breda
President and Chief Executive Officer

Executive Overview

Delmar Bancorp is a bank holding company whose primary assets include 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 2017, but with the primary focus on the Bank.

Consolidated assets of Delmar Bancorp increased 9.7% to end the year at $562.3 million, which was an annual increase of $49.9 million.

The Bank's investment portfolio consists of Federal Agency, municipal, mortgage-backed and equity securities. The investment portfolio was $46.7 million at the end of 2017 or a decrease of $1.6 million from $48.3 million in 2016.

The Bank's loan portfolio, net of the Allowance for Credit Losses, was $462.7 million at the end of 2017 or an increase of $38.6 million from $424.1 million in 2016.

The Bank's Allowance for Credit Losses was $6.7 million at year end and represents 1.4% of ending loan balances. A total of $945,000 was expensed from operations and added to the Allowance in 2017. Charge-offs of $967,000 and recoveries of $339,000 in addition to the $945,000 which was expensed from operations accounted for the change in the Allowance for 2017. 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, 2017, 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 $32.0 million to $465.5 million. Non-interest bearing demand accounts were 33% of total deposits and were $154.2 million at the end of 2017, an increase of $6.9 million or 4.7% compared to 2016. Interest bearing deposits were $311.3 million at the end of 2017. NOW accounts, savings accounts, money market accounts and certificates of deposit with balances greater than $100,000 increased by 15.4% while certificates of deposits with balances less than $100,000 decreased by 3.2% compared to 2016.

Federal Home Loan Bank borrowings provide additional funding for short term and long term needs. The Bank ended 2017 with $44.1 million in long term borrowings compared to $29.8 million in long term borrowings at December 31, 2016. There were no short term borrowings as of December 31, 2016 or 2017.

The Bank had an additional $2 million of long term borrowings from an institution other than the Federal Home Loan Bank.

Total capital at the holding company increased by approximately $2.9 million or 6.3%. Adjustments to capital in 2017 include net income of approximately $3.4 million, less the after tax adjustment of the difference between the book and market value of available for sale securities in the bond portfolio. Tangible capital at year end was $49.1 million in comparison to $46.2 million at the end of 2016. 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, 2017 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 2017 the Bank paid a dividend to common stock shareholders of $.02/share.

The Bank's primary source of income is interest income derived from the loan and bond portfolios. Total interest income in 2017 was $23.3 million, an increase of approximately $2.3 million from 2016. Interest income from the loan portfolio was $22.0 million at the end of 2017. Interest income from the bond portfolio was approximately $1.0 million, which included approximately $481,000 in income exempt from federal taxation.

The primary source of expense is interest expense paid to depositors and for other borrowed money. Interest paid to depositors totaled $2.0 million, a decrease of approximately $89,000 from 2016. Total interest expense in 2017 was $3.0 million, an increase of approximately $57,000 from 2016.

Net interest income for 2017 totaled $20.3 million. This is an increase of 2.2% over the prior year's $18.1 million in net interest income. The net interest margin in 2017 was 4.01%, compared to 3.88% in 2016.

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 $68,000 in 2017.

Operating expenses were $15.6 million in 2017 compared to $13.6 million in 2016, representing a increase of $2.0 million or 21.2%. The operating expense to average asset ratio of the holding company, excluding any impairment losses, was 2.9% in 2017 compared to 2.7% in 2016.

Net income was approximately $3.4 million in 2017 compared to net income of approximately $4.0 million reported in 2016. This is a decrease of approximately $603,000. Total shares outstanding at year end 2017 and 2016 were 8,219,576. The basic earnings per share were $.415 per share in 2017 compared to $.489 per share in 2016.

Herbert J. Geary III
Corey N. Duncan
Roy J. Geiser
Chris A. Hall
Ronald W. Hickman
Charles M. Meenehan
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TGM GROUP LLC
CERTIFIED PUBLIC ACCOUNTANTS
www.tgmgroupllc.com

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, 2017 and 2016, 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, 2017, 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 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 audit. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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, 2017 and 2016, and the results of their operations and their cash flows for the three years ended December 31, 2017, in accordance with accounting principles generally accepted in the United States of America.

TGM Group LLC

Salisbury, Maryland
March 8, 2018

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DELMAR BANCORP

CONSOLIDATED BALANCE SHEETS
December 31, 2017 and 2016

	2017	2016
ASSETS		
Cash and due from banks	**$ 22,057,980**	$ 16,344,107
Interest bearing deposits in other financial institutions	**7,031,667**	5,483,522
Federal funds sold	**3,492,835**	1,262,322
Cash and cash equivalents	**32,582,482**	23,089,951
Securities available for sale, at fair value	**46,661,741**	48,345,417
Loans, less allowance for credit losses 2017 **$6,702,599**; 2016 $6,385,596	**462,701,244**	424,077,145
Accrued interest receivable on loans and investment securities	**1,597,819**	1,398,274
Premises and equipment, at cost, less accumulated depreciation	**7,841,470**	7,003,968
Federal Home Loan Bank stock, at cost	**2,353,700**	1,722,900
Maryland Financial Bank stock, at cost	**30,000**	30,000
Atlantic Central Bankers Bank stock, at cost	**75,000**	75,000
Other investments	**1,500,000**	1,000,000
Deferred tax asset	**1,876,261**	1,888,558
Other real estate owned	**3,654,958**	2,566,771
Other assets	**1,384,862**	1,169,923
Total assets	**$ 562,259,537**	$ 512,367,907
LIABILITIES		
Deposits:		
Non interest bearing demand	**$ 154,188,173**	$ 147,310,145
Interest bearing demand	**39,552,035**	29,989,935
Savings and money market	**107,316,819**	96,511,515
Time, $100,000 or more	**64,622,631**	56,739,969
Other time	**99,777,056**	102,931,373
	465,456,714	433,482,937
Accrued interest payable on deposits	**229,540**	197,705
Long-term borrowings	**44,147,500**	29,806,071
Note payable	**2,000,000**	2,000,000
Other liabilities	**1,359,784**	699,689
Total liabilities	**513,193,538**	466,186,402
COMMITMENTS, CONTINGENCIES & SUBSEQUENT EVENT		
STOCKHOLDERS' EQUITY		
Common stock, par value $.01, authorized 9,990,550 shares, issued and outstanding 2017 and 2016 8,219,576	**82,196**	82,196
Surplus	**16,622,245**	16,604,494
Retained earnings	**32,614,597**	29,813,156
Accumulated other comprehensive loss, net of deferred tax benefits 2017 **$91,355**; 2016 $207,263	**(253,039)**	(318,341)
Total stockholders' equity	**49,065,999**	46,181,505
Total liabilities and stockholders' equity	**$ 562,259,537**	$ 512,367,907

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

DELMAR BANCORP

CONSOLIDATED STATEMENTS OF INCOME
Years Ended December 31, 2017, 2016, and 2015

	2017	2016	2015
INTEREST INCOME ON:			
Loans, including fees	$ 22,028,091	$ 19,882,956	$ 19,273,015
Investment securities:			
Taxable	523,159	517,580	413,945
Exempt from Federal income tax	480,721	456,740	362,719
Federal funds sold	62,064	44,492	9,157
Other interest income	232,682	143,191	83,017
	23,326,717	21,044,959	20,141,853
INTEREST EXPENSE ON:			
Deposits	2,008,974	2,097,797	2,084,559
Borrowings	1,014,074	868,416	654,000
	3,023,048	2,966,213	2,738,559
NET INTEREST INCOME	20,303,669	18,078,746	17,403,294
Provision for credit losses	945,000	862,000	600,000
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	19,358,669	17,216,746	16,803,294
OTHER INCOME:			
Service charges on deposit accounts	1,349,098	1,283,313	1,410,954
(Losses) gains on investment securities	(7,974)	48,069	2,450
Gains on disposal of other assets	-	-	2,647
Other income	1,511,814	1,444,147	1,429,567
	2,852,938	2,775,529	2,845,618
OTHER EXPENSES:			
Salaries and employee benefits	8,279,178	7,329,731	7,129,641
Premises and equipment	2,056,579	1,945,646	1,942,489
Amortization of intangibles	-	-	38,576
(Gains) losses on other real estate owned	(21,756)	(21,397)	139,872
Other expenses	5,268,161	4,345,210	4,260,356
	15,582,162	13,599,190	13,510,934
INCOME BEFORE TAXES ON INCOME	6,629,445	6,393,085	6,137,978
Federal and state income taxes	3,215,061	2,375,358	2,243,262
NET INCOME	$ 3,414,384	$ 4,017,727	$ 3,894,716
Earnings per common share (See Note 14)			
Basic	$ 0.415	$ 0.489	$ 0.479
Diluted	0.411	0.480	0.468

The 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, 2017, 2016, and 2015

	2017	2016	2015
NET INCOME	**$ 3,414,384**	$ 4,017,727	$ 3,894,716
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:			
Unrealized holding gains (losses) on securities available for sale arising during the period	**80,873**	(776,930)	(102,688)
Deferred income tax (liabilities) benefits	**(21,431)**	306,499	40,510
Other comprehensive income (loss), net of tax	**59,442**	(470,431)	(62,178)
Reclassification adjustment for losses (gains) included in net income	**7,974**	(48,069)	(2,450)
Deferred income tax (benefits) liabilities	**(2,114)**	18,963	967
Other comprehensive income (loss), net of tax	**5,860**	(29,106)	(1,483)
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	**65,302**	(499,537)	(63,661)
COMPREHENSIVE INCOME	**$ 3,479,686**	$ 3,518,190	$ 3,831,055

The 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, 2017, 2016, and 2015

	Common Stock	Surplus	Preferred Stock (See Note 18)	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balances, December 31, 2014	81,161	16,488,679	4,450,000	23,848,738	244,857	45,113,435
COMPREHENSIVE INCOME						
Net income	-	-	-	3,894,716	-	3,894,716
Other comprehensive loss, net of tax:						
Unrealized holding losses on securities available for sale arising during the period	-	-	-	-	(62,178)	
Reclassification adjustment for gains included in net income	-	-	-	-	(1,483)	
						(63,661)
TOTAL COMPREHENSIVE INCOME						3,831,055
Cash dividends, $0.01 per share	-	-	-	(81,743)	-	(81,743)
Redemption of preferred stock	-	-	(4,450,000)	(1,292,511)	-	(5,742,511)
Restricted stock issuance	582	(582)	-	-	-	-
Stock-based compensation expense recognized in earnings, net of employee tax obligation	-	200,076	-	-	-	200,076
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, $0.07 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, $0.08 per share	-	-	-	**(657,566)**	-	**(657,566)**
Reclassification adjustment for stranded income tax effects in accumulated other comprehensive income	-	-	-	**44,623**	-	**44,623**
Stock-based compensation expense recognized in earnings, net of employee tax obligation	-	**17,751**	-	-	-	**17,751**
Balances, December 31, 2017	**$ 82,196**	**$ 16,622,245**	**$ -**	**$ 32,614,597**	**$ (253,039)**	**$ 49,065,999**

The 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, 2017, 2016, and 2015

	2017	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ **3,414,384**	$ 4,017,727	$ 3,894,716
Adjustments to reconcile net income to net			
cash provided by operating activities:			
Provision for credit losses and unfunded commitments	**945,000**	862,000	600,000
Depreciation	**590,060**	632,067	631,715
Amortization and accretion	**219,574**	213,067	106,402
Loss (gain) on investment securities	**7,974**	(49,368)	(2,450)
Net gains on sales of assets	**-**	-	(2,647)
Net losses (gains) on other real estate owned, including write-downs	**(20,550)**	(24,723)	241,554
Deferred income tax (benefits) expenses	**(103,612)**	390,545	2,152,715
Stock-based compensation expense, net of employee tax obligation	**17,751**	(83,226)	200,076
Reclassification adjustment for stranded income tax effects in			
accumulated other comprehensive income	**44,623**	-	-
Changes in assets and liabilities:			
(Increase) decrease in accrued interest receivable	**(199,545)**	(181,192)	83,953
(Increase) decrease in other assets	**(214,939)**	244,479	182,997
Increase (decrease) in accrued interest payable	**31,835**	(2,998)	4,899
Increase in other liabilities	**660,095**	103,746	2,252
Net cash provided by operating activities	**5,392,650**	6,122,124	8,096,182
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of securities available for sale	**(5,527,748)**	(28,530,621)	(1,120,077)
Purchases of other investments	**(500,000)**	-	-
Proceeds from maturities and paydowns of securities available for sale	**4,831,450**	8,849,264	2,510,391
Proceeds from sales of securities available for sale	**2,333,637**	2,040,840	492,450
Net increase in loans	**(41,344,746)**	(32,286,446)	(16,908,800)
Proceeds from sale of assets	**-**	-	4,000
Purchases of premises and equipment	**(1,427,562)**	(546,138)	(347,697)
Proceeds from the sale of foreclosed assets	**708,010**	914,123	1,747,845
Purchase of Federal Home Loan Bank stock	**(630,800)**	(253,000)	(128,100)
Net cash used by investing activities	**(41,557,759)**	(49,811,978)	(13,749,988)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Increase in demand, NOW, money market,			
and savings deposits, net	**27,245,432**	29,208,086	22,955,803
Increase (decrease) in time deposits, net	**4,728,345**	(8,282,756)	8,870,338
Increase in borrowings, net	**14,341,429**	4,806,071	5,500,000
Dividends paid	**(657,566)**	(491,123)	-
Redemption of preferred stock	**-**	-	(5,742,511)
Net cash provided by financing activities	**45,657,640**	25,240,278	31,583,630
Net increase (decrease) in cash and cash equivalents	**9,492,531**	(18,449,576)	25,929,824
Cash and cash equivalents, beginning	**23,089,951**	41,539,527	15,609,703
Cash and cash equivalents, ending	$ **32,582,482**	$ 23,089,951	$ 41,539,527

The 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, 2017, 2016, and 2015
(Continued)

		2017		2016		2015
Supplementary cash flow information:						
Interest paid	**$**	**2,991,213**	$	2,969,211	$	2,733,660
Income taxes paid		**2,859,011**		1,908,779		33,600
Total appreciation (depreciation) on securities available for sale		**88,846**		(824,999)		(105,138)
SUPPLEMENTARY NON-CASH INVESTING ACTIVITIES						
Loans converted to other real estate owned	**$**	**1,775,647**	$	500,548	$	1,222,453

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. The Company and Its Significant Accounting Policies

The Bank provides financial services to individuals 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 general 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 and Delaware; 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 Delmarva, 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.

Note 1. The Company 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.

Note 1. The Company and Its Significant Accounting Policies (Continued)

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

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, 2017 there were eleven properties with a combined value of **$3,654,958** included in other real estate owned, and at December 31, 2016 there were eight properties with a combined value of $2,566,771.

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 is being amortized to final maturity as an adjustment to interest expense. The unamortized premium was $268,237 as of December 31, 2017.

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, 2017 and 2016, certain loans were deemed to be impaired (see Note 3).

Note 1. The Company and Its Significant Accounting Policies (Continued)

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.

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.

Note 1. The Company and Its Significant Accounting Policies (Continued)

Earnings (Loss) Per Common 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 **8,219,576**, and 8,209,667 for the years ended December 31, 2017 and 2016, respectively. Calculations of diluted earnings (loss) 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 (See Note 14).

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, 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**

	December 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Obligations of U.S. Government agencies and corporations	$ 11,393,342	$ 7,955	$ (94,544)	$ 11,306,753
Obligations of States and political subdivisions	16,927,503	249,733	(340,687)	16,836,549
Mortgage-backed securities	19,050,054	50,686	(329,995)	18,770,745
Equity securities	1,500,000	-	(68,630)	1,431,370
	$ 48,870,899	$ 308,374	$ (833,856)	$ 48,345,417

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, 2017, are as follows:

Securities available-for-sale:

	December 31, 2017					
	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	$ 2,007,400	$ 6,498	$ 6,925,520	$ 93,159	$ 8,932,920	$ 99,657
Mortgage-backed securities	6,372,722	49,713	9,853,048	227,361	16,225,770	277,074
Obligations of States and political subdivisions	4,082,831	39,596	3,691,985	108,500	7,774,816	148,096
Equity Securities	-	-	1,428,659	71,341	1,428,659	71,341
Total securities with unrealized losses	$12,462,953	$ 95,807	$21,899,212	$ 500,361	$ 34,362,165	$ 596,168

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, 2017 there were six agency securities, seven mortgage-backed securities (MBS), six collateralized mortgage obligations (CMO), ten municipal securities, and one equity investment that have been in a continuous unrealized loss position for more than twelve months. As of December 31, 2017, 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 2017, the Bank sold two securities resulting in a net loss of $7,974. During 2016, the Bank sold two securities resulting in a net gain of $47,957. Three securities were either matured or called during 2017, resulting in a net gain of $120. Six securities were either matured or called during 2016, resulting in a net gain of $1,411.

Note 2. Investment Securities (Continued)

Contractual maturities of investment securities at December 31, 2017 and 2016 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.

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

	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**

	December 31, 2016 Securities Available for Sale	
	Amortized Cost	Fair Value
Due in one year or less	$ -	$ -
Due after one year through five years	14,569,425	14,591,906
Due after five years through ten years	7,510,355	7,603,242
Due after ten years or more	7,741,065	7,379,524
Mortgage-backed, due in monthly installments	19,050,054	18,770,745
	$ 48,870,899	$ 48,345,417

The Bank has pledged certain securities as collateral for qualified customers' deposit accounts at December 31, 2017 and 2016 as follows:

	2017	2016
Amortized cost	**$ 7,654,104**	$ 7,688,675
Fair value	**7,829,179**	7,860,947

The Bank has also pledged securities with the Federal Reserve Bank ("FRB") to collateralize its accounts held at the FRB with an amortized cost and fair value of $26,772 and $26,999 at December 31, 2017, respectively.

Note 3. Loans and Allowance for Credit Losses

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

		2017		2016
Other real estate secured	$	314,179,741	$	272,506,000
1 - 4 Family residential secured		110,843,248		115,553,077
Other		44,380,854		42,403,664
		469,403,843		430,462,741
Less: Allowance for loan losses		(6,702,599)		(6,385,596)
	$	462,701,244	$	424,077,145

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

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, nonaccruals, 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.

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

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, 2017 and 2016.

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, 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

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

		Other Real Estate Secured		1 - 4 Family Residential Secured		Other		Unallocated		Total
Balance at December 31, 2015	$	3,869,653	$	1,351,000	$	1,044,000	$	819,000	$	7,083,653
Charge-offs		(664,187)		(88,997)		(992,671)		-		(1,745,855)
Recoveries		66,496		45,015		74,287		-		185,798
Provision		120,634		832,982		462,384		(554,000)		862,000
Balance at December 31, 2016	$	3,392,596	$	2,140,000	$	588,000	$	265,000	$	6,385,596
Individually evaluated for impairment:										
Balance in allowance	$	588,982	$	990,742	$	87,283	$	-	$	1,667,007
Related loan balance		17,820,081		9,527,192		369,107		-		27,716,380
Collectively evaluated for impairment:										
Balance in allowance	$	2,803,614	$	1,149,258	$	500,717	$	265,000	$	4,718,589
Related loan balance		254,685,919		106,025,885		42,034,557		-		402,746,361

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. The Bank had an unallocated amount (overage) of approximately $265,000 in the allowance that is reflected in the above table as of December 31, 2016. Management is comfortable with this amount as they feel it is adequate to absorb additional inherent potential losses in the loan portfolio as further detailed in Note 1, "Loans and the Allowance for Credit Losses".

Credit Quality Information

The following table represents credit exposures by creditworthiness category for the year ending December 31, 2017. 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)

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

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.

A summary of loans by risk rating is as follows:

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 Nonaccrual	$	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

December 31, 2016		Other Real Estate Secured		1-4 Family Residential Secured		Other		Total
Excellent	$	663,996	$	-	$	466,930	$	1,130,926
Superior		5,290,583		87,321		154,278		5,532,182
Good		243,025,641		101,876,444		40,157,088		385,059,173
Fair		12,957,377		4,632,476		580,605		18,170,458
Marginal		3,724,877		231,393		572,441		4,528,711
Substandard		6,843,526		8,725,443		472,322		16,041,291
TOTAL	$	272,506,000	$	115,553,077	$	42,403,664	$	430,462,741
Non-Accrual	$	1,869,337	$	1,727,071	$	-	$	3,596,408
Troubled debt restructures	$	14,700,511	$	3,687,097	$	246,113	$	18,633,721
Number of TDR accounts		26		18		4		48
Breakdown of TDRs								
TDRs on Nonaccrual	$	814,635	$	1,424,738	$	-	$	2,239,373
TDRs Past Due 30-89		200,384		-		-		200,384
Performing TDRs		13,685,492		2,262,359		246,113		16,193,964
TOTAL	$	14,700,511	$	3,687,097	$	246,113	$	18,633,721
Total Non-performing TDR accounts	$	1,015,019	$	1,424,738	$	-	$	2,439,757
Number of non-performing TDRs		3		9		-		12

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

The following table includes an aging analysis of the recorded investment of past due financing receivables as of December 31, 2017 and 2016:

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.

December 31, 2016	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	$ 1,944,241	$ 3,047,896	$ 1,869,337	$ 6,861,474	$ 265,644,526	$ 272,506,000	$ -
1 - 4 Family Residential	1,243,952	84,584	1,736,724	3,065,260	112,487,817	115,553,077	9,653
Other	107,713	-	10,967	118,680	42,284,984	42,403,664	-
TOTAL	$ 3,295,906	$ 3,132,480	$ 3,617,028	$ 10,045,414	$ 420,417,327	$ 430,462,741	$ 9,653

* Includes $3,596,408 of non-accrual loans.

Impaired Loans

Impaired loans are defined as nonaccrual loans, troubled debt restructurings, 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 nonaccrual 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 nonaccrual status, contractual interest is credited to interest income when received, under the cash basis method.

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.

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

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 nonaccrual status, all payments are applied to principal, under the cost recovery method.

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	$ -	$ 14,452,103
TOTAL	$ 21,065,324	$ 22,151,093	$ 1,334,106	$ 1,139,681	$ 24,553,651

Total impaired loans of **$21,065,324** at December 31, 2017 include $592,656 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 FAS 5 calculated reserve.

December 31, 2016	Recorded Investment	Unpaid Principal Balance	Interest Income Recognized	Specific Reserve	Average Recorded Investment
Impaired loans with specific reserves:					
Other Real Estate Secured	$ 4,437,211	$ 4,577,262	$ 190,762	$ 588,982	$ 3,224,471
1 - 4 Family Residential Secured	5,543,372	6,345,811	210,903	990,742	4,245,308
Other	87,283	87,283	5,790	87,283	367,608
Total impaired loans with specific reserves	$ 10,067,866	$ 11,010,356	$ 407,455	$ 1,667,007	$ 7,837,387
Impaired loans with no specific reserve:					
Other Real Estate Secured	$ 13,547,956	$ 13,630,450	$ 892,924	$ -	$ 13,653,338
1 - 4 Family Residential Secured	4,021,678	4,208,486	181,726	-	3,080,879
Other	404,475	404,475	35,540	-	449,894
Total impaired loans with no specific reserve	$ 17,974,109	$ 18,243,411	$ 1,110,190	$ -	$ 17,184,110
TOTAL	$ 28,041,975	$ 29,253,767	$ 1,517,645	$ 1,667,007	$ 25,021,497

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

The Bank makes loans to customers located primarily within Wicomico and Worcester Counties, Maryland and Sussex County, Delaware. 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 **$7,266,000** and $7,894,000 at December 31, 2017 and 2016, respectively. There were no new loans during 2017. During 2016 loan additions totaled $310,000. During 2017 and 2016 repayments totaled **$669,000** and $604,000, 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, 2017.

Note 4. Premises, Equipment and Depreciation

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

		2017		2016
Land	**$**	**1,752,560**	$	1,752,560
Buildings and improvements		**6,607,491**		6,590,205
Furniture and equipment		**8,491,564**		7,217,298
Total premises and equipment		**16,851,615**		15,560,063
Less: accumulated depreciation		**9,010,145**		8,556,095
Net premises and equipment	**$**	**7,841,470**	$	7,003,968

Depreciation expense totaled **$590,060** and $632,067 for the years ended December 31, 2017, and 2016, respectively.

Note 5. Income Taxes

Components of income tax expense for the years ended December 31, 2017, 2016 and 2015 are as follows:

	2017	2016	2015
Current			
Federal	**$ 2,774,373**	$ 1,760,954	$ 90,547
State	**568,378**	398,602	-
Total current	**3,342,751**	2,159,556	90,547
Deferred income tax (liabilities) benefits:			
Federal	**26,424**	86,356	1,750,415
State	**(154,114)**	129,446	402,300
Total deferred	**(127,690)**	215,802	2,152,715
Income tax expense	**$ 3,215,061**	$ 2,375,358	$ 2,243,262

A reconciliation of tax computed at the Federal statutory income tax rate of 34% to the actual expense for the years ended December 31, 2017, 2016 and 2015 is as follows:

	2017	2016	2015
Tax at Federal statutory income tax rate	**$ 2,254,011**	$ 2,173,649	$ 1,324,203
Tax effect of:			
Tax exempt income	**(372,271)**	(348,290)	(305,001)
One-time adjustment to deferred tax asset due to the Tax Cuts and Jobs Act of 2017	**762,784**	-	-
Other	**156,274**	21,952	892,927
State income taxes, net of Federal tax benefit	**414,263**	528,047	331,133
Income tax expense	**$ 3,215,061**	$ 2,375,358	$ 2,243,262

Note 5. Income Taxes (Continued)

Income taxes included in the balance sheets are as follows:

	2017	2016
Federal income tax payable	$ 768,802	$ (85,904)
State franchise tax receivable	(56,622)	15,398
Deferred income tax assets:		
Allowance for credit losses and unfunded commitments	$ 681,105	$ 181,757
Net operating loss carryforward	99,038	93,195
Accumulated amortization on intangibles	42,778	73,425
Impairment loss on investment securities	30,994	45,319
Net losses on other real estate owned	1,217,239	1,754,866
Director stock option expense	3,225	15,736
Merger costs	196,803	-
Net depreciation on securities available for sale	91,355	207,263
Other	7,793	-
	2,370,330	2,371,561
Deferred tax liabilities:		
Accumulated depreciation	360,887	288,351
Deferred gain	132,677	193,994
Accumulated securities discount accretion	505	658
	494,069	483,003
Net deferred income tax asset	$ 1,876,261	$ 1,888,558

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 will be 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, 2017 and 2016, management believes there are no uncertain tax positions under ASC Topic 740 Income Taxes. The Bank's Federal and state income tax returns for 2014, 2015, and 2016 are subject to examination by the IRS and/or state tax authorities, generally for three years after they were filed. The 2017 tax returns will be filed in 2018.

Note 6. Deposits

Time deposits and their remaining maturities at December 31, 2017 are as follows:

2018	$ 67,586,558
2019	25,122,358
2020	47,550,294
2021	14,469,719
2022	9,609,549
2023 and thereafter	61,209
Total time deposits	$ 164,399,687

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

	2017	2016	2015
NOW	**$ 61,052**	$ 31,667	$ 23,495
Money market	**133,016**	132,401	115,520
Savings	**79,707**	73,277	64,940
Time, $100,000 or more	**760,380**	735,363	679,117
Other time	**974,819**	1,125,089	1,201,487
	$ 2,008,974	$ 2,097,797	$ 2,084,559

Deposit balances of officers and directors and their affiliated interests totaled approximately **$4,938,000** and $5,279,000 as of December 31, 2017 and 2016, respectively.

Deposit accounts in an overdraft position totaled approximately **$261,000** and $719,000 as of December 31, 2017 and 2016, respectively.

Some of the Company's CD deposits are through participation in the Certificate of Deposit Account Registry Service (CDARS). These deposits totaled **$5,345,621** and $4,775,604 at December 31, 2017 and 2016, respectively.

Note 7. Other Income

Other income consists of the following:

	2017	2016	2015
Investment fees and commissions	**$ 98,194**	$ 143,477	$ 127,543
Safe deposit box rentals	**42,377**	43,149	43,326
Visa debit income	**765,987**	734,163	690,521
Other non-interest income	**605,256**	523,358	695,720
	$ 1,511,814	$ 1,444,147	$ 1,429,567

Note 8. Credit Facilities

The Bank owns capital stock of the Federal Home Loan Bank of Atlanta (FHLB) as a condition for a $136,685,500 convertible advance credit facility from the FHLB. As of December 31, 2017, the Bank had remaining credit availability of $92,538,000 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 is being amortized to final maturity as an adjustment to interest expense, the effective rate is the three month LIBOR based floating rate plus 1.35% for the first two years, adjusting to 3.18% until maturity. The unamortized premium was $66,207 as of December 31, 2017.

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 is being amortized to final maturity as an adjustment to interest expense, the effective rate is the three month LIBOR based floating rate plus 1.67% for the first two years, adjusting to 3.50% until maturity. The unamortized premium was $81,767 as of December 31, 2017.

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 is being amortized to final maturity as an adjustment to interest expense, the effective rate is the three month LIBOR based floating rate plus 2.47% for the first two years, adjusting to 4.30% until maturity. The unamortized premium was $120,263 as of December 31, 2017.

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 has the option of converting the rate on this long-term borrowing to a three month LIBOR-based floating rate at any time.

In March 2016, the Bank borrowed an additional $3,000,000 with interest payable monthly fixed at 1.62%, maturing in March 2023.

In March 2016, the Bank borrowed an additional $2,300,000 with interest payable monthly fixed at 1.99%, maturing in March 2026.

In June 2017, the Bank borrowed an additional $15,000,000 with interest payable quarterly fixed at 1.511%, maturing in June 2019.

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 **$96,188,000** and $102,181,000 at December 31, 2017 and 2016, 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.

Note 8. Credit Facilities (Continued)

The proceeds of these long-term borrowings were generally used to purchase higher yielding investment securities, fund additional loans, or redeem preferred stock. 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, 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. At December 31, 2016 there were no borrowings outstanding, and securities pledged under this credit facility had an amortized cost and fair value of $11,069 and $12,720.

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 **$124,493,** $111,814 and $99,887, and for the years ended December 31, 2017, 2016 and 2015, 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 a five-year renewal option, for a total of 11 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 an additional five-year renewal option. Rent expense under this agreement is not anticipated to begin until April of 2018, once renovations to the space are complete. Rent expense under these arrangements was **$227,817,** $203,838 and $194,582 for the years ended December 31, 2017, 2016 and 2015, respectively.

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

2018	$	294,014
2019		275,185
2020		282,758
2021		284,729
2022		265,728

Note 11. Other Operating Expenses

Other operating expenses include the following:

		2017		2016		2015
Professional services	$	182,423	$	119,552	$	217,265
Stationery, printing and supplies		151,711		149,273		130,574
Postage and delivery		136,277		146,495		147,442
FDIC assessment		352,981		357,806		416,464
State bank assessment		1,000		1,000		1,000
Directors fees and expenses		209,650		229,176		224,950
Marketing		259,183		226,466		215,680
Correspondent bank services		68,526		76,367		75,179
ATM expenses		590,110		572,539		494,470
Telephones and mobile devices		256,771		164,276		157,138
Membership dues and fees		62,373		59,460		53,934
Legal fees		108,417		285,735		205,375
Audit and related professional fees		170,288		94,175		108,824
Insurance		118,935		130,110		134,588
Bank acquisition costs (See Note 19)		787,350		-		-
Other		1,812,166		1,732,780		1,677,473
	$	5,268,161	$	4,345,210	$	4,260,356

Note 12. Stock Option Plans

The Bank had employee and director stock option plans and reserved 68,288 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 68,288 shares were outstanding as follows:

	Employees			Directors		
	Shares	Average Price	Amount	Shares	Average Price	Amount
December 31, 2014	140,712	17.99	2,531,683	43,728	18.15	793,569
Forfeited in 2015	(54,608)	17.97	(981,329)	(10,964)	17.59	(192,885)
December 31, 2015	86,104	18.01	1,550,354	32,764	18.33	600,684
Forfeited in 2016	(3,212)	19.05	(61,173)	-	-	-
December 31, 2016	82,892	$ 17.97	$ 1,489,181	32,764	$ 18.33	$ 600,684
Forfeited in 2017	**(32,348)**	**23.09**	**(746,925)**	**(15,020)**	**21.69**	**(325,722)**
December 31, 2017	**50,544**	**$ 14.69**	**$ 742,256**	**17,744**	**$ 15.50**	**$ 274,962**

No stock options were exercised in 2015, 2016 or 2017. Shares issued in connection with stock option exercises are issued from available authorized shares.

Note 12. Stock Option Plans (Continued)

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. As a result of applying the provisions of ASC Topic 718-10 during 2015 the Company recognized additional stock-based compensation expense of **$555**. Stock-based compensation expense for 2015 relates to 2012 stock options. The 2012 options expense was fully recognized in 2015.

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 the Company awarded 5,000 shares 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, 2017 non-vested restricted stock awards totaling 2,500 were outstanding as follows:

	Employees			Directors		
	Shares		Weighted Average Fair Value	Shares		Weighted Average Fair Value
Nonvested Awards December 31, 2015	121,737	$	4.17	46,100	$	4.19
Granted in 2016	-		-	-		-
Vested in 2016	-		-	-		-
Forfeited in 2016	(60,867)		4.17	(23,050)		4.18
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)**		**7.20**	-		-
Forfeited in 2017	**(60,870)**		**4.17**	**(23,050)**		**4.18**
Nonvested Awards December 31, 2017	**2,500**	**$**	**7.10**	-	**$**	-

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 is equal to the underlying fair value of the stock. As a result of applying the provisions of ASC Topic 718-10 during 2015, the Company recognized restricted stock-based compensation expense of $239,643, or $147,385 net of tax, related to the 2014 restricted stock awards. No restricted stock-based compensation expense was recognized 2016. 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. Unrecognized restricted stock-based compensation expense related to 2014 restricted stock awards totaled approximately **$18,000** at December 31, 2017. The remaining period over which this unrecognized expense is expected to be recognized is one year.

Note 14. Earnings (Loss) Per Share

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

	2017	2016	2015
Net income applicable to basic earnings per common share	$ 3,414,384	$ 4,017,727	$ 3,894,716
Weighted average shares outstanding	8,219,576	8,209,667	8,136,536
Basic earnings per share	0.415	0.489	0.479
Effect of dilutive securities:			
Weighted average shares outstanding under options (1)	68,288	116,653	176,692
Weighted average exercise price	$ 14.90	$ 18.07	$ 18.10
Assumed proceeds on exercise	$ 1,017,218	$ 2,107,920	$ 3,198,125
Average market value	$ 6.73	$ 6.04	$ 4.62
Weighted average shares outstanding under restricted stock plans (2)	86,211	167,607	189,269
Diluted weighted average shares and common stock equivalents	8,305,787	8,377,274	8,325,805
Diluted earnings (loss) per share	$ 0.411	$ 0.480	$ 0.468

(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, 2017 that the Company and the Bank meet all capital adequacy requirements to which they are subject.

As of December 31, 2017, 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.

Note 15. Regulatory Capital Requirements (Continued)

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.

The following table presents actual and required capital ratios as of December 31, 2017 and 2016 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, 2017 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.

Note 15. Regulatory Capital Requirements (Continued)

A comparison of the Company's and the Bank's capital amounts and ratios as of December 31, 2017 and 2016 with the minimum requirements are presented below.

In Thousands	Actual Amount	Actual Ratio	For Capital Adequacy Purposes Amount	For Capital Adequacy Purposes Ratio	To Be Well Capitalized Under Prompt Corrective Action Provisions Amount	To Be Well Capitalized Under Prompt Corrective Action Provisions Ratio
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 %**
As of December 31, 2016						
Total Capital Ratio						
(To Risk Weighted Assets)						
Delmar Bancorp	$ 51,278	12.5 %	$ 35,332	8.6 %	$ -	N/A
The Bank of Delmarva	53,244	13.0 %	35,332	8.6 %	40,964	10.0 %
Tier I Capital Ratio						
(To Risk Weighted Assets)						
Delmar Bancorp	46,140	11.3 %	27,140	6.6 %	-	N/A
The Bank of Delmarva	48,106	11.7 %	27,139	6.6 %	32,772	8.0 %
Common Equity Tier I Ratio						
(To Risk Weighted Assets)						
Delmar Bancorp	46,140	11.3 %	20,995	5.1 %	-	N/A
The Bank of Delmarva	48,106	11.7 %	20,994	5.1 %	26,627	6.5 %
Tier I Leverage Ratio						
(To Average Assets)						
Delmar Bancorp	46,140	9.0 %	20,520	4.0 %	-	N/A
The Bank of Delmarva	48,106	9.4 %	19,327	4.0 %	25,650	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, 2017 and 2016. Items that are not financial instruments are not included. Amounts are shown in thousands (000).

	2017		2016	
	Carrying Amount	**Estimated Fair Value**	Carrying Amount	Estimated Fair Value
Financial assets:				
Cash and due from banks	**$ 22,058**	**$ 22,058**	$ 16,344	$ 16,344
Interest bearing deposits	**7,032**	**7,032**	5,484	5,484
Federal funds sold	**3,493**	**3,493**	1,262	1,262
Securities:				
Available for sale	**46,662**	**46,662**	48,345	48,345
Loans, net of allowance for credit losses	**462,701**	**454,957**	424,077	421,241
Accrued interest receivable	**1,598**	**1,598**	1,398	1,398
Federal Home Loan Bank stock	**2,354**	**2,354**	1,723	1,723
Maryland Financial Bank stock	**30**	**30**	30	30
Atlantic Central Bankers stock	**75**	**75**	75	75
Other investments	**1,500**	**1,500**	1,000	1,000
Financial liabilities:				
Deposits	**$ 465,457**	**$ 427,297**	$ 433,483	$ 400,978
Accrued interest payable	**230**	**230**	198	198
Long-term borrowings and note payable	**46,148**	**46,795**	31,806	32,730
Unrecognized financial instruments:				
Commitments to extend credit	**$ 81,496**	**$ 81,496**	$ 68,276	$ 68,276
Standby letters of credit	**3,211**	**3,211**	3,427	3,427

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.

Note 16. Fair Values of Financial Instruments (Continued)

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.

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.

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.

Note 16. Fair Values of Financial Instruments (Continued)

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, 2017. This table excludes financial instruments for which the carrying amount approximates fair value.

	2017		Fair Value Hierarchy		
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Loans, net	$ 462,701,244	$ 454,957,073	$ -	$ 454,957,073	$ -
Financial liabilities:					
Interest-bearing deposits	$ 311,268,541	$ 279,304,844	$ 114,926,441	$ 164,378,403	$ -
Long-term borrowings and note payable	46,147,500	46,795,143	-	46,795,143	-

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.

Note 17. Fair Value Measurements (Continued)

The following table presents fair value measurements on a recurring basis as of December 31, 2017:

	Level 1	Level 2	Level 3	Fair Value
Securities available for sale:				
Obligations of U.S				
Government agencies	$ -	$ 8,932,921	$ -	$ 8,932,921
Obligations of States and				
political subdivisions	-	18,556,602	-	18,556,602
Mortgage-backed securities	-	17,743,559	-	17,743,559
Equity securities	-	1,428,659	-	1,428,659
Total securities available for sale	$ -	$ 46,661,741	$ -	$ 46,661,741

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, 2017:

	Level 1	Level 2	Level 3	Fair Value
Impaired loans	$ -	$ -	$ 19,925,643	$ 19,925,643
OREO	-	3,654,958	-	3,654,958
Total	$ -	$ 3,654,958	$ 19,925,643	$ 23,580,601

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

Application of ASC Topic 820 to non-financial assets and non-financial liabilities became effective January 1, 2009. The Corporation 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. Parent Company Financial Information

Presented below are comparative balance sheets of the parent company, Delmar Bancorp, as of December 31, 2017 and 2016, and statements of operations and cash flows for each of the years ended December 31, 2017, 2016 and 2015.

BALANCE SHEETS
December 31, 2017 and 2016

	2017	2016
ASSETS		
Cash	**$ 1,118**	$ -
Investment in subsidiaries, at equity	**50,694,111**	47,830,483
Other assets	**577,361**	535,951
Total assets	**$ 51,272,590**	$ 48,366,434
LIABILITIES		
Other liabilities	**$ 206,591**	$ 184,929
Note payable	**2,000,000**	2,000,000
Total liabilities	**$ 2,206,591**	$ 2,184,929
STOCKHOLDERS' EQUITY		
Common stock, par value $.01 per share, authorized 9,990,550 shares; issued and outstanding 2017 and 2016 8,219,576	**$ 82,196**	$ 82,196
Surplus	**16,622,245**	16,604,494
Retained earnings	**32,614,597**	29,813,156
Accumulated other comprehensive loss, net of deferred tax benefits 2017 **$91,355**; 2016 $207,263	**(253,039)**	(318,341)
Total stockholders' equity	**49,065,999**	46,181,505
Total liabilities and stockholders' equity	**$ 51,272,590**	$ 48,366,434

Note 18. Parent Company Financial Information (Continued)

STATEMENTS OF INCOME
Years Ended December 31, 2017, 2016, and 2015

	2017	2016	2015
Stock-based compensation expense	$ -	$ -	$ (555)
Interest expense on borrowings	(136,064)	(136,437)	(29,077)
Other expenses, net	(54,600)	(54,393)	(53,513)
Loss before income taxes and equity in undistributed net income of subsidiaries	(190,664)	(190,830)	(83,145)
Income tax benefits (1)	25,273	109,343	27,656
Equity in undistributed net income of subsidiaries	3,579,775	4,099,214	3,950,205
Net income	$ 3,414,384	$ 4,017,727	$ 3,894,716

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

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2017, 2016, and 2015

	2017	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 3,414,384	$ 4,017,727	$ 3,894,716
Adjustments to reconcile net income to net cash used in operating activities:			
Equity in undistributed net income of subsidiaries	(3,579,775)	(4,099,214)	(3,950,205)
Stock-based compensation expense	-	-	555
Changes in assets and liabilities:			
Increase in other assets	(41,410)	(206,255)	(148,491)
Increase in other liabilities	21,662	5,823	88,554
Net cash used in operating activities	(185,139)	(281,919)	(114,871)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Dividends paid	(657,566)	(491,123)	-
Proceeds from long-term borrowings	-	-	2,000,000
Dividends received from subsidary	843,823	585,561	3,740,000
Redemption of preferred stock	-	-	(5,742,511)
Net cash provided by (used in) financing activities	186,257	94,438	(2,511)
Net increase (decrease) in cash	1,118	(187,481)	(117,382)
Cash, beginning of year	-	187,481	304,863
Cash, end of year	$ 1,118	$ -	$ 187,481

Note 19. Bank Acquisition

On July 20, 2017 the Company entered into an agreement and plan of merger with Liberty Bell Bank ("Liberty"), pursuant to which Liberty will merge with and into the Company (the "merger"). Liberty is a commercial bank chartered by the New Jersey Department of Banking and Insurance and insured by the Federal Deposit Insurance Corporation. Liberty is headquartered in Evesham Township, New Jersey, which is also the location of the operations center and the administrative headquarters. Branch offices are in Cherry Hill also the site of the Bank's Loan Service Center, and Moorestown, New Jersey. Liberty provides financial services primarily to customers located in Camden and Burlington Counties, as well as surrounding counties in New Jersey and Southeastern Pennsylvania. Each share of Liberty common stock will be converted into the right to receive either 0.2857 shares of Delmar Bancorp common stock, $1.70 in cash, or a combination of Delmar Bancorp common stock and cash in exchange for shares of Liberty common stock, limited to the requirement that 70% of the shares of Liberty common stock will be exchanged for Delmar Bancorp common stock and 30% will be exchanged for cash. As of December 22, 2017, there were 8,788,897 shares of Liberty common stock outstanding which were held be approximately 434 holders of record. In anticipation of the cash payment to Liberty stockholders, the Company entered into a subordinated loan agreement for an aggregate principal amount of $4,500,000 in January 2018. Interest-only payments are due quarterly at 6.875% per annum, and the outstanding principal balance matures in January 2028. There are no plans to dispose of any major Liberty assets, but some personnel will be terminated, at a cost expected to be no higher than $322,450. The merger became effective March 1, 2018.

Note 20. 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 21. Date of Management's Review

In preparing the financial statements, management has evaluated events and transactions for potential recognition or disclosure through March 8, 2018, the date that the financial statements were available to be issued.

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President and Chief Executive Officer

John W. Breda

Vice President

Deborah S. Abbott

Secretary

Elizabeth Eicher Holland, CPA

Treasurer and Assistant Secretary

John A. Craig

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and
The Bank of Delmarva
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Atlantic/Smith Cropper & Deeley
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Former Attorney
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Mercantile Peninsula Bank
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Audit Committee
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Henry H. Hanna, III, CCIM, SIOR
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Governance Committee
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Governance Committee

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Audit Committee
Governance Committee
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Loan Committee, Chairman
Regulatory Compliance Committee, Chairman

J. Phillips Wright, Jr.
Audit Committee
Governance Committee, Chairman

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Auto-Draft (transfer from one account to another)
Direct Deposit - Night Depository - Safe Deposit Boxes
Money Orders - Travelers Checks
TeleBANC
Internet Home Banking
Internet Bill Payment
Consumer Mobile Banking and Mobile Deposit
Online Statements
Cash Management/Remote Deposit Capture
Customer Service – 800-787-4542/410-548-7892

Deposits

Certificates of Deposit - Christmas Club Savings
IRA - Tiered Money Market - NOW
Personal and Business Checking - Savings

Loans

Automobile - Boat - Commercial - Equipment
Commercial Lines of Credit - Home Equity - Home Improvement
Mortgage - Personal - Personal Lines of Credit (Key Line)
SBA and USDA Guaranteed

TeleBANC

410-742-0411 or 866-991-2262

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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NOTES