Delmar BANCORP

March 30, 2020

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, 2019.

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 f 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

03/30/2020
Date of Signature

For holding companies not registered with the SEC–
Indicate status of Annual Report to Shareholders:
- ☐ is included with the FR Y-6 report
- ☐ will be sent under separate cover
- ☐ is not prepared

For Federal Reserve Bank Use Only

RSSD ID ______
C.I. ______

Date of Report (top-tier holding company's fiscal year-end):
December 31, 2019
Month / Day / Year

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

Reporter's Name, Street, and Mailing Address

Delmar Bancorp
Legal Title of Holding Company

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

Salisbury	MD	21801
City	State	Zip Code

Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Betsy Eicher	SVP/CAO
Name	Title

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

410-548-7895
Area Code / FAX Number

beicher@bankofdelmarva.com
E-mail Address

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

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

In accordance with the General Instructions for this report (check only one),
1. a letter justifying this request is being provided along with the report .... ☐
2. a letter justifying this request has been provided separately ... ☐

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

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

For Use By Tiered Holding Companies

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

Legal Title of Subsidiary Holding Company

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

City State Zip Code

Physical Location (if different from mailing address)

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

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City State Zip Code

Physical Location (if different from mailing address)

Annual Report of Bank Holding Companies - FR Y 6

Report Item 2a: Organization Chart

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

The Bank of Delmarva 549300T77W6SEYOH0U64 Seaford, Delaware Delmar Bancorp Owns 100% State of Incorporation - DE	**Virginia Partners Bank** No LEI Fredericksburg, Virginia Delmar Bancorp Owns 100% State of Incorporation - VA

Delmarva Real Estate Holdings LLC No LEI Salisbury, Maryland The Bank of Delmarva Owns 100% State of Incorporation - MD Managing Member	**410 William Street LLC** No LEI Fredericksburg, VA Virginia Partners Bank owns 100% State of Incorporation - VA Managing Member	**Bear Holdings Inc** No LEI Fredericksburg, VA Virginia Partners Bank owns 100% State of Incorporation - VA	**Johnson Mortgage Company LLC** No LEI Newport News, VA Virginia Partners Bank owns 51% State of Incorporation - VA Limited Partner

Data Action	Effective Date	Branch Service Type	Branch ID_RSSD*	Popular Name	Street Address	City	State	Zip Code	County	Country	FDIC UNINUM*	Office Number*	Head Office	Head Office ID_RSSD*	Comments
OK		Full Service (Head Office)	885225	BANK OF DELMARVA, THE	910 NORMAN ESKRIDGE HIGHWAY	SEAFORD	DE	19973	SUSSEX	UNITED STATES	Not Required	Not Required	BANK OF DELMARVA, THE	885225	
OK		Full Service	664411	MAIN AND CLAYTON BRANCH	28280 CLAYTON STREET	DAGSBORO	DE	19939	SUSSEX	UNITED STATES	Not Required	Not Required	BANK OF DELMARVA, THE	885225	
OK		Full Service	852816	DELAWARE AVENUE AND MARKET STREET BRANCH	200 EAST MARKET STREET	LAUREL	DE	19956	SUSSEX	UNITED STATES	Not Required	Not Required	BANK OF DELMARVA, THE	885225	
OK		Full Service	3283233	REHOBOTH BRANCH	18572 COASTAL HIGHWAY	REHOBOTH BEACH	DE	19971	SUSSEX	UNITED STATES	Not Required	Not Required	BANK OF DELMARVA, THE	885225	
OK		Full Service	3877995	NEW DELMAR BRANCH	9550 OCEAN HIGHWAY	DELMAR	MD	21875	WICOMICO	UNITED STATES	Not Required	Not Required	BANK OF DELMARVA, THE	885225	
OK		Full Service	2944359	OCEAN CITY BRANCH	12505 COASTAL HIGHWAY	OCEAN CITY	MD	21842	WORCESTER	UNITED STATES	Not Required	Not Required	BANK OF DELMARVA, THE	885225	
OK		Full Service	5191677	WEST OCEAN CITY BRANCH	12720 OCEAN GATEWAY, UNIT 4	OCEAN CITY	MD	21842	WORCESTER	UNITED STATES	Not Required	Not Required	BANK OF DELMARVA, THE	885225	
OK		Full Service	2431699	2727 NORTH SALISBURY BRANCH	2727 NORTH SALISBURY BOULEVARD	SALISBURY	MD	21801	WICOMICO	UNITED STATES	Not Required	Not Required	BANK OF DELMARVA, THE	885225	
OK		Full Service	1169070	921 EASTERN SHORE BRANCH	921 EASTERN SHORE DRIVE	SALISBURY	MD	21804	WICOMICO	UNITED STATES	Not Required	Not Required	BANK OF DELMARVA, THE	885225	
OK		Full Service	886820	BEAGLIN PARK DRIVE BRANCH	241 BEAGLIN PARK DRIVE	SALISBURY	MD	21804	WICOMICO	UNITED STATES	Not Required	Not Required	BANK OF DELMARVA, THE	885225	
OK		Full Service	2063876	PECAN SQUARE BRANCH	1206 NANTICOKE ROAD	SALISBURY	MD	21801	WICOMICO	UNITED STATES	Not Required	Not Required	BANK OF DELMARVA, THE	885225	
OK		Full Service	3372276	CHERRY HILL BRANCH	2099 ROUTE 70 EAST	CHERRY HILL	NJ	08003	CAMDEN	UNITED STATES	Not Required	Not Required	BANK OF DELMARVA, THE	885225	
OK		Full Service	3205253	EVESHAM BRANCH	145 NORTH MAPLE AVENUE	MARLTON	NJ	08053	BURLINGTON	UNITED STATES	Not Required	Not Required	BANK OF DELMARVA, THE	885225	
OK		Full Service	3312311	MOORESTOWN BRANCH	227 WEST CAMDEN AVENUE	MOORESTOWN	NJ	08057	BURLINGTON	UNITED STATES	Not Required	Not Required	BANK OF DELMARVA, THE	885225	
OK		Full Service (Head Office)	3688623	VIRGINIA PARTNERS BANK	410 WILLIAM STREET	FREDERICKSBURG	VA	22401	FREDERICKSBURG CITY	UNITED STATES	Not Required	Not Required	VIRGINIA PARTNERS BANK	3688623	
OK		Full Service	4848367	LA PLATA BRANCH	115 E CHARLES STREET	LA PLATA	MD	20646	CHARLES	UNITED STATES	Not Required	Not Required	VIRGINIA PARTNERS BANK	3688623	
OK		Full Service	4257482	COWAN BRANCH	2521 COWAN BOULEVARD	FREDERICKSBURG	VA	22401	FREDERICKSBURG CITY	UNITED STATES	Not Required	Not Required	VIRGINIA PARTNERS BANK	3688623	
OK		Full Service	3832109	SALEM CHURCH BRANCH	4210 PLANK RD	FREDERICKSBURG	VA	22407	SPOTSYLVANIA	UNITED STATES	Not Required	Not Required	VIRGINIA PARTNERS BANK	3688623	

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
7,385,207 shares 42%

CEDE & Company (holds certificate for shareholders in street name)
New York, NY, USA
USA
6,692,479 shares 38%

Part 2:

None

Annual Report of Bank Holding Companies - FR Y-6

Report Item 4: Directors and Officers

Delmar Bancorp

(1) Name, City, State, Country	(2) Principal Occupation if other than with Holding Company	(3a) Title & Position with Holding Company	(3b) Title & Position with Subsidiaries	(3c) Title & Position with Other Business	(4a) Percentage of Voting Shares in Holding Company	(4b) Percentage of Voting Shares in Subsidiaries	4(C.) List Names of Other Companies if 25% or more of Voting Securities Held ***
1 **Betsy J. Eicher, Salisbury, MD, USA**	N/A	Chief Accounting Officer, Executive Officer	Chief Financial Officer, Senior Vice President - The Bank of Delmarva	N/A	None	N/A N/A	N/A
2 **George P. Snead, Fredericksburg, VA, USA**	Attorney	Director	Director - Virginia Partners Bank	Member/Partner of Parrish Snead Franklin Simpson, PLC	<1%	N/A	Blackacre Investment Group, LLC (25%); Ventnor Holdings, LLC (50%); Boardwalk Holdings, LLC (50%). (All are real estate holding companies.)
3 **J. Adam Sothen, Moseley, VA, USA**	N/A	Chief Financial Officer, Executive Officer	Chief Financial Officer, Executive Vice President - Virginia Partners Bank	N/A	None	N/A	N/A
4 **James A. Tamburro, Medford, NJ, USA**	Attorney in the Law Firm of Tamburro Law Office; Associate for the Commercial and Real Estate Divisions of Berkshire Hathaway in Marlton, NJ	Director	Director - The Bank of Delmarva	N/A	<1%	N/A	Tamburro Law Office (100%)
5 **Jeffrey F. Turner, Chance, MD, USA**	N/A	Director, Chairman	Director - Chairman The Bank of Delmarva	Chairman of the Board of Castle in the Sand, Inc. JFT LLC, Sole Member	<1%	N/A	JFT LLC (100%)

6 **John A. Janney, Fredericksburg, VA, USA**	John Janney Builder, Inc.	Director	Director, Chairman of the Board - Virginia Partners Bank	Owner	1%	N/A	John Janney Builder, Inc. (100%)
7 **John W. Breda, Delmar, MD, USA**	N/A	Director, President, Chief Operating Officer	Director, President, Chief Executive Officer - The Bank of Delmarva	N/A	<1%	N/A	N/A
8 **Kenneth R. Lehman, Fort Lauderdale, FL, USA**	Private investor and former banking and securities attorney	Director	Director - The Bank of Delmarva, Virginia Partners Bank	N/A	42%	N/A	Heritage Souteast Bancorporation (42%); Marine Bancorp of Florida (44%); ABB Financial Group (51%); Village Bank & Trust Financial Corp (51%); Sevier County Bancshares (41%); BVC Capital, LLC (100%)
9 **Lloyd B. Harrison III, Fredericksburg, VA, USA**	N/A	Director, Chief Executive Officer	Director, President, Chief Executive Officer - Virginia Partners Bank	Johnson Mortgage Company, Director; 410 William Street, LLC, Director, President & Secretary; Bear Holdings, Inc., Director and President	1%	N/A	N/A
10 **Mark L. Granger, Salisbury, MD, USA**	Certified Public Accountant with Granger & Magee, P.A.	Director	Director - The Bank of Delmarva	President of Granger & Magee, P.A.	<1%	N/A	Granger & Magee, P.A. (50%)
11 **Mona D. Albertine, Fredericksburg, VA, USA**	Owner, Jabberwocky Bookstore	Director	Director - Virginia Partners Bank	President of Jabberwocky Bookstore	<1%	N/A	Jabberwocky Bookstore (50%)
12 **Robert C. Wheatley, Laurel, DE, USA**	Real Estate Sales	Director	Director - The Bank of Delmarva	Associate Broker at KW Commercial, Managing member of The Whayland Group, LLC, and member of The Porvenir Group, LLC	<1%	N/A	100% interest in The Whayland Group, LLC, 33.33% interest in The Provenir Group, LLC

Delmar BANCORP

Annual Report

December 31, 2019

DELMAR BANCORP
AND SUBSIDIARIES
SELECTED FINANCIAL DATA

At year end:		2019	2018
Total assets		$ 1,252,670,001	$ 739,415,724
Loans receivable, net		986,683,661	625,513,347
Investment securities		106,256,187	51,300,284
Federal funds sold		31,230,203	1,254,413
Demand and NOW deposits		338,577,955	239,956,769
Savings and time deposits		668,203,629	374,968,578
Stockholders' equity		130,876,779	65,988,052
For the year:			
Total income		43,295,545	36,693,223
Total expenses		37,410,673	31,210,485
Net income (loss)		5,884,872	5,482,738
Basic earnings per share		0.54	0.566
Basic earnings per share, excluding intangibles		0.562	0.598
Key ratios:			
Yield on earning assets		5.06%	4.96%
Net interest income		31,101,720	27,814,071
Return on average assets		0.70%	0.84%
Return on average equity		7.22%	9.53%
Average equity to average assets		9.75%	8.84%
Tier I risk-based capital	Delmarva	11.57%	10.49%
Tier I risk-based capital	Partners	12.41%	10.49%
Total risk-based capital	Delmarva	12.75%	11.68%
Total risk-based capital	Partners	12.47%	11.68%
Leverage capital ratio	Delmarva	9.11%	8.74%
Leverage capital ratio	Partners	10.36%	8.74%
(See Note 15)			
Number of branch offices		18	14
Loan production offices		2	1
Number of administrative offices		3	2
Number of employees		215	161

March 25, 2020

Dear Shareholders:

First, in recognition of the unparalleled emergency brought on by Covid-19, we will be holding a virtual annual shareholder meeting on April 30, 2020. The proxy has complete details on how to participate.

As noted in last year's shareholder letter, we had reached agreement to acquire Virginia Partners Bank. We are delighted to report that this acquisition was completed successfully in November, 2019.

We believe the combination of The Bank of Delmarva and Virginia Partners Bank, operating as separately chartered commercial banks, will provide benefits from increased efficiencies and economies of scale. Further, the combined company should have better access to capital markets which will provide capital for growth and enhance shareholder value and liquidity. Moreover, we have experienced improved earnings, increased loan balances, a stable core deposit base, a strong capital position, and exceptional credit quality. The power of the combination of the two banks under the umbrella of Delmar Bancorp is illustrated by these year-over-year metrics:

- Assets up 69% to $1.25 Billion;
- Deposits up 64% to $1.01 Billion;
- Investment Securities up 107% to $106 Million;
- Stockholders' Equity up 98% to $130.9 Million.

It is our intent to find other like-minded banks willing to join this "family of banks model" – keeping their brands, local boards and management, and employees. In other words, keeping what is best about community banking with its rich history, traditions, and core values.

We recognize that the business of banking has changed and it will continue to change as technology and consumer behaviors dictate a new course in the industry. We will continue to adopt new technology and tools through collaborative partnerships and dynamic innovation. Our commitment to our communities, though, remains unchanged.

Finally, we announce the retirement of John Janney as Chairman of the Board of Virginia Partners Bank and Vice Chairman of Delmar Bancorp. Mr. Janney was instrumental in founding Virginia Partners. We are fortunate that he will remain active on the board of VPB. John – thank you for your service!

Thank you for your support as shareholders of the bank.

Very truly yours,

John W. Breda
President & COO

Lloyd B. Harrison, III
Chief Executive Officer

EXECUTIVE OVERVIEW

Delmar Bancorp ("Delmar") is a bank holding company whose primary assets are The Bank of Delmarva and Virginia Partners Bank. The financial statements of Delmar Bancorp consolidate the financial statements of Delmar Bancorp, The Bank of Delmarva and Virginia Partners Bank. The financial statements also consolidate the subsidiaries of The Bank of Delmarva, including Davie Circle LLC, Delmarva Real Estate Holdings LLC, Delmarva BK Holdings LLC, DHB Development LLC of which Delmarva holds a 40.55% interest, West Nithsdale Enterprises LLC of which Delmarva holds a 10% interest and FBW LLC of which Delmarva holds a 50% interest, and the subsidiaries of Virginia Partners Bank, including Bear Holdings Inc, Johnson Mortgage Company LLC of which Partners holds a 51% interest, and 410 William Street LLC. The discussion and analysis which follows pertains to the operation of all the entities during 2019.

Consolidated assets of Delmar Bancorp increased 69.4% to end the year at $1,252.7 million, which was an annual increase of $513.3 million. A significant part of this increase was due to the acquisition of Virginia Partners Bank, which contributed $454.2 million in assets. The remaining $59.1 million, or 8.0%, was organic growth.

Delmar's investment portfolio consists of Federal Agency, municipal, mortgage-backed and equity securities. The investment portfolio was $106.3 million at the end of 2019 or an increase of $55.0 million from $51.3 million in 2018.

Delmar's loan portfolio, net of the Allowance for Credit Losses, was $986.7 million at the end of 2019 or an increase of $361.2 million from $625.5 million in 2018. The acquisition of Virginia Partners Bank contributed $357.1 million in loan balances. The remaining $4.0 million, or 0.6%, was organic growth.

Delmar's Allowance for Credit Losses was $7.3 million at year end and represents 0.7% of ending loan balances. A total of $1.4 million was expensed from operations and added to the Allowance in 2019. Charge-offs of $1.6 million and recoveries of $384,000 in addition to the $1.4 million which was expensed from operations accounted for the change in the Allowance for 2019. Management believes that the Allowance for Credit Losses is considered adequate based upon the nature of Delmar's loan portfolio, historical loan losses and the credit quality of the current loan portfolio as of December 31, 2019, 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 Delmar'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 $391.9 million to $1,006.8 million. The acquisition of Virginia Partners Bank contributed approximately $348.6 million in deposit balances. The remaining increase of $43.3 million, or 7.0% was organic growth. Non-interest bearing demand accounts were 26.0% of total deposits and were $261.6 million at the end of 2019, an increase of $76.2 million or 41.1% compared to 2018. Interest bearing deposits were $745.2 million at the end of 2019. NOW accounts, savings accounts, money market accounts and certificates of deposit with balances greater than $100,000 increased by 95.7% while certificates of deposits with balances less than $100,000 increased by 25.6% compared to 2018.

Federal Home Loan Bank borrowings provide additional funding for short term and long term needs. Delmar ended 2019 with $48.8 million in long term borrowings at the FHLB compared to $43.5 million at December 31, 2018. Delmar had $48.0

million in short term borrowings at the end of 2019, compared to $7.0 million at the end of 2018.

Delmar had an additional $7.7 million of long term borrowings from institutions other than the Federal Home Loan Bank at the end of 2019.

Total capital at Delmar increased by approximately $64.9 million or 98.3%. Adjustments to capital in 2019 include net income of approximately $5.9 million, the issuance of common stock to Virginia Partners stockholders of approximately $52.2 million and the exercise of warrants in conjunction with the effectiveness of the share exchange of approximately $5.3 million. Delmar and the Banks are subject to various regulatory capital requirements administered by Federal banking agencies. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, Delmar and the Banks must meet specific capital adequacy guidelines that involve quantitative measures of their assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Banks' capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. At December 31, 2019 Delmar and the Banks 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 2019 Delmar paid a dividend to common stock shareholders.

Delmar's primary source of income is interest income derived from the loan and bond portfolios. Total interest income in 2019 was $39.4 million, an increase of approximately $6.2 million from 2018. Interest income from the loan portfolio was $37.0 million at the end of 2019. Interest income from the bond portfolio was approximately $1.5 million, which included approximately $637,000 in income exempt from federal taxation.

The primary source of interest expense is interest paid to depositors and for other borrowed money. Interest paid to depositors totaled $6.4 million, an increase of approximately $2.6 million from 2018. Total interest expense in 2019 was $8.3 million, an increase of approximately $2.9 million from 2018.

Net interest income for 2019 totaled $31.1 million. This is an increase of 11.8% over the prior year's $27.8 million in net interest income. The net interest margin in 2019 was 4.0%, compared to 4.12% in 2018.

Other income includes service charges on deposit products, rental of safe deposit boxes, the brokerage of stock and bond products, and gains or losses on the sale of assets and securities. Other income increased approximately $402,000 in 2019.

Operating expenses, including net write downs on other real estate owned of approximately $141,000, were $25.1 million in 2019 compared to $22.3 million in 2018, representing an increase of $2.7 million or 12.3%. The operating expense to average asset ratio of Delmar, excluding any impairment losses, was 3.0% in 2019 compared to 3.1% in 2018.

Net income was approximately $5.9 million in 2019 compared to net income of approximately $5.5 million reported in 2018. This is an increase of approximately $401 thousand. Net income includes merger related expenses of $1.9 million for the year ended December 31, 2019 and $1.6 million for the year ended December 31, 2018. Total shares outstanding at year end 2019 were 17,790,181 and at year end 2018 were 9,985,321. The basic earnings per share were $.538 per share in 2019 compared to $.566 per share in 2018.

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

TGM GROUP LLC
CERTIFIED PUBLIC ACCOUNTANTS
www.tgmgroupllc.com

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and
Stockholders of Delmar Bancorp

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Delmar Bancorp and subsidiaries (the Company) as of December 31, 2019 and 2018, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2019, and the related notes (collectively referred to as the consolidated financial statements). In our opinion, based on our audit and the report of the other auditors, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

We did not audit the financial statements of Virginia Partners Bank, a wholly-owned subsidiary, which statements reflect total assets and revenues constituting 36 percent and 7 percent, respectively, of the related consolidated totals. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Virginia Partners Bank, is based solely on the report of the other auditors.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

955 Mt. Hermon Road | Salisbury, MD 21804 | 410-742-1328 | 1-888-546-1574
114 Bay Street, Building A | PO Box 627 | Easton, MD 21601 | 410-822-4008

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits and the report of the other auditors provide a reasonable basis for our opinion.

TGM Group LLC

We have served as the Company's auditor since 1993.

Salisbury, Maryland
March 27, 2020

TGM GROUP LLC
CERTIFIED PUBLIC ACCOUNTANTS

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DELMAR BANCORP
CONSOLIDATED BALANCE SHEETS
December 31, 2019 and 2018

(Dollars in thousands, except per share amounts)	December 31, 2019	December 31, 2018
ASSETS		
Cash and due from banks	$ 36,295	$ 24,347
Interest bearing deposits in other financial institutions	27,586	4,093
Federal funds sold	31,230	1,254
Cash and cash equivalents	95,111	29,694
Securities available for sale, at fair value	106,256	51,300
Loans held for sale, at fair value	3,555	—
Loans, less allowance for credit losses of $7,304 at December 31, 2019 and $7,063 at December 31, 2018	986,684	625,513
Accrued interest receivable on loans and investment securities	3,138	2,103
Premises and equipment, at cost, less accumulated depreciation	13,705	10,048
Federal Home Loan Bank stock, at cost	5,180	2,652
Atlantic Central Bankers Bank stock, at cost	131	131
Other investments	2,838	1,537
Deferred tax asset	3,839	4,829
Bank owned life insurance	7,817	—
Other real estate owned	2,417	3,660
Core deposit intangible	3,373	1,069
Goodwill	9,391	5,237
Other assets	9,235	1,643
Total assets	$ 1,252,670	$ 739,416
LIABILITIES		
Deposits:		
Non interest bearing demand	$ 261,631	$ 185,476
NOW	76,947	54,481
Savings and money market	222,975	123,949
Time, $100,000 or more	274,387	115,030
Other time	170,841	135,990
	1,006,781	614,926
Accrued interest payable on deposits	572	392
Short-term borrowings	48,000	7,000
Long-term borrowings	48,830	43,489
Subordinated notes payable	7,749	6,500
Other liabilities	9,861	1,121
Total liabilities	1,121,793	673,428
COMMITMENTS, CONTINGENCIES & SUBSEQUENT EVENT		
STOCKHOLDERS' EQUITY		
Common stock, par value $.01, authorized 20,000,000 shares, issued and outstanding 17,790,181 as of December 31, 2019 and 9,985,321 as of December 31, 2018	178	100
Surplus	87,437	29,470
Retained earnings	41,785	37,149
Noncontrolling interest in consolidated subsidiaries	738	—
Accumulated other comprehensive income (loss), net of tax	739	(731)
Total stockholders' equity	130,877	65,988
Total liabilities and stockholders' equity	$ 1,252,670	$ 739,416

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

DELMAR BANCORP
CONSOLIDATED STATEMENTS OF INCOME
Years Ended December 31, 2019 and 2018

(Dollars in thousands, except share data)	2019	2018
INTEREST INCOME ON:		
Loans, including fees	$ 36,975	$ 31,362
Investment securities:		
Taxable	850	647
Exempt from Federal income tax	637	554
Federal funds sold	157	114
Other interest income	762	496
	39,381	33,173
INTEREST EXPENSE ON:		
Deposits	6,435	3,790
Borrowings	1,844	1,569
	8,279	5,359
NET INTEREST INCOME	31,102	27,814
Provision for credit losses	1,441	1,175
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	29,661	26,639
OTHER INCOME:		
Service charges on deposit accounts	1,174	1,317
Gain on sale of investment securities	98	—
(Losses) gains on disposal of other assets	(3)	405
Other income	2,652	1,798
	3,921	3,520
OTHER EXPENSES:		
Salaries and employee benefits	13,261	10,649
Premises and equipment	3,713	3,258
Write down of Maryland Financial bank stock	—	30
Amortization of core deposit intangible	346	420
Losses on other real estate owned	141	384
Other expenses	7,597	7,577
	25,058	22,318
INCOME BEFORE TAXES ON INCOME	8,524	7,841
Federal and state income taxes	2,631	2,359
NET INCOME	5,893	5,482
Net income attributable to noncontrolling interest	(10)	—
NET INCOME ATTRIBUTABLE TO DELMAR BANCORP	$ 5,883	$ 5,482
Earnings per common share		
Basic earnings per share	$ 0.538	$ 0.566
Diluted	$ 0.537	$ 0.565

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

DELMAR BANCORP
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years Ended December 31, 2019 and 2018

(Dollars in thousands)	2019	2018
NET INCOME	**$ 5,893**	$ 5,482
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:		
Unrealized holding gains (losses) on securities available for sale arising during the period	**2,097**	(650)
Deferred income tax (liabilities) benefits	**(556)**	172
Other comprehensive income (loss), net of tax	**1,541**	(478)
Reclassification adjustment for gains included in net income	**(97)**	—
Deferred income tax benefits	**26**	—
Other comprehensive income, net of tax	**(71)**	—
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	**1,470**	(478)
COMPREHENSIVE INCOME	**7,363**	5,004

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

DELMAR BANCORP
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years Ended December 31, 2019 and 2018

(Dollars in thousands, except per share amounts)	Common Stock	Surplus	Retained Earnings	Noncontrolling Interest	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balances, December 31, 2017	82	16,622	32,615	—	(253)	49,066
COMPREHENSIVE INCOME						
Net income	—	—	5,482	—	—	5,482
Other comprehensive income, net of tax:						
Unrealized holding losses on securities available for sale arising during the period	—	—	—	—	(478)	(478)
TOTAL COMPREHENSIVE INCOME						5,004
Cash dividends, $0.095 per share	—	—	(948)	—	—	(948)
Common stock issued for stock options exercised	—	31	—	—	—	31
Common stock issued to shareholders of Liberty Bell Bank	18	12,781	—	—	—	12,799
Stock-based compensation expense recognized in earnings, net of employee tax obligation	—	36	—	—	—	36
Balances, December 31, 2018	**100**	**29,470**	**37,149**	**—**	**(731)**	**65,988**
COMPREHENSIVE INCOME						
Net income	**—**	**—**	**5,883**	**10**	**—**	**5,893**
Other comprehensive income, net of tax:						
Unrealized holding gains on securities available for sale arising during the period	**—**	**—**	**—**	**—**	**1,541**	**1,541**
Reclassification adjustment for gains included in net income	**—**	**—**	**—**	**—**	**(71)**	**(71)**
TOTAL COMPREHENSIVE INCOME						**7,363**
Cash dividends, $0.100 per share	**—**	**—**	**(1,193)**	**—**	**—**	**(1,193)**
Minority interest contributed capital	**—**	**—**	**—**	**728**	**—**	**728**
Reclassification adjustment for loss on equity securities realized during the period	**—**	**—**	**(54)**	**—**	**—**	**(54)**
Stock option exercises, net	**—**	**50**	**—**	**—**	**—**	**50**
Value of stock options acquired	**—**	**350**	**—**	**—**	**—**	**350**
Warrant exercises, net	**8**	**5,334**	**—**	**—**	**—**	**5,342**
Common stock issued to shareholders of Virginia Partners Bank	**70**	**52,211**	**—**	**—**	**—**	**52,281**
Stock-based compensation expense recognized in earnings, net of employee tax obligation	**—**	**22**	**—**	**—**	**—**	**22**
Balances, December 31, 2019	**$ 178**	**$ 87,437**	**$ 41,785**	**738**	**$ 739**	**$ 130,877**

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

DELMAR BANCORP
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2019 and 2018

(Dollars in thousands)	Year Ended December 31, 2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 5,883	$ 5,482
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses and unfunded commitments	1,441	1,175
Depreciation	1,197	925
Amortization and accretion	314	640
Gain on investment securities	(107)	—
Net gains (loss) on sales of assets	5	(375)
Loss on equity securities	9	—
Gain on sale of loans held for sale, originated	(205)	—
Net losses on other real estate owned, including write-downs	153	385
Increase in bank owned life insurance cash surrender value	(26)	—
Deferred income tax expenses	1,820	1,494
Stock-based compensation expense, net of employee tax obligation	22	36
Changes in assets and liabilities:		
Increase in loans held for sale	(1,383)	—
Decrease (increase) in accrued interest receivable	120	(147)
(Increase) decrease in other assets	(2,992)	682
Increase in accrued interest payable	145	127
Increase (decrease) in other liabilities	1,411	(1,514)
Net cash provided by operating activities	7,807	8,910
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of securities available for sale	(30,777)	(9,093)
Proceeds from maturities and paydowns of securities available for sale	42,988	8,601
Proceeds from sales of securities available for sale	—	2,591
Net increase in loans	(7,395)	(42,693)
Proceeds from sale of assets	16	973
Cash received acquisition	6,743	11,831
Purchases of premises and equipment	(1,248)	(1,451)
Cash paid to shareholders	(2)	(4,471)
Proceeds from the sales of foreclosed assets	1,300	934
Proceeds from sales of Federal Home Loan Bank stock	810	979
Purchase of Federal Home Loan Bank stock	(924)	(1,153)
Net cash provided by (used by) investing activities	11,511	(32,952)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase (decrease) in demand, NOW, money market, and savings deposits, net	9,642	(9,979)
Cash received for the exercise of stock options	50	31
Cash received for the exercise of warrants	5,342	—
Increase in time deposits, net	33,659	21,207
Proceeds from borrowings to fund acquisition of Liberty Bell Bank, net of loan costs	—	4,450
(Decrease) increase in other borrowings, net	(1,394)	6,341
Net increase in minority interest contributed capital	10	—
Decrease in finance lease liability	(17)	—
Dividends paid	(1,193)	(896)
Net cash provided by financing activities	46,099	21,154
Net increase (decrease) in cash and cash equivalents	65,417	(2,888)
Cash and cash equivalents, beginning	29,694	32,582
Cash and cash equivalents, ending	$ 95,111	$ 29,694
Supplementary cash flow information:		
Interest paid	$ 8,134	$ 5,197
Income taxes paid	1,297	1,777
Total appreciation (depreciation) on securities available for sale	$ 1,999	$ (650)
SUPPLEMENTARY NON-CASH INVESTING ACTIVITIES		
Fair value of assets acquired, net of cash and cash equivalents	$ 447,424	$ 139,701
Fair value of liabilities assumed, net of cash and cash equivalents	404,959	139,500
Value of shares provided to stockholders	52,282	12,798
Value of stock options assumed in acquisition	350	—
Loans converted to other real estate owned	$ 209	$ 379

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Nature of Business and Its Significant Accounting Policies

Delmar Bancorp (the Company) is a multi-bank holding company with two subsidiaries (the"Subsidiaries"), The Bank of Delmarva ("Delmarva"), a commercial bank operating in Wicomico and Worcester counties in Maryland, Sussex County in Delaware, and Camden and Burlington counties in New Jersey, and Virginia Partners Bank ("Partners"), a commercial bank headquartered in Fredericksburg, Virginia. The Subsidiaries provide financial services to individual and corporate customers, and are subject to competition from other financial institutions. The Subsidiaries are also subject to the regulations of certain Federal and state agencies and undergoes periodic examinations by those regulatory authorities. The accounting policies of the Subsidiaries conform to generally accepted accounting principles and practices within the banking industry.

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

Principles of Consolidation:

The consolidated financial statements include the accounts of Delmar Bancorp; its wholly owned subsidiaries, The Bank of Delmarva and Virginia Partners Bank, along with their consolidated subsidiaries: Delmarva Real Estate Holdings, LLC., a wholly owned subsidiary of Delmarva, which is a real estate holding company; Davie Circle, LLC, a wholly owned subsidiary of Delmarva, which is a real estate holding company; Delmarva BK Holdings, LLC, a wholly owned subsidiary of Delmarva, which is a real estate holding company; DHB Development, LLC, of which Delmarva holds a 40.55% interest, and is a real estate holding company; West Nithsdale Enterprises, LLC, of which Delmarva holds a 10% interest, and is a real estate holding company; FBW, LLC, of which Delmarva holds 50% interest, and is also a real estate holding company; Bear Holdings, Inc, a wholly owned subsidiary of Partners, and is a real estate holding company; Johnson Mortgage Company, LLC, of which Partners owns 51% interest, and is a residentialmortgage company; and 410 William Street, LLC, a wholly owned subsidiary of Partners, and which holds investment property. 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 Subsidiaries'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.

Impairment may result from credit deterioration of the issuer or collateral underlying the scurity. In performing an assessment of recoverability, all relevant information is considered, including the length of time and extent to which fair value has been less than the amortized cost basis, the cause of the price decline, credit performance, of the issuer and underlying collateral, and recoveries or further declines in fair value subsequent to the balance sheet date.

For debt securities, the Company measures and recognizes other-than-temporary ("OTTI") losses through earnings if (1) the Company has the intent to sell the security or (2) it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis. In these circumstances, the impairment loss is equal to the full difference between the amortized cost basis and the fair value of the security. For securities that are considered other-than-temporarily-impaired that the Company has the intent and ability to hold in an unrealized loss position, the OTTI write-down is separated into an amount representing the credit loss, which is recognized in earnings, and the amount related to other factors, which is recognized as a component of other comprehensive income ("OCI").

For equity securities, the Company recognizes OTTI losses through earnings if the Company intends to sell the security. The Company also considers other relevant factors, including its intent and ability to retain the security for a period of time sufficient to allow for any anticipated recover in market value, and whether evidence exists to support a realizable value equal to or greater than the carrying value. Any impairement loss on an equity security is equal to the full difference between the amortized cost basis and the fair value of the security.

Equity Securities:

Equity securities with readily determinable fair values are carried at fair value, with changes in fair value reported in net income. Any equity securities without readily determinable fair values are carried at cost, minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for identical or similar investments. The entirety of any impairment on equity securities is recognized in earnings.

Other Securities:

Federal Home Loan Bank ("FHLB"), Atlantic Central Bankers Bank ("ACBB"), Community Bankers Bank ("CBB") 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 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 and investmetn in the stock of the Federal Reserve Bank.

Bank Owned Life Insurance:

The Company has purchased life insurance policies on certain key executives. Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other changes or amounts due that are probably at settlement.

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

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

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

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

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

Loan Charge-off Policies

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

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

Acquired Loans

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

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

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

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

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

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

Troubled Debt Restructurings

A loan is accounted for and reported as a troubled debt restructuring ("TDR") when, for economic or legal reasons, we grant a concession to a borrower experiencing financial difficulty that we would not otherwise consider. Management strives to identify borrowers in financial difficulty early and works with them to modify to more affordable terms before their loan reaches nonaccrual status. These modified terms may include rate reductions, principal forgiveness, payment forbearance and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. A restructuring that results in only an insiginficant delay in payment is not considered a concession. A delay may be considered insignificant if the payments subject to the delay are insignificant relative to the unpaid principal or collateral value and the contractual amount due, or the delay in timing of the restructured payment period is insignificant relative to the frequency of the payments, the debt's original contractual maturity or original expected duration.

TDRs are designated as impaired because interest and principal payments will not be received in accordance with the original contract terms. TDRs that are performing and on accrual status as of the date of the modification remain on accrual status. TDRs that are nonperforming as of the date of modification generally remain as nonaccrual until the prospect of future payments in accordance with the modified loan agreement is reasonabley assured, generally demonstrated when the borrower maintains compliance with the restructured terms for a predetermined period, normally at least six months. TDRs with temporary below-market concessions remain designated as a TDR and impaired regardless of the accrual or performance status until the loan is paid off. However, if the TDR loan has been modified in a subsequesnt restructure with market terms and the borrower is not currently experiencing financial difficulty, then the loan may be no longer designated as a TDR.

Loans Held for Sale:

These loans consist of loans made through Partners' majority owned subsidiary Johnson Mortgage Company, LLC ("JMC").

JMC is engaged in the mortgage brokerage business in which JMC originates, closes, and immediately sells mortgage loans and related servicing rights to permanent investors in the secondary market. JMC has written commitments from several permanent investors (large financial institutions) and only closes loans that meet the lending requirements of the permanent investors. Loans are made in connection with the purchase or refinancing of existing and new one-to-four family residences primarily in southereastern and northern Virginia. Loans are initially funded primarily by JMC's lines of credit. With the concurrent sale and delivery of mortgage loans to the permanent investors, JMC records receiveables for mortgage loans sold and recognizes the related gains and losses on such sales. The receivables for mortgage loans sold are usually satisfied within 30 days of sale, whereupon the related borrowings on the lines of credit are repaid. Because of the short holding period, these loans are carried at the lower of cost or market and no market adjustments were deemed necessary in 2019. JMC's agreements with its permanent investors include provisions that could require JMC to repurchase loans under certain circumstances, and also provide for the assessment of fees if loans go into default or are refinanced within specified periods of time. JMC has never been required to repurchase a loan and no allowance has been made as of December 31, 2019 for possible repurchases. No provision for early default or refinancing costs is deemed necessary at December 31, 2019.

JMC enters into commitments with its customers to originate loans where the interest rate on the loans is determined (locked) prior to funding. While this subjects JMC to the risk interest rates may change from the commitment date to the funding date, JMC simultaneously enters into financial agreements (best efforts forward sales commitments) with its permanent investors giving JMC the right to deliver (put) loans to the investors at specified yields, thus enabling JMC to manage its exposure to changes in interest rates such that JMC is not subject to fluctuations in fair values of these agreements due to changes in interest rates. However, a default by a permanent investor required to purchase loans under such an agreement would expose JMC to potential fluctuation in selling prices of loans due to changes in interest rate. The fair value of rate lock commitments and forward sales commitments was considered immaterial at Decmber 31, 2019. Gains and losses on the sale of mortgages as well as orgination fees, brokerage fees, interst rate lock-in fees and other fees paid by mortgagors are include in other income on the Company's consolidated income statement.

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, 2019 there were four properties with a combined value of $2.4 million included in other real estate owned, and at December 31, 2018 there were nine properties with a combined value of $3.7 million.

Bank Premises and Equipment and Depreciation:

Subsidiaries 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 premises and equipment as incurred. Computer software is recorded at cost and amortized over three to five years.

Intangible Assets and Amortization:

During 2012, Delmarva restructured three borrowings with the FHLB and incurred a total prepayment penalty of $1.6 million (see Note 8). The prepayment penalty was amortized to final maturity as an adjustment to interest expense and was fully amortized at December 31, 2018.

During 2019 the Company acquired Virginia Partners Bank and during 2018 Delmarva acquired Liberty Bell Bank. ASC 350, Intangibles-Goodwill and Other (ASC350), prescribes accounting for intangible assets subsequent to initial recognition. Acquired intangible assets (such as core deposit intangibles) are separately recognized if the benefit of the assets can be sold, transferred, licensed, rented, or exchanged, and amortized over their useful lives. Intangible assets related to the acquisitions are amortized (see Note 18).

Long-Lived Assets:

The carrying value of long-lived assets and certain identifiable intangibles is reviewed by management for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable as prescribed by ASC 360-10 Property, Plant, and Equipment. As of December 31, 2019 and 2018, certain loans were deemed to be impaired (see Note 3).

Income Taxes:

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

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

Credit Risk:

The Company has deposits in other financial institutions in excess of amounts insured by the Federal Deposit Insurance Corporation (FDIC). The Subsidiaries have 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 Company 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.

Earnings Per Share

Basic earnings per common share are determined by dividing net income 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 **10,924,902**, and 9,691,459 for the years ended December 31, 2019 and 2018, respectively. Calculations of diluted earnings per common share include the average dilutive common stock equivalents outstanding during the year, unless they are anti-dilutive. Dilutive common equivalent shares consist of stock options calculated using the treasury stock method and restricted stock awards (See Note 14).

Recent Accounting Pronouncements

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

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

In January 2017, the FASB issued ASU No. 2017-04, "Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment". The amendments in this ASU simplify how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. Instead, under the amendments in the ASU, an entity should perform its annual, or interim, goodwill impairment tests by comparing the fair value of a reporting unit with its carrying amount. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment is necessary. Public business entities that are U.S. Securities and Exchange Commisssion (SEC) filers should adopt the amendments in this ASU for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after Jauary 1, 2017. The guidance is not expected to have a significant impact on the Company's financial positions, results of operations or disclosures.

In August 2018, the FASB issued ASU No. 2018-13, "Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement." This ASU contains some technical adjustments related to the fair value disclosure requirements of public companies. Included in this ASU is the additional disclosure requirement of unrealized gains and losses for the period in recurring level 3 fair value disclosures and the range and weighted average of significant unobservable inputs, among other technical changes. ASU 2018-13 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted for any removed or modified disclosures. The adoption of ASU 2018-13 is not expected to have a material impact on the Company's consolidated financial statements.

In April 2019, The FASB issued ASU 2019-04, "Codification Improvements to Topic 326, Financial Instruments – Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments." This ASU clarifies and improves areas of guidance related to the recently issued standards on credit losses, hedging, and recognition and measurement including improvements resulting from various Transition Resource Group Meetings. The amendments are effect for fiscal years beginning after December 15, 2019 and interim periods within those year. Early adoption is permitted. The Company is currently assessing the impact ASU 2019-04 will have on its consolidated financial statements.

In May 2019, the FASB issued ASU 2019-05, "Financial Instruments – Credit Losses (Topic 326): Targeted Transition Relief." The amendments in this ASU provide entities that have certain instruments within the scope of Subtopic 326-20 with an option to irrevocably elect the fair value option in Subtopic 825-10, applied on an instrument-by-instrument basis for eligible instruments, upon the adoption of Topic 326. The fair value option election does not apply to held-to-maturity debt securities. An entity that elects the fair value option should subsequently measure those instruments at fair value with changes in fair value flowing through earnings. The amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. The amendements should be applied on a modified-retrospective basis by means of a cumulative-effect adjustment to the opening balance of retained earning blance on the balance sheet. Early adoption is permitted. The Company is currently assessing the impact that ASU 2019-04 will have on its consolidated financial statements.

In November 2019, the FASB issued ASU 2019-11, "Codification Improvements to Topic 326, Financial Instruments – Credit Losses." This ASU addresses issues raised by stakeholders during the implementation of ASU No. 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." Among other narrow-scope improvements, the new ASU clarifies guidance around how to report expected recoveries. "Expected recoveries" describes a situation in which an organization recognizes a full or partial write-off of the amortized cost basis of a financial asset, but then later determines that the amount written off, or a portion of that amount, will in fact be recovered. While applying the credit losses standard, stakeholders questioned whether expected recoveries were permitted on assets that had already shown credit deterioration at the time of purchase (also known as PCD assets). In response to this question, the ASU permits organizations to record expected recoveries on PCD assets. In addition to other narrow technical improvements, the ASU also reinforces existing guidance that prohibits organizations from recording negative allowance for available-for-sale debt securities. The ASU includes effective dates and transition requirements that vary depending on whether or not an entity has already adopted ASU 2016-13. The Company is currently assessing the impact that AUS 2019-11 will have on its consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, "Income Taxes (Topic 740) – Simplifying the Accounting for Income Taxes." The ASU is expected to reduce cost and complexity related to the accounting for income taxes by removing specific exceptions to general principles inTopic 740 (eliminating the need for an organization to analyze whether certain exceptions apply in a given period) and improving financial statement preparers' application of certain income tax-related guidance. This ASU is part of the FASB's simplification initiative to make narrow-scope simplifications and improvements to accounting standards through a series of short-term projects. For public business entities, the amendments are effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early adoption is permitted. The Company is currently assessing the impact that ASU 2019-12 will have on its consolidated financial statements.

In January 2020, the FASB issued ASU 2020-01, "Investments - Equity Securities (Topic 321), Investments – Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815)." The ASU is based on a consensus of the Emerging Issues Task Force and is expected to increase comparability in accounting for these transactions. ASU 2016-01 made targeted improvements to accounting for financial instruments, including providing an entity the ability to measure certain equity securities without readily determinable fair values at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for the identical or similar investment of the same issuer. Among other topics, the amendments clarifies that an entity should consider observable transactions that require it to either apply or discontinue the equity method of accounting. For public business entities, the amendments in the ASU are effective for fiscal years beginning after December 31, 2020, and interim periods within those fiscal years. Early adoption is permitted. The Company is currently assessing the impact that ASU 2020-01 will have on its consolidated financial statements.

Effective November 25, 2019, the SEC adopted Staff Accounting Bulletin (SAB) 119. SAB 119 updated portions of SEC interpretative guidance to align with FASB ASC 326, "Financial Instruments – Credit Losses." It covers topics including (1) measuring current expected credit losses; (2) development, governance, and documentation of a systematic methodology; (3) documenting the results of a systematic methodology; and (4) validating a systematic methodology.

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, 2019 *Dollars in Thousands*			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Obligations of U.S. Government agencies and corporations	**$ 10,186**	**$ 162**	**$ 36**	**$ 10,312**
Obligations of States and political subdivisions	**33,885**	**716**	**43**	**34,558**
Mortgage-backed securities	**56,275**	**236**	**90**	**56,421**
Equity securities	**4,923**	**42**	**—**	**4,965**
	$ 105,269	**$ 1,156**	**$ 169**	**$ 106,256**

	December 31, 2018 *Dollars in Thousands*			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Obligations of U.S. Government agencies and corporations	$ 9,469	$ 47	$ 96	$ 9,420
Obligations of States and political subdivisions	21,383	139	426	21,096
Mortgage-backed securities	19,942	15	553	19,404
Equity securities	1,500	—	120	1,380
	$ 52,294	$ 201	$ 1,195	$ 51,300

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, 2019 and 2018 are as follows:

Securities available-for-sale:

	December 31, 2019 *Dollars in Thousands*					
	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	$ 5,269	$ 34	$ 2,000	$ 2	$ 7,269	$ 36
Mortgage-backed securities	11,600	32	4,489	58	16,089	90
Obligations of States and political subdivisions	4,669	43	—	—	4,669	43
Equity Securities	—	—	—	—	—	—
Total securities with unrealized losses	$ 21,538	$ 109	$ 6,489	$ 60	$ 28,027	$ 169

	December 31, 2018 *Dollars in Thousands*					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Obligations of U.S. Government agencies and corporations	$ 3,973	$ 18	$ 5,927	$ 78	$ 9,900	$ 96
Mortgage-backed securities	5,485	111	13,440	442	18,924	553
Obligations of States and political subdivisions	9,119	81	11,977	345	21,096	426
Equity Securities	—	—	1,380	120	1,380	120
Total securities with unrealized losses	$ 18,577	$ 209	$ 32,724	$ 985	$ 51,300	$ 1,195

For individual securities classified as either available for sale or held to maturity, the Company 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, 2019 there were two agency securities, eight mortgage-backed securities (MBS), and four collateralized mortgage obligations (CMO), that have been in a continuous unrealized loss position for more than twelve months. Management found no evidence of OTTI on any of these securities and believes that unrealized losses are due to fluctuations in fair values resulting from changes in market interest rates and are considered temporary. As of December 31, 2019, management also believes it has the ability and intent to hold the securities for a period of time sufficient for a recovery of cost.

During the period ending December 31, 2019 the Company sold 12 securities, resulting in a gain of $10 thousand. During the period ending December 31, 2018, the Company did not sell any securities. Thirteen securities were either matured or called during 2019, resulting in a net gain of $97 thousand. Four securities were either matured or called during 2018, resulting in no gain or loss.

The Company realized a loss of $9 thousand on equity securities during the year ended December 31, 2019.

Contractual maturities of investment securities at December 31, 2019 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, 2019 Securities Available for Sale *Dollars in Thousands*	
	Amortized Cost	Fair Value
Due in one year or less	$ 2,252	$ 2,250
Due after one year through five years	4,030	4,026
Due after five years through ten years	20,129	20,621
Due after ten years or more	22,583	22,938
Mortgage-backed, due in monthly installments	56,275	56,421
	$ 105,269	$ 106,256

	December 31, 2018 Securities Available for Sale *Dollars in Thousands*	
	Amortized Cost	Fair Value
Due in one year or less	$ 5,175	$ 5,166
Due after one year through five years	4,727	4,649
Due after five years through ten years	10,566	10,521
Due after ten years or more	11,884	11,560
Mortgage-backed, due in monthly installments	19,942	19,404
	$ 52,294	$ 51,300

The Company has pledged certain securities as collateral for qualified customers' deposit accounts at December 31, 2019 and 2018 as follows:

	2019	2018
Amortized cost	$ 9,143	$ 8,597
Fair value	9,179	8,632

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

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

(Dollars in thousands)	At December 31, 2019	At December 31, 2018
Originated Loans		
Real Estate Mortgage		
Construction and land development	$ 59,236	$ 63,376
Residential real estate	108,590	102,970
Nonresidential	325,916	292,766
Home equity loans	13,736	13,801
Commercial	52,838	46,059
Consumer and other loans	2,669	2,900
	562,985	521,872
Acquired Loans		
Real Estate Mortgage		
Construction and land development	$ 26,034	$ 10,276
Residential real estate	101,088	22,431
Nonresidential	222,075	59,804
Home equity loans	24,176	7,101
Commercial	60,675	12,406
Consumer and other loans	3,091	13
	437,139	112,031
Total Loans		
Real Estate Mortgage		
Construction and land development	$ 85,270	$ 73,652
Residential real estate	209,678	125,401
Nonresidential	547,991	352,570
Home equity loans	37,912	20,902
Commercial	113,513	58,465
Consumer and other loans	5,760	2,913
	1,000,124	633,903
Less: Unamortized discounts on acquired loans	(6,136)	(1,327)
Less: Allowance for loan losses	(7,304)	(7,063)
	$ 986,684	$ 625,513

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 Company has segmented the loan portfolio into the following classifications:

- Real Estate Mortgage
  - Construction and Land Development
  - Residential Real Estate
  - Nonresidential
  - Home Equity Loans
- Commercial

- Consumer and 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, non-accruals, classified assets and troubled debt restructurings

- Changes in the nature and volume of the portfolio

- Effects of any changes in lending policies, procedures, including underwriting standards and collections, charge off and recovery practices

- Changes in the experience, depth and ability of management

- Changes in the national and local economic conditions and developments, including the condition of various market segments

- Changes in the concentration of credits within each pool

- Changes in the quality of the Company's loan review system and the degree of oversight by the Board

- Changes in external factors such as competition and the legal environment

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

All credit exposures considered to have a non-pass rating with outstanding balances less than $250 thousand and all credit exposures considered to have a pass rating 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 considered to have non-pass rating with outstanding balances greater than $250 thousand 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, 2019 and 2018.

The following table presents the total allowance by loan segment.

		Real Estate Mortgage						
Dollars in Thousands	Construction and Land Development	Residential Real Estate	Nonresidential	Home Equity	Commercial	Consumer and Other	Unallocated	Total
Balance at December 31, 2018								
Beginning Balance - originated loans	$ 647	$ 1,521	$ 3,620	$ 115	$ 625	$ 13	$ 490	$ 7,031
Charge-offs—originated loans	(11)	(193)	(460)	(105)	(689)	(126)	—	(1,584)
Recoveries—originated loans	11	182	92	—	51	48	—	384
Provision—originated loans	(45)	(130)	813	125	823	79	(224)	1,441
Allowance allocation adjustment	(5)	(17)	(6)	7	(26)	—	—	(47)
Total Allowance on originated loans	597	1,363	4,059	142	784	14	266	7,225
Beginning Balance - acquired loans	—	—	9	7	16	—	—	32
Charge-offs—acquired loans	—	—	—	—	—	—	—	—
Recoveries—acquired loans	—	—	—	—	—	—	—	—
Provision—acquired loans	—	—	—	—	—	—	—	—
Allowance allocation adjustment	5	17	6	(7)	26	—	—	47
Total Allowance on acquired loans	5	17	15	—	42	—	—	79
Balance at December 31, 2019	602	1,380	4,074	142	826	14	266	7,304
Individually evaluated for impairment:								
Balance in allowance	$ —	$ 216	$ 82	$ —	$ 274	$ —	$ —	$ 572
Related loan balance	723	3,905	11,449	9	2,238	—	—	18,324
Collectively evaluated for impairment:								
Balance in allowance	$ 602	$ 1,164	$ 3,992	$ 142	$ 552	$ 14	$ 266	$ 6,732
Related loan balance	84,027	205,381	533,101	37,706	109,759	5,690	—	975,664

Note: The balances above include unamortized discounts on acquired loans of $6.1 million.

		Real Estate Mortgage						
Dollars in Thousands	Construction and Land Development	Residential Real Estate	Nonresidential	Home Equity	Commercial	Consumer and Other	Unallocated	Total
Balance at December 31, 2017	$ 589	$ 1,583	$ 3,269	$ 161	$ 520	$ 16	$ 565	$ 6,703
Charge-offs—originated loans	(58)	(332)	(453)	(20)	(129)	(161)	—	(1,153)
Recoveries—originated loans	9	109	80	41	48	51	—	338
Provision—originated loans	107	161	733	(60)	202	107	(75)	1,175
Allowance allocation adjustment	—	—	(9)	(7)	(16)	—	—	(32)
Total Allowance on originated loans	647	1,521	3,620	115	625	13	490	7,031
Charge-offs—acquired loans	—	—	—	—	—	—	—	—
Recoveries—acquired loans	—	—	—	—	—	—	—	—
Provision—acquired loans	—	—	—	—	—	—	—	—
Allowance allocation adjustment	—	—	9	7	16	—	—	32
Total Allowance on acquired loans	—	—	9	7	16	—	—	32
Balance at December 31, 2018	647	1,521	3,629	122	641	13	490	7,063
Individually evaluated for impairment:								
Balance in allowance	$ —	$ 580	$ 278	$ 6	$ 178	$ —	$ —	$ 1,042
Related loan balance	8,708	8,082	6,239	693	1,732	—	—	25,454
Collectively evaluated for impairment:								
Balance in allowance	$ 647	$ 941	$ 3,351	$ 116	$ 463	$ 13	$ 490	$ 6,021
Related loan balance	64,943	117,104	345,583	20,088	56,490	2,914	—	607,122

Note: The balances above include unamortized discounts on acquired loans of $1.3 million.

The Company had an unallocated amount (overage) of approximately $266 thousand in the allowance that is reflected in the above table as of December 31, 2019. The Company had an unallocated amount (overage) of approximately $490 thousand in the allowance that is reflected in the above table as of December 31, 2018. Management is comfortable with this amount as they feel it is adequate to absorb additional inherent potential losses in the loan portfolio.

Credit Quality Information

The following table represents credit exposures by creditworthiness category for the period ending December 31, 2019. The use of creditworthiness categories to grade loans permits management to estimate a portion of credit risk. The Company'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 Company's internal risk ratings are as follows:

1 Excellent—minimal risk. (normally supported by pledged deposits, United States government securities, etc.)

2 Superior—low risk. (all of the risks associated with this credit based on each of the bank's creditworthiness criteria are minimal)

3 Good—moderately low risk. (most of the risks associated with this credit based on each of the bank's creditworthiness criteria are minimal)

4 Fair/Watch—moderate risk. (the weighted overall risk associated with this credit based on each of the bank's creditworthiness criteria is acceptable)

5 Marginal—moderately high risk. (possesses deficiencies which corrective action by the bank would remedy; potential watch list)

6 Substandard—(the bank is inadequately protected and there exists the distinct possibility of sustaining some loss if not corrected)

7 Doubtful—(weaknesses make collection or liquidation in full, based on currently existing facts, improbable)

8 Loss—(of little value; not warranted as a bankable asset)

Non-accruals

In general, a loan will be placed on non-accrual status at the end of the reporting month in which the interest or principal is past due more than 90 days. Exceptions to the policy are those loans that are in the process of collection and are well secured. A well-secured loan is secured by collateral with sufficient market value to repay principal and all accrued interest. Interest that would have accrued under the terms of loans that were placed on nonaccrual totaled $255 thousand and $329 thousand for the years ended December 31, 2019 and 2018, respectively. Loans past due 90 days or more and still accruing interest totaled $5 thousand and $606 thousand for the years ended December 31, 2019 and 2018 respectively. Management believes these particular loans are well secured and are in the process of collection of all amounts owed.

A summary of loans by risk rating is as follows:

	Real Estate Secured						
December 31, 2019	Construction & Land Development	Residential Real Estate	Nonresidential	Home Equity	Commercial	Consumer & Other	Total
			Dollars in Thousands				
Excellent	$ —	$ —	$ 405	$ —	$ 6,089	$ 111	$ 6,605
Superior	—	139	3,652	122	1,818	1	5,732
Good	83,773	200,999	525,465	37,528	99,973	5,557	953,295
Fair	757	3,373	7,710	64	1,710	20	13,634
Marginal	—	511	—	—	—	—	511
Substandard	221	4,264	7,319	—	2,407	—	14,211
TOTAL	$ 84,751	$ 209,286	$ 544,551	$ 37,714	$ 111,997	$ 5,689	$ 993,988
Non-Accrual	$ 177	$ 1,620	$ 2,608	$ 5	$ 131	$ —	$ 4,541
Troubled debt restructures	$ —	$ 2,323	$ 7,934	$ —	$ 38	$ —	$ 10,295
Number of TDR accounts	—	12	20	—	1	—	33
Breakdown of TDRs							
TDRs on Non-accrual	$ —	$ 904	$ 926	$ —	$ 38	$ —	$ 1,868
TDRs Past Due 30-89	—	—	—	—	—	—	—
Performing TDRs	—	1,419	7,008	—	—	—	8,427
TOTAL	$ —	$ 2,323	$ 7,934	$ —	$ 38	$ —	$ 10,295
Total Non-performing TDR accounts	$ —	$ 904	$ 926	$ —	$ 38	$ —	$ 1,868
Number of non-performing TDRs	—	3	3	—	1	—	7

December 31, 2018	Real Estate Secured: Construction & Land Development	Residential Real Estate	Nonresidential	Home Equity	Commercial	Consumer & Other	Total
	Dollars in Thousands						
Excellent	$ —	$ —	$ 1,143	$ —	$ 9,631	$ 125	$ 10,899
Superior	—	156	7,523	110	2,011	4	9,805
Good	73,069	113,777	328,178	19,624	43,863	2,785	581,295
Fair	25	3,658	8,059	941	2,106	—	14,788
Marginal	338	112	69	—	268	—	787
Substandard	220	7,482	6,851	107	343	—	15,003
TOTAL	$ 73,652	$ 125,185	$ 351,823	$ 20,782	$ 58,222	$ 2,914	$ 632,576
Non-Accrual	$ 220	$ 4,440	$ 4,203	$ 107	$ 178	$ —	$ 9,148
Troubled debt restructures	$ 40	$ 7,162	$ 10,301	$ 107	$ —	$ 206	$ 17,816
Number of TDR accounts	1	20	27	1	—	3	52
Breakdown of TDRs							
TDRs on Non-accrual	$ 40	$ 3,183	$ 2,506	$ 107	$ —	$ 175	$ 6,012
TDRs Past Due 30-89	—	—	640	—	—	31	671
Performing TDRs	—	3,979	7,155	—	—	—	11,134
TOTAL	$ 40	$ 7,162	$ 10,301	$ 107	$ —	$ 206	$ 17,816
Total Non-performing TDR accounts	$ 40	$ 3,183	$ 3,146	$ 107	$ —	$ 206	$ 6,682
Number of non-performing TDRs	1	9	9	1	—	3	23

The following table includes an aging analysis of the recorded investment of past due financing receivables as of December 31, 2019 and 2018:

At December 31, 2019	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
	Dollars in Thousands						
Real Estate							
Constructions and land development	**$ 424**	**$ —**	**$ 177**	**$ 601**	**$ 84,669**	**$ 85,270**	**$ —**
Residential	**1,296**	**677**	**702**	**2,675**	**207,003**	**209,678**	**—**
Nonresidential	**635**	**144**	**1,823**	**2,602**	**545,389**	**547,991**	**—**
Home equity loans	**—**	**—**	**—**	**—**	**37,912**	**37,912**	**—**
Commercial	**231**	**1,207**	**94**	**1,532**	**111,981**	**113,513**	**—**
Consumer and other loans	**1**	**19**	**—**	**20**	**5,740**	**5,760**	**5**
TOTAL	**$ 2,587**	**$ 2,047**	**$ 2,796**	**$ 7,430**	**$ 992,694**	**$ 1,000,124**	**$ 5**

* Includes $956 thousand of non-accrual loans.

** Includes $81 thousand of non-accrual loans.

*** Includes $2.6 million of non-accrual loans.

Total financing receivable balances do not include unamortized discounts of $6.1 million.

At December 31, 2018	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days Past Due*	Total Past Due	Current Balance	Total Financing Receivables**	Recorded Investment >90 Days Past Due and Accruing
	Dollars in Thousands						
Real Estate							
Constructions and land development	$ 9	$ 200	$ 378	$ 587	$ 73,065	$ 73,652	$ 338
Residential	1,277	383	1,615	3,275	122,126	125,401	—
Nonresidential	867	1,542	2,751	5,160	347,410	352,570	—
Home equity loans	15	—	107	122	20,780	20,902	—
Commercial	1,028	33	268	1,329	57,136	58,465	268
Consumer and other loans	7	—	—	7	2,906	2,913	—
TOTAL	$ 3,203	$ 2,158	$ 5,119	$ 10,480	$ 623,423	$ 633,903	$ 606

* Includes $4.5 million of non-accrual loans.

Total financing receivable balances do not include unamortized discounts $1.3 million.

Impaired Loans

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

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

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

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

December 31, 2019	Recorded Investment	Unpaid Principal Balance	Interest Income Recognized	Specific Reserve	Average Recorded Investment
			Dollars in Thousands		
Impaired loans with specific reserves:					
Real Estate Mortgage					
Construction and land development	$ —	$ —	$ —	$ —	$ —
Residential real estate	727	727	—	216	2,337
Nonresidential real estate	2,456	2,456	260	82	2,866
Home equity loans	—	—	—	—	—
Commercial	1,274	1,274	53	274	659
Consumer and other loans	—	—	—	—	—
Total impaired loans with specific reserves	$ 4,457	$ 4,457	$ 313	$ 572	$ 5,862
Impaired loans with no specific reserve:					
Real Estate Mortgage					
Construction and land development	$ 723	$ 545	$ 34	$ —	$ 471
Residential real estate	4,064	4,717	243	—	4,566
Nonresidential real estate	9,734	9,266	909	—	11,181
Home equity loans	9	9	17	—	351
Commercial	1,078	1,078	87	—	1,441
Consumer and other loans	—	—	—	—	—
Total impaired loans with no specific reserve	$ 15,608	$ 15,615	$ 1,290	—	$ 18,010
TOTAL	$ 20,065	$ 20,072	$ 1,603	$ 572	$ 23,872

Total impaired loans of $20.1 million at December 31, 2019 include PCI loan balances of $5.4 million, which are net of a discount of $812 thousand. Total impaired loans also included $946 thousand of loans which did not meet the criteria whereby an individual evaluation for impairment was required. Total impaired loans of $27.7 million at December 31, 2018 include PCI loan balances of $1.1 million, which are net of a discount of $582 thousand. Total impaired loans also included $1.1 million of loans which did not meet the criteria whereby an individual evaluation for impairment was required. These loans were pooled with all other loans not requiring an evaluation for individual impairment and reviewed and analyzed using the weighted average historical charge-offs over a current three year period for their respective segments along with the qualitative factors stated previously in this disclosure, to result in a ASC 450-10-20 (FAS 5) calculated reserve.

December 31, 2018	Recorded Investment	Unpaid Principal Balance	Interest Income Recognized	Specific Reserve	Average Recorded Investment
			Dollars in Thousands		
Impaired loans with specific reserves:					
Real Estate Mortgage					
Construction and land development	$ —	$ —	$ —	$ —	$ 16
Residential real estate	3,947	4,075	174	586	4,934
Nonresidential real estate	3,276	3,276	246	412	3,674
Home equity loans	—	—	—	—	55
Commercial	44	44	2	44	22
Consumer and other loans	—	—	—	—	—
Total impaired loans with specific reserves	$ 7,267	$ 7,395	$ 422	$ 1,042	$ 8,701
Impaired loans with no specific reserve:					
Real Estate Mortgage					
Construction and land development	$ 220	$ 360	$ 1	$ —	$ 264
Residential real estate	5,068	6,318	228	—	3,555
Nonresidential real estate	12,629	13,545	1,015	—	10,427
Home equity loans	693	693	28	—	347
Commercial	1,805	1,805	112	—	1,080
Consumer and other loans	—	—	—	—	—
Total impaired loans with no specific reserve	$ 20,415	$ 22,721	$ 1,384	$ —	$ 15,673
TOTAL	$ 27,682	$ 30,116	$ 1,806	$ 1,042	$ 24,374

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

Dollars in Thousands	**December 31, 2019**	December 31, 2018
Accountable for under ASC 310-30 (PCI loans)		
Outstanding balance	**$ 6,428**	$ 1,692
Carrying amount	**5,373**	1,110
Accountable for under ASC 310-20 (non-PCI loans)		
Outstanding balance	**$ 430,711**	$ 110,339
Carrying amount	**425,630**	109,594
Total acquired loans		
Outstanding balance	**$ 437,139**	$ 112,031
Carrying amount	**431,003**	110,704

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

Dollars in Thousands	**December 31, 2019**	December 31, 2018
Balance at beginning of period	**$ 745**	$ —
Acquisitions	**673**	1,703
Accretion	**(415)**	(958)
Balance at end of period	**$ 1,003**	$ 745

Non-accretable yield on purchased credit impaired loans was $401 thousand and $463 thousand at December 31, 2019 and 2018, respectively.

The Company makes loans to customers located primarily within Wicomico and Worcester Counties, Maryland, Sussex County, Delaware, Camden and Burlington Counties, New Jersey, and Fredericksburg, Virginia. A substantial portion of its loan portfolio consists of residential and commercial real estate mortgages. The ability of the Company's debtors to honor their contracts is dependent upon the real estate and general economic conditions in these areas.

Included in the amounts listed above are loans receivable from directors, principal officers, and stockholders of $17.9 million and $5.2 million at December 31, 2019 and 2018, respectively. During 2019 and 2018 loan additions totaled $17.1 million and $120 thousand, respectively. Of this amount, $11.2 million was due to the existing related party loans on Partners books that the Company assumed during the share exchange. During 2019 and 2018 repayments totaled $3.2 million and $2.2 million, respectively. There were also loan balances of $1.2 million that were receivable from prior directors who retired effective at the end of 2018. 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 Company had no commitments to loan additional funds to the borrowers of restructured, impaired, or non-accrual loans as of December 31, 2019.

Note 4. Premises, Equipment and Depreciation

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

	2019	2018
Land	$ 2,917	$ 2,753
Buildings and improvements	12,106	8,724
Furniture and equipment	14,360	12,841
Total premises and equipment	29,383	24,318
Less: accumulated depreciation	15,678	14,270
Net premises and equipment	$ 13,705	$ 10,048

Depreciation expense totaled $1.2 million and $925 thousand for the years ended December 31, 2019, and 2018, respectively.

Note 5. Income Taxes

Components of income tax expense for the years ended December 31, 2019 and 2018 are as follows:

	2019	2018
Current		
Federal	$ 62	$ 64
State	954	812
Total current	1,016	876
Deferred income tax (liabilities) benefits:		
Federal	1,509	1,587
State	106	(104)
Total deferred	1,615	1,483
Income tax expense	$ 2,631	$ 2,359

The change in deferred taxes for the year ended December 31, 2019 does not equal deferred tax expense in the amount of approximately $1.1 million as a result of purchase accounting related to the Partners acquisition.

A reconciliation of tax computed at the Federal statutory income tax rate of 21% to the actual expense for the year ended December 31, 2019 and 2018 is as follows:

	2019	2018
Tax at Federal statutory income tax rate	$ 1,790	$ 1,647
Tax effect of:		
Tax exempt income	(146)	(89)
Other	149	242
State income taxes, net of Federal tax benefit	838	559
Income tax expense	$ 2,631	$ 2,359

Income taxes included in the balance sheets are as follows:

	2019	2018
Deferred income tax assets:		
Allowance for credit losses and unfunded commitments	**$ 1,841**	$ 1,169
Net operating loss carryforward	**275**	1,949
Accumulated amortization on intangibles	**28**	36
Impairment loss on investment securities	**—**	27
Net losses on other real estate owned	**1,132**	1,146
Stock option expense	**108**	25
Discounts on acquired loans	**1,539**	354
Other real estate owned valuation	**406**	432
Other	**181**	21
	5,510	5,159
Valuation allowance	**(275)**	—
	5,235	5,159
Deferred tax liabilities:		
Accumulated depreciation	**72**	170
Accumulated amortization on core deposit intangible	**840**	286
Deferred gain	**134**	136
Net depreciation on securities available for sale	**249**	(263)
Purchase discounts	**36**	—
Accumulated securities discount accretion	**65**	1
	1,396	330
Net deferred income tax asset	**$ 3,839**	$ 4,829

The Company has a state net operating loss of approximated $3.9 million. Losses incurred through December 31, 2017 have a 20 year life. Losses incurred in 2018 and after do not expire. Management has determined that this deferred tax asset will not be realizable in the future, and accordingly has recorded a valuation allowance of $275 thousand, the full value of the state net operating loss carryforward included in the deferred tax asset. Except for state net operating losses at the holding company, management has determined that no other valuation allowance is required as it is more likely than not that the other deferred tax assets will be fully realizable in the future.

At December 31, 2019 and 2018, management believes there are no uncertain tax positions under ASC Topic 740 Income Taxes. The Bank's Federal and state income tax returns are subject to examination by the IRS and/or state tax authorities. The tax years that remain subject to examination by the Federal government and the State of Maryland include the tax years ended December 31, 2016 and after. The tax years that remain subject to examination by the State of New Jersey include the tax years ended December 31, 2015 and after. The tax years that remain subject to examination by the State of Virginia include the tax years ended December 31, 2016 and after. The company's policy is to record interest and penalty as a component of tax expense

Note 6. Deposits

Time deposits and their remaining maturities at December 31, 2019 are as follows:

2020	$ 240,424
2021	73,261
2022	88,081
2023	33,005
2024	10,424
2025 and thereafter	33
Total time deposits	$ 445,228

Interest expense on deposits for the years ended December 31, 2019 and 2018 is as follows:

	2019	2018
NOW	**$ 217**	$ 118
Money market	**243**	202
Savings	**108**	96
Time, $100,000 or more	**2,901**	1,692
Other time	**2,966**	1,682
	$ 6,435	$ 3,790

Deposit balances of officers and directors and their affiliated interests totaled approximately $12.0 million and $7.0 million as of December 31, 2019 and 2018, respectively.

Deposit accounts in an overdraft position totaled approximately $134 thousand and $255 thousand as of December 31, 2019 and 2018, respectively.

Some of the Company's CD deposits are through participation in the Certificate of Deposit Account Registry Service (CDARS). These deposits totaled $4.3 million and $2.1 million at December 31, 2019 and 2018, respectively.

Note 7. Other Income

Other income consists of the following:

	2019	2018
Investment fees and commissions	**$ 23**	$ 64
Safe deposit box rentals	**47**	45
Mortgage division fees	**608**	179
Visa debit income	**935**	872
Other non-interest income	**1,039**	638
	$ 2,652	$ 1,798

Note 8. Credit Facilities

The Company owns capital stock of the Federal Home Loan Bank of Atlanta (FHLB) as a condition for $308.6 million in convertible advance credit facilities from the FHLB. As of December 31, 2019, the Company had remaining credit availability of $211.7 million under these facilities.

FHLB advances included in the balance sheet as of December 31, 2019 and 2018 are as follows:

Long-term advances	December 31, 2019			
Dollars in Thousands	Outstanding Balance	Interest Rate	Maturity Date	Interest Payment
Fixed rate hybrid	**15,000**	**2.09 %**	**June 2020**	**Fixed, paid monthly**
Fixed rate hybrid	**5,000**	**3.04 %**	**November 2020**	**Fixed, paid monthly**
Fixed rate hybrid	**5,000**	**2.91 %**	**November 2020**	**Fixed, paid quarterly**
Fixed rate hybrid	**6,000**	**2.44 %**	**April 2021**	**Fixed, paid quarterly**
Convertible*	**10,000**	**2.68 %**	**May 2021**	**Fixed, paid quarterly**
Fixed rate hybrid	**5,000**	**3.15 %**	**October 2022**	**Fixed, paid quarterly**
Principal reducing credit	**1,393**	**1.62 %**	**March 2023**	**Fixed, paid quarterly**
Principal reducing credit	**1,437**	**1.99 %**	**March 2026**	**Fixed, paid quarterly**
Total long-term advances	**48,830**			

Short-term advances	December 31, 2019			
Dollars in Thousands	Outstanding Balance	Interest Rate	Maturity Date	Interest Payment
Fixed rate	**12,000**	**1.73 %**	**January 2020**	**Fixed, at maturity**
Fixed rate	**4,500**	**1.76 %**	**January 2020**	**Fixed, at maturity**
Fixed rate	**7,600**	**1.68 %**	**January 2020**	**Fixed, at maturity**
Fixed rate	**7,700**	**1.68 %**	**January 2020**	**Fixed, at maturity**
Fixed rate	**6,000**	**1.70 %**	**January 2020**	**Fixed, at maturity**
Fixed rate	**3,200**	**1.71 %**	**January 2020**	**Fixed, at maturity**
Fixed rate	**7,000**	**1.70 %**	**January 2020**	**Fixed, at maturity**
Total short-term advances	**48,000**			

Long-term advances	December 31, 2018			
Dollars in Thousands	Outstanding Balance	Interest Rate	Maturity Date	Interest Payment
Fixed rate hybrid	15,000	1.51 %	June 2019	Fixed, paid monthly
Fixed rate hybrid	5,000	3.04 %	November 2020	Fixed, paid monthly
Fixed rate hybrid	5,000	2.91 %	November 2020	Fixed, paid quarterly
Convertible**	10,000	2.68 %	May 2021	Fixed, paid quarterly
Fixed rate hybrid	5,000	3.15 %	October 2022	Fixed, paid quarterly
Principal reducing credit	1,821	1.62 %	March 2023	Fixed, paid quarterly
Principal reducing credit	1,668	1.99 %	March 2026	Fixed, paid quarterly
Total long-term advances	43,489			

Short-term advances	December 31, 2018			
Dollars in Thousands	Outstanding Balance	Interest Rate	Maturity Date	Interest Payment
Fixed rate	7,000	2.65 %	January 2019	Fixed, at maturity
Total short-term advances	7,000			

* In May 2018 the Company borrowed an additional $10.0 million with interest payable quarterly fixed at $2.68%, maturing in May 2021. The FHLB has the option of converting the rate on this long-term borrowing to a three month LIBOR-based floating rate in May 2020.

** In May 2015, the Company borrowed an additional $10.0 million with interest payable quarterly fixed at 1.08%, maturing in May 2020. The FHLB had the option of converting the rate on this long-term borrowing to a three month LIBOR-based floating rate at any time. In May of 2018 the FHLB exercised the convertible option and the Bank paid off the advance.

In June 2005, the Company borrowed $5.0 million 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 thousand, which was amortized to final maturity as an adjustment to interest expense, the effective rate was the three month LIBOR based floating rate plus 1.35% for the first two years, adjusting to 3.18% until maturity. As of December 31, 2018 the premium was fully amortized.

In September 2005, the Company borrowed an additional $5 million 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 thousand, which was amortized to final maturity as an adjustment to interest expense, the effective rate was the three month LIBOR based floating rate plus 1.67% for the first two years, adjusting to 3.50% until maturity. As of December 31, 2018 the premium was fully amortized.

In September 2006, the Company borrowed an additional $5 million 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 thousand, which was amortized to final maturity as an adjustment to interest expense, the effective rate was the three month LIBOR based floating rate plus 2.47% for the first two years, adjusting to 4.30% until maturity. As of December 31, 2018 the premium was fully amortized.

Average short-term borrowing under FHLB approximated $9.3 million and $1.4 million for the years ended December 31, 2019 and 2018, respectively.

The Company 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 $223.5 million and $135.8 million at December 31, 2019 and 2018, 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 $2.0 million. Interest-only payments are due quarterly at 6.71% per annum, and the outstanding principal balance matures in October 2025. In January 2018, the Company entered into a subordinated loan agreement for an aggregate principal amount of $4.5 million to fund the acquisition of Liberty Bell Bank, net of loan costs. Interest-only payments are due quarterly at 6.875% per annum, and the outstanding principal balance matures in April 2028.

The proceeds of these long-term borrowings were generally used to purchase higher yielding investment securities, fund additional loans, redeem preferred stock, or fund acquisitions. Additionally, the Company has secured credit availability of $5 million and unsecured credit availability of $59 million with various correspondent banks for short-term liquidity needs, if necessary. The secured facility must be collateralized by specific securities at the time of any usage. At December 31, 2019, there were no borrowings outstanding, and securities pledged under this secured credit facility had an amortized cost and fair value of $7 thousand and $8 thousands, respectively. At December, 2018 there were no borrowings outstanding, and securities pledged under this credit facility had an amortized cost and fair value of $8 thousand and $9 thousand, respectively.

The Company has pledged investment securities available for sale with a combined amortized cost and fair value of $2.3 million with the FRB to secure Discount Window borrowings at December 31, 2019. There were no pledged securities at December 31, 2018. At December 31, 2019 and 2018 there were no outstanding borrowings under these facilities.

The Company provides Johnson Mortgage Company (JMC) a line of credit. In addition, JMC has a line of credit with another financial institution in the amount of $3.0 million. The interest rate is the weekly average of the one month LIBOR plus 2.250%, rounded to the nearest 0.125% (4.0% at December 31, 2019). The rate is subject to change the first of every month. Amounts borrowed are collateralized by a security interest in the mortgage loans financed under the line and are payable upon demand. The line of credit is set to renew or mature on May 31, 2020. The balance outstanding at December 31, 2019 was $576 thousand. Interest expense on the line of credit was $14 thousand during the year ended December 31, 2019

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

2020	$ 73,659
2021	16,659
2022	5,659
2023	337
2024 and thereafter	516

Note 9. Profit Sharing Plan

Both Delmarva and Partners have a defined contribution 401(k) profit sharing plan covering substantially all full-time employees. Under the 401(k) provision both banks are currently matching 50% of employee contributions of up to 6% of their compensation as defined under the plan. Partners also retains a discretionary profit sharing plan in which the bank contributes 3% of the employees' pay regardless of whether the employees contribute. Additional employer contributions are at the discretion of the Board of Directors. The Company's contributions to this plan totaled $207 thousand and $169 thousand, for the years ended December 31, 2019 and 2018, respectively.

Note 10. Lease Commitment

The Company adopted ASU 2016-02, Leases (Topic 842), on January 1, 2019, using a modified-retrospective approach, whereby comparative periods were not restated. No cumulative effect adjustment to the opening balance of retained earnings was required. The Company also elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things allowed the Company to carry forward the historical lease classifications. Additionally, the Company elected the hindsight practical expedient to determine the lease term for existing leases.

The Company leases eighteen locations for administrative offices and branch locations. Sixteen leases were classified as operating leases and two as a finance lease. Leases with an initial term of 12 months or less as well as leases with a discounted present value of future cash flows below $25,000 are not recorded on the balance sheet and the related lease expense is recognized over the lease term. The Company elected to use the practical expedient to not recognize short-term leases on the consolidated balance sheet and instead account for them as executory contracts.

Certain leases include options to renew, with renewal terms that can extend the lease term, typically for five years. Lease assets and liabilities include related options that are reasonably certain of being exercised. The Company has determined that it will place a limit on exercises of available lease renewal options that would extend the lease term up to a maximum of fifteen years, including the initial term. The depreciable life of leased assets are limited by the expected lease term.

Adoption of this standard resulted in the Company recognizing a right of use asset and a corresponding lease liability of $3.6 million on January 1, 2019.

The following tables present information about the Company's leases for the year ended December 31, 2019:

		Dollars in Thousands
Balance Sheet		
Operating Lease Amounts		
Right-of-use asset classified as premises and equipment	$	4,504
Lease liability classified as other liabilities		4,797
Finance Lease Amounts		
Right-of-use asset classified as premises and equipment	$	1,961
Lease liability classified as other liabilities		2,355
Income Statement		
Operating lease cost classified as premises and equipment	$	511
Finance lease cost classified as borrowings		25
Weighted average lease term - Operating Leases (Yrs.)		8.39
Weighted average lease term - Finance Leases (Yrs.)		14.09
Weighted average discount rate - Operating Leases (1)		2.79 %
Weighted average discount rate - Finance Leases (1)		2.87 %
Operating outgoing cash flows from operating leases	$	516
Operating outgoing cash flows from finance leases	$	74

(1) The discount rate was developed by using the fixed rate credit advance borrowing rate at the Federal Home Loan Bank of Atlanta for a term correlating to the remaining life of each lease. Management believes this rate closely mirrors its incremental borrowing rate for similar terms.

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

		Dollars in Thousands
Operating Leases:		
One year or less	$	785
One to three years		1,240
Three to five years		1,127
Over 5 years		2,369
Total undiscounted cash flows		5,521
Less: Discount		(724)
Lease Liabilities	$	4,797
Finance Leases:		
One year or less	$	168
One to three years		357
Three to five years		380
Over 5 years		1,988
Total undiscounted cash flows		2,893
Less: Discount		(538)
Lease Liabilities	$	2,355

Note 11. Other Operating Expenses

Other operating expenses include the following:

	2019	2018
Professional services	$ 399	$ 309
Stationery, printing and supplies	224	282
Postage and delivery	205	181
FDIC assessment	356	584
State bank assessment	16	3
Directors fees and expenses	289	298
Marketing	313	267
Correspondent bank services	84	84
ATM expenses	859	703
Telephones and mobile devices	502	432
Membership dues and fees	78	81
Legal fees	233	273
Audit and related professional fees	126	112
Insurance	180	178
Bank acquisition costs	921	1,637
Other	2,812	2,153
	$ 7,597	$ 7,577

Note 12. Stock Option Plans

Delmar Bancorp Stock Option Plan

The Company had employee and director stock option plans and had reserved shares of stock for issuance thereunder. Options granted under these plans had a ten-year life with a four-year vesting period that began one year after date of grant, and were 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 was evidenced by an award agreement that specified 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. During 2018 5,000 stock options were exercised from the Delmar Bancorp stock option plan at an exercise price of $1.98. No stock options were exercised during 2019. All remaining options expired during 2019.

	Employees			Directors		
	Shares	Average Price	Amount	Shares	Average Price	Amount
December 31, 2019	13,895	$ 9.05	$ 125,750	4,514	$ 9.05	$ 40,852

Liberty Bell Stock Option Plan

In 2004 Liberty Bell Bank adopted the 2004 Incentive Stock Option Plan and the 2004 Non-Qualified Stock Option Plan, which were stock-based incentive compensation plans (the Liberty Plans). In February 2014 the Liberty Plans expired pursuant to their terms. Options under these plans had a 10 year life and vested over 5 years. Remaining options under these plans became fully vested with the signing of the Agreement of Merger with Delmar Bancorp in February 2018. In accordance with the terms of the Agreement of Merger between Delmar and Liberty, the Liberty Plan was assumed by Delmar, and the options were converted into and became an option to purchase an adjusted number of shares of the common stock of Delmar at an adjusted exercise price per share. The number of shares was determined by multiplying the number of shares of Liberty common stock for which the option was exercisable by the number of shares of Delmar common stock into which shares of Liberty common stock were convertible in the Merger, which was 0.2857 (the “Conversion Ratio”), rounded to the next lower whole share. The exercise price was determined by dividing the exercise price per share of Liberty common stock by the Conversion Ratio, rounded up to the nearest cent. At the effective time of the merger there were 48,225 options outstanding at an exercise price of $1.18. These shares were converted to 13,771 options outstanding at an exercise price of $4.14. No options were exercised during the year ended December 31, 2019. During 2018, 5,062 options were exercised at an exercise price of $4.14.

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

	Employees			Directors		
	Shares	Average Price	Amount	Shares	Average Price	Amount
December 31, 2019	2,355	$ 4.14	$ 9,750	6,354	$ 4.14	$ 26,306

Virginia Partners Stock Option Plan

In 2015 Virginia Partners Bank adopted the 2015 Stock Option Plan (the “2015 Partners Plan”), which allowed both incentive stock options and nonqualified stock options to be granted. The exercise price of each stock option equaled the market price of Partners' common stock on the date of grant and a stock option’s maximum term was 10 years. Stock options granted in the years ended December 31, 2018 and 2017 vested over 3 years. Partners previous stock compensation plan (the “2008 Partners Plan”) provided for the grant of share based awards in the form of incentive stock options and nonqualified stock options to Partners’ directors, officers and employees. In April 2015 the 2008 Partners Plan was terminated and replaced with the 2015 Partners Plan. Stock options outstanding prior to April 2015 were granted under the 2008 Partners Plan and became subject to the provisions of the 2015 Partners Plan. The 2008 Partners Plan also provided for stock options to be granted to seed investors as a reward for the contribution to organizational funds which were at risk if Partners’ organization had not been successful. Under the 2008 Partners Plan, Partners granted stock options to seed investors in 2008, which were fully vested upon the date of the grant.

As a result of the Share Exchange, each stock option (the "Partners Options"), whether vested or unvested, issued and outstanding immediately prior to the effective time under the 2008 Partners Plan or the 2015 Partners Plan and together with the 2008 Partners Plan, (the "Partners Stock Plans"), immediately 100% vested, to the extent not already vested, and converted into and became stock options to purchase Delmar common stock. In addition, Delmar assumed each Partners Stock Plan, and assumed each Partners Option in accordance with the terms and conditions of the Partners Stock Plan pursuant to which it was issued. As such, Partners Options to acquire 149,200 shares of Partner’s common stock at a weighted average exercise price of $10.52 per share were converted into stock options to acquire 256,294 shares of Delmar common stock at a weighed average exercise price of $6.13 per share. The number of shares was determined by multiplying the number of shares of Partners common stock for which the option was exercisable by the number of shares of Delmar common stock into which shares of Partners common stock were convertible in the Share Exchange, which was 1.7179 (the “Conversion Ratio”), rounded to the next lower whole share. The exercise price was determined by dividing the exercise price per share of Partners common stock by the Conversion Ratio, rounded up to the nearest cent.

A summary of stock option transactions for 2019 is as follows:

	December 31, 2019					
	Shares		Weighted Average Exercise Price	Weighted Average Remaining Contractual Life		Intrinsic Value
Outstanding at beginning of year	—	$	—			
Granted	256,294		6.13	3.81		
Exercised	(8,589)		5.83			
Forfeited	—		—			
Outstanding at end of year	247,705	$	6.14	3.81	$	485,677
Options exercisable at December 31, 2019	247,705	$	6.14			
Weighted average fair value of options granted during the year	$ 1.37					

The intrinsic value represents the total pre-tax intrinsic value (the amount by which the current market value of the underlying stock options exceeds the exercise price) that would have been received by the holders had they exercised their stock options on December 31, 2019.

The fair value of each stock option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	December 31, 2019
Dividend yield	1.34 %
Expected life	1.91
Expected volatility	4.34 %
Risk-free interest rate	1.60 %

The expected volatility is based on Delmar's recent historical volatility. The risk-free interest rates for periods within the contractual life of the awards are based on the U.S. Treasury yield curve in effect at the time of the grant. The expected life is based on the contractual life and vesting period for the respective stock option. The dividend yield assumption is based on Delmar's expectation of dividend payouts.

As stated in Note 1, the Company follows ASC Topic 718-10 which requires that stock-based compensation to employees and directors be recognized as compensation cost in the income statement based on their fair values on the measurement date, which, for the Company, is the date of the grant. All stock option expenses had been fully recognized prior to 2019.

Note 13. Restricted Stock Plan

The Company 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. During 2017 and 2018 the Company awarded 5,000 and 9,000 shares, respectively, to individual employees based on certain employment criteria. These shares will vest over two or three years, based on the specific employment agreement. Each award from the plan is evidenced by an award agreement that specifies the vesting period of the restricted stock plan, the number of shares to which the award pertains, and such other provisions as the grantor determines.

As of December 31, 2019 non-vested restricted stock awards totaling 6,000 were outstanding as follows:

	Employees	
	Shares	Weighted Average Fair Value
Nonvested Awards December 31, 2018	**9,000**	**$ 7.30**
Vested in 2019	**(3,000)**	**7.30**
Nonvested Awards December 31, 2019	**6,000**	**$ 7.30**

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 2018 and 2019 is equal to the underlying fair value of the stock. As a result of applying the provisions of ASC Topic 718-10, during 2018 the Company recognized restricted stock-based compensation expense of $36 thousand, or $26 thousand net of tax, related to the 2014 restricted stock awards. During 2019 the Company recognized stock-based compensation expense of $22 thousand, or $16 thousand net of tax, related to the 2014 restricted stock awards. Unrecognized restricted stock-based compensation expense related to 2014 restricted stock awards totaled approximately $26 thousand at December 31, 2019. The remaining period over which this unrecognized expense is expected to be recognized is approximately one year.

Note 14. Earnings Per Share

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

(Dollars in thousands, except per share data)		Year Ended December 31, 2019		2018
Net income	**$**	**5,893**	$	5,482
Net income attributable to noncontrolling interest		**(10)**		—
Net income applicable to basic earnings per common share		**5,883**		5,482
Weighted average shares outstanding		**10,925**		9,691
Basic earnings per share	**$**	**0.538**	$	0.566
Effect of dilutive securities:				
Weighted average shares outstanding under options Delmar 2004 stock option plan (1)		**7**		27
Weighted average exercise price per share	**$**	**9.05**	$	9.05
Assumed proceeds on exercise	**$**	**63**	$	244
Average market value per share	**$**	**7.46**	$	7.47
Weighted average shares outstanding under options Liberty 2004 stock option plan		**12**		12
Weighted average exercise price per share	**$**	**3.98**	$	3.98
Assumed proceeds on exercise	**$**	**48**	$	48
Average market value per share	**$**	**7.46**	$	7.47
Less: Treasury stock purchased with assumed proceeds from exercise		**6**		6
Weighted average shares outstanding under options Partners 2015 stock option plan		**32**		—
Weighted average exercise price per share	**$**	**6.14**	$	—
Assumed proceeds on exercise	**$**	**196**	$	—
Average market value per share	**$**	**7.00**	$	—
Less: Treasury stock purchased with assumed proceeds from exercise		**26**		—
Weighted average shares outstanding under restricted stock plans (2)		**9**		10
Diluted weighted average shares and common stock equivalents		**10,946**		9,707
Diluted earnings per share	**$**	**0.537**	$	0.565

(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 Banks 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 Banks' financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Banks must meet specific capital adequacy guidelines that involve quantitative measures of the Banks' assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Banks' 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 Banks to maintain minimum amounts and ratios (as defined in the regulations) of total and Tier I capital to risk-weighted assets, Tier I capital to average assets, and beginning in 2015, common equity Tier I capital to risk-weighted assets.

Management believes as of December 31, 2018 that the Company and the Banks meet all capital adequacy requirements to which they are subject.

As of December 31, 2018, the most recent notification from the FDIC categorized the Banks as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Banks 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 Banks' categories.

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

In Thousands	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2019						
Total Capital Ratio						
(To Risk Weighted Assets)						
Delmar Bancorp	**$ 131,443**	**13.1 %**	**$ 105,140**	**10.5 %**	**$ —**	**N/A**
The Bank of Delmarva	**79,080**	**12.7 %**	**65,132**	**10.5 %**	**62,030**	**10.0 %**
Virginia Partners Bank	**47,122**	**12.5 %**	**39,676**	**10.5 %**	**37,787**	**10.0 %**
Tier I Capital Ratio						
(To Risk Weighted Assets)						
Delmar Bancorp	**117,374**	**11.7 %**	**85,113**	**8.5 %**	**—**	**N/A**
The Bank of Delmarva	**71,752**	**11.6 %**	**52,726**	**8.5 %**	**49,624**	**8.0 %**
Virginia Partners Bank	**46,881**	**12.4 %**	**32,119**	**8.5 %**	**30,230**	**8.0 %**
Common Equity Tier I Ratio						
(To Risk Weighted Assets)						
Delmar Bancorp	**117,374**	**11.7 %**	**70,224**	**7.0 %**	**—**	**N/A**
The Bank of Delmarva	**71,752**	**11.6 %**	**43,421**	**7.0 %**	**40,320**	**6.5 %**
Virginia Partners Bank	**46,881**	**12.4 %**	**26,451**	**7.0 %**	**24,562**	**6.5 %**
Tier I Leverage Ratio						
(To Average Assets)						
Delmar Bancorp	**117,374**	**11.9 %**	**39,331**	**4.0 %**	**—**	**N/A**
The Bank of Delmarva	**71,752**	**9.1 %**	**31,520**	**4.0 %**	**39,399**	**5.0 %**
Virginia Partners Bank	**46,881**	**10.4 %**	**18,093**	**4.0 %**	**22,616**	**5.0 %**
As of December 31, 2018						
Total Capital Ratio						
(To Risk Weighted Assets)						
Delmar Bancorp	$ 72,344	11.8 %	$ 60,466	9.9 %	$ —	N/A
The Bank of Delmarva	71,498	11.7 %	60,425	9.9 %	61,190	10.0 %
Tier I Capital Ratio						
(To Risk Weighted Assets)						
Delmar Bancorp	58,516	9.6 %	48,220	7.9 %	—	N/A
The Bank of Delmarva	64,170	10.5 %	48,187	7.9 %	48,952	8.0 %
Common Equity Tier I Ratio						
(To Risk Weighted Assets)						
Delmar Bancorp	58,516	9.6 %	39,035	6.4 %	—	N/A
The Bank of Delmarva	64,170	10.5 %	39,009	6.4 %	39,774	6.5 %
Tier I Leverage Ratio						
(To Average Assets)						
Delmar Bancorp	58,516	8.0 %	29,377	4.0 %	—	N/A
The Bank of Delmarva	64,170	8.7 %	29,377	4.0 %	36,721	5.0 %

Banking regulations also limit the amount of dividends that may be paid without prior approval of the Company's and the Banks' regulatory agencies. Regulatory approval is required to pay dividends, which exceed the Company's and the Banks' 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, 2019 and 2018. Items that are not financial instruments are not included. Amounts are shown in thousands (000).

Dollars are in thousands	**December 31, 2019**		**December 31, 2018**	
	Carrying Amount	**Estimated Fair Value**	**Carrying Amount**	**Estimated Fair Value**
Financial assets:				
Cash and due from banks	**$ 36,295**	**$ 36,295**	$ 24,347	$ 24,347
Interest bearing deposits	**27,586**	**27,586**	4,093	4,093
Federal funds sold	**31,230**	**31,230**	1,254	1,254
Securities:				
Available for sale	**106,256**	**106,256**	51,300	51,300
Loans, net of allowance for credit losses	**990,239**	**976,636**	625,513	604,290
Accrued interest receivable	**3,138**	**3,138**	2,103	2,103
Federal Home Loan Bank stock	**5,180**	**5,180**	2,652	2,652
Atlantic Central Bankers stock	**131**	**131**	131	131
Other investments	**2,838**	**2,838**	1,537	1,537
Financial liabilities:				
Deposits	**$ 1,006,781**	**$ 1,008,842**	$ 614,926	$ 570,509
Accrued interest payable	**572**	**572**	392	392
FHLB advances, notes payable, and financing leases	**106,270**	**109,260**	56,989	56,979
Unrecognized financial instruments:				
Commitments to extend credit	**$ 184,376**	**$ 184,376**	$ 114,395	$ 114,395
Standby letters of credit	**4,045**	**4,045**	3,276	3,276

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

Cash and cash equivalents:

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

Investment securities:

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

Loans:

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

Deposits:

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

Borrowings:

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

Unrecognized financial instruments:

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

Other assets and liabilities:

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

The following table presents the carrying amount, fair value, and placement in the fair value hierarchy of the Company's financial instruments not disclosed elsewhere as of December 31, 2019 and 2018. This table excludes financial instruments for which the carrying amount approximates fair value.

Dollars are in thousands			Fair Value Hierarchy		
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
December 31, 2019					
Financial assets:					
Loans, net	**$ 990,239**	**$ 976,636**	**$ —**	**$ —**	**$ 976,636**
Financial liabilities:					
Interest-bearing deposits	**$ 745,150**	**$ 747,211**	**$ —**	**$ 747,211**	**$ —**
FHLB advances, notes payable, and financing leases	**106,270**	**109,260**	**—**	**109,260**	**—**
December 31, 2018					
Financial assets:					
Loans, net	$ 625,513	$ 604,290	$ —	$ —	$ 604,290
Financial liabilities:					
Interest bearing deposits	$ 429,450	$ 393,813	$ —	$ 393,813	$ —
FHLB advances and notes payable	56,989	56,979	—	56,979	—

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 Company performs a detailed analysis of assets and liabilities that are subject to ASC Topic 820.

The following table presents fair value measurements on a recurring basis as of December 31, 2019 and 2018:

Dollars are in thousands	Level 1	Level 2	Level 3	Fair Value
December 31, 2019				
Securities available for sale:				
Obligations of U.S. Government agencies	**$ —**	**$ 10,312**	**$ —**	**$ 10,312**
Obligations of States and political subdivisions	**—**	**34,558**	**—**	**34,558**
Mortgage-backed securities	**—**	**56,421**	**—**	**56,421**
Equity securities	**—**	**4,965**	**—**	**4,965**
Total securities available for sale	**$ —**	**$ 106,256**	**$ —**	**$ 106,256**
December 31, 2018				
Securities available for sale:				
Obligations of U.S. Government agencies	$ —	$ 9,420	$ —	$ 9,420
Obligations of States and political subdivisions	—	21,096	—	21,096
Mortgage-backed securities	—	19,404	—	19,404
Equity securities	—	1,380	—	1,380
Total securities available for sale	$ —	$ 51,300	$ —	$ 51,300

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 Company 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, 2019 and 2018:

Dollars are in thousands				Fair
December 31, 2019	**Level 1**	**Level 2**	**Level 3**	**Value**
Impaired loans	**$ —**	**$ —**	**$ 19,493**	**$ 19,493**
OREO	**—**	**2,417**	**—**	**2,417**
Total	**$ —**	**$ 2,417**	**$ 19,493**	**$ 21,910**
December 31, 2018				
Impaired loans	$ —	$ —	$ 26,640	$ 26,640
OREO	—	3,660	—	3,660
Total	$ —	$ 3,660	$ 26,640	$ 30,300

Measured on a Non-Recurring Basis:

Financial Assets and Liabilities

The Company 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 Company determines such fair values from independent appraisals, which management considers level 3 inputs.

Non Financial Assets and Non Financial Liabilities

The Company has no non-financial assets or 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 Company considers to be level 2 inputs.

Note 18. Goodwill and Intangible Assets

The Company accounts for goodwill and other intangible assets in accordance with ASC Topic 350, "Intangibles—Goodwill and Other." The Company records the excess of cost acquired entities over the fair value of identifiable tangible and intangible assets acquired, less liabilities assumes, as goodwill. The Company amortizes acquired intangible assets with definite useful economic lives over their useful economic lives. On a periodic basis, management assesses whether events or changes in circumstances indicate that the carrying amount of the intangible assets may be impaired. The Company does not amortize goodwill or any acquired intangible assets with an indefinite useful economic life, but reviews them for impairment on an annual basis, or when events or changes in circumstances indicate that the carrying amounts may be impaired. The Company has performed the required goodwill impairment test and has determined that goodwill was not impaired as of December 31, 2019.

Goodwill: The Company acquired goodwill in the purchases of Liberty Bell Bank and Virginia Partners Bank (see Note 20 and 21). The following table provides changes in goodwill for the periods ended December 31, 2019 and December 31, 2018:

Dollars in Thousands	December 31, 2019	December 31, 2018
Balance at the beginning of the period	$ 5,237	$ —
Liberty Bell Bank acquisition	—	5,237
Virginia Partners Bank acquisition	4,154	—
Impairment	—	—
Balance at the end of the period	$ 9,391	$ 5,237

Core Deposit Intangible: The Company acquired core deposit intangibles in the acquisitions of Liberty Bell Bank and Virginia Partners Bank. For the core deposit intangible related to Liberty, the Company utilizes the double declining balance method of amortization, in which the straight line amortization rate is doubled and applied to the remaining unamortized portion of the intangible asset. The amortization method changes to the straight line method of amortization when the straight line amortization amount exceeds the amount that would be calculated under the double declining balance method. This core deposit intangible will be amortized over seven years. For the core deposit intangible related to Partners, the Company utilizes the sum of months method and an estimated average life of 120 months. The following table provides changes in the core deposit intangible for the periods ended December 31, 2019 and December 31, 2018:

Dollars in Thousands	December 31, 2019	December 31, 2018
Balance at the beginning of the period	$ 1,069	$ —
Liberty Bell Bank acquisition	—	1,489
Virginia Partners Bank acquisition	2,650	
Accumulated amortization	(346)	(420)
Balance at the end of the period	$ 3,373	$ 1,069

The following table provides the amortization expense for the core deposit intangible over the years indicated below:

Dollars in Thousands	December 31, 2019
2020	$ 713
2021	600
2022	520
2023	467
2024 and thereafter	1,073
	$ 3,373

Net Deposits Purchased Premium and Discount: The Company paid a deposit premium in the acquisition of Liberty Bell Bank and received a deposit discount in the purchase of Virginia Partners Bank, which are included in the balances of time deposits on the balance sheets. The premium amount is amortized as a reduction in interest expense over the life of the acquired time deposits and the discount is accreted as an increase in interest expense over the life of the acquired time deposits. The premium and discount on deposits will both be amortized and accreted over approximately five years. The following table provides changes in the net deposit premium and discounts for the periods ended December 31, 2019 and December 31, 2018:

Dollars in Thousands	December 31, 2019	December 31, 2018
Balance at the beginning of the period	$ 27	$ —
Liberty Bell Bank acquisition	—	108
Virginia Partners Bank acquisition	(38)	
Accumulated accretion	(20)	(81)
Balance at the end of the period	$ (31)	$ 27

The following table provides the accretion income for the net deposit discount over the years indicated below:

Dollars in Thousands	December 31, 2019
2020	$ (8)
2021	(15)
2022	(6)
2023	(2)
2024 and thereafter	—
	$ (31)

Note 19. Parent Company Financial Information

Presented below are comparative balance sheets of the parent company, Delmar Bancorp, as of December 31, 2019 and 2018, and statements of operations and cash flows for each of the years ended December 31, 2019 and 2018.

BALANCE SHEETS
December 31, 2019 and 2018

	2019	2018
ASSETS		
Cash	$ 4,105	$ 354
Investment in subsidiaries, at equity	131,397	71,642
Other assets	1,753	902
Total assets	$ 137,255	$ 72,898
LIABILITIES		
Other liabilities	$ 616	$ 410
Note payable	6,500	6,500
Total liabilities	$ 7,116	$ 6,910
STOCKHOLDERS' EQUITY		
Common stock, par value $.01 per share, authorized 20,000,000 shares; issued and outstanding 2019 17,790,181 and 2018 9,985,321	$ 178	$ 100
Surplus	87,437	29,470
Retained earnings	41,785	37,149
Accumulated other comprehensive loss, net of deferred tax benefits	739	(731)
Total stockholders' equity	130,139	65,988
Total liabilities and stockholders' equity	$ 137,255	$ 72,898

STATEMENTS OF INCOME

Years Ended December 31, 2019 and 2018

	2019	2018
Stock-based compensation expense	$ —	$ —
Interest expense on borrowings	**(450)**	(428)
Merger related expenses	**(900)**	(248)
Other expenses, net	**(1,541)**	(141)
Loss before income taxes and equity in undistributed net income of subsidiaries	**(2,891)**	(817)
Income tax benefits(1)	**527**	223
Equity in undistributed net income of subsidiaries	**8,247**	6,076
Net income	**$ 5,883**	$ 5,482

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

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	**$ 5,883**	$ 5,482
Adjustments to reconcile net income to net cash used in operating activities:		
Equity in undistributed net income of subsidiaries	**(8,247)**	(6,076)
Stock-based compensation expense	—	—
Changes in assets and liabilities:		
Increase in other assets	**(851)**	(326)
Increase in other liabilities	**206**	205
Net cash used in operating activities	**(3,009)**	(715)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash paid to shareholders of Liberty Bell Bank	—	(4,471)
Cash paid to shareholders of Virginia Partners Bank	**(2)**	—
Net cash used by investing activities	**(2)**	(4,471)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Dividends paid	**(1,193)**	(948)
Proceeds from long-term borrowings	—	4,500
Dividends received from subsidary	**2,563**	1,956
Cash received for the exercise of warrants	**5,342**	—
Cash received for the exercise of stock options	**50**	31
Issuance of restricted stock	—	—
Redemption of preferred stock	—	—
Net cash provided by (used in) financing activities	**6,762**	5,539
Net increase (decrease) in cash	**3,751**	353
Cash, beginning of year	**354**	1
Cash, end of year	**$ 4,105**	$ 354

Note 20. Liberty Bell Transaction

On March 1, 2018, the Company completed its acquisition of Liberty Bell Bank ("LBB"), a New Jersey chartered commercial bank. LBB shareholders received 0.2857 shares of the Company's common stock for each share of LBB common stock they owned as of the effective date of the acquisition, cash consideration of $1.70 per share or a combination thereof. The aggregate consideration paid to LBB shareholders was $17.3 million. The results of LBB's operations are included in the Company's consolidated statements of income for the years ended December 31, 2019 and 2018 for the period beginning March 1, 2018, the date of the acquisition.

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

The acquisition of LBB was accounted for using the acquisition method of accounting and, accordingly, assets acquired, liabilities assumed and consideration paid were recorded at their estimated fair values as of the acquisition date. The excess consideration paid over the fair value of net assets acquired has been reported as goodwill in the Company's consolidated statements of financial condition as of December 31, 2019 and 2018.

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

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

Dollars in Thousands	**Estimated Fair Value as of March 1, 2018**
Consideration paid:	
Cash	$ 4,471
Common stock issued in acquisition	12,798
Total consideration paid	17,270
Assets acquired:	
Cash and cash equivalents	11,831
Investment securities	7,605
Investments in correspondent bank stock	180
Loans	121,674
Premises and equipment	2,148
Other real estate owned	946
Accrued interest receivable	358
Core deposit intangible	1,489
Deferred tax asset	4,263
Other assets	1,039
Total assets acquired	$ 151,532
Liabilities assumed:	
Deposits	$ 138,241
Other liabilities	1,259
Total liabilities assumed	$ 139,500
Net assets acquired	$ 12,032
Goodwill recorded in acquisition	5,237

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

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

Dollars in Thousands	At March 1, 2018
Gross principal balance	$ 124,545
Fair value adjustment on pools of non-credit impaired loans	(1,703)
Fair value adjustment on purchased credit impaired loans	(1,168)
Fair value of acquired loans	$ 121,674

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

Dollars in Thousands	At March 1, 2018
Contractually required principal and interest at acquisition	$ 2,469
Contractual cashflows not expected to be collected (non-accretable discount)	(922)
Expected cash flows at acquisition	1,547
Interest component of expected cash flows	(246)
Fair value for loans acquired under ASC 310-30	$ 1,301

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

Direct costs related to the merger were accrued and expensed as incurred. There were no Liberty related merger expenses during 2019. During the year ended December 31, 2018, the Company incurred $1.4 million in Liberty merger-related expenses.

Note 21. Virginia Partners Transaction

On November 15, 2019, the Company completed its share exchange with Virginia Partners Bank, a Virginia chartered commercial bank. Partners shareholders received 1.7179 shares of the Company's common stock for each share of Partners common stock they owned as of the effective date of the share exchange. The aggregate consideration paid to Partners shareholders was $52.3 million. Additionally, $350 thousand was included as consideration for replacement stock option awards per the share exchange agreement and $2 thousand in cash in lieu of fractional shares. The results of Partners' operations are included in the Company's consolidated statements of income for the year ended December 31, 2019 for the period beginning November 15, 2019, the date of the effectiveness of the share exchange.

The acquisition resulted in three new branches, an operations center and administrative headquarters in Fredericksburg, Virginia, along with an additional branch office in La Plata, Maryland and a loan production office in Annapolis, Maryland.

The acquisition of Partners was accounted for using the acquisition method of accounting and, accordingly, assets acquired, liabilities assumed and consideration paid were recorded at their estimated fair values as of the acquisition date. The excess consideration paid over the fair value of net assets acquired has been reported as goodwill in the Company's consolidated statements of financial condition as of December 31, 2019.

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

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

Dollars in Thousands		Estimated Fair Value as of November 15, 2019
Consideration paid:		
Cash	$	2
Common stock issued in acquisition		52,282
Stock options issued in acquisition (replacement awards)		350
Total consideration paid		52,634
Assets acquired:		
Cash and cash equivalents		6,743
Investment securities		65,373
Investments in correspondent bank stock		3,670
Loans		357,127
Premises and equipment		6,969
Accrued interest receivable		1,155
Core deposit intangible		2,650
Deferred tax asset		1,239
Other assets		9,242
Total assets acquired	$	454,168
Liabilities assumed:		
Deposits	$	348,552
Other liabilities		56,408
Total liabilities assumed	$	404,960
Net assets acquired	$	49,208
Noncontrolling interest in consolidated subsidiaries		728
Goodwill recorded in acquisition		4,154

Acquired loans (impaired and non impaired) are initially recorded at their acquisition date fair values using Level 3 inputs. Fair values are based on a discounted cash flow methodology that involves assumptions and judgments as to credit risk, expected life time losses, environmental factors, collateral values, discount rates, expected payments and expected prepayments. Specifically, the Company has prepared three separate loan fair value adjustments that it believes a market participant might employ in estimating the entire fair value adjustment necessary under ASC 820 10 for the acquired loan portfolio. The three separate fair valuation methodologies employed are: (i) an interest rate loan fair value adjustment, (ii) a general credit fair value adjustment, and (iii) a specific credit fair value adjustment for purchased credit impaired loans subject to ASC 310 30 provisions. The acquired loans were recorded at fair value at the acquisition date without carryover of Partners' previously established allowance for loan losses. The fair value of the financial assets acquired included loans receivable with a principal balance, prior to fair value adjustments, of $362.9 million.

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

Dollars in Thousands	At November 15, 2019	
Gross principal balance	$	362,916
Fair value adjustment on pools of non-credit impaired loans		(4,990)
Fair value adjustment on purchased credit impaired loans		(799)
Fair value of acquired loans	$	357,127

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

Dollars in Thousands	At November 15, 2019	
Contractually required principal and interest at acquisition	$	6,713
Contractual cashflows not expected to be collected (non-accretable discount)		(1,371)
Expected cash flows at acquisition		5,342
Interest component of expected cash flows		(673)
Fair value for loans acquired under ASC 310-30	$	4,669

The fair value of savings and transaction deposit accounts acquired from Partners provide value to the Company as a source of below market rate funds. The fair value of the core deposit intangible was determined based on a discounted cash flow analysis using a discount rate based on the estimated cost of capital for a market participant. To calculate cash flows, the sum of deposit account servicing costs (net of deposit fee income) and interest expense on deposits were compared to the cost of alternative funding sources available to the Company. The expected cash flows of the deposit base included estimated attrition rates. The core deposit intangible was valued at $2.7 million or 1.01% of total deposits. The core deposit intangible asset is being amortized on the sum of months method over 10 years.

Direct costs related to the merger were accrued and expensed as incurred. During the year ended December 31, 2019 and 2018, the Company incurred $1.9 million and $248 thousand, respectively in Partners merger-related expenses.

Note 22. Revenue Recognition

On January 1, 2018, the Company adopted ASU No. 2014-09 "Revenue from Contracts with Customers" (Topic 606) and all subsequent ASUs that modified Topic 606. The implementation of the new standard did not have a material impact on the measurement or recognition of revenue; as such, a cumulative effect adjustment to opening retained earnings was not deemed necessary. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts were not adjusted and continue to be reported in accordance with our historic accounting under Topic 605.

Topic 606 does not apply to revenue associated with financial instruments, including revenue from loans and securities. Topic 606 is applicable to noninterest revenue streams such as deposit related fees, interchange fees and merchant income. However, the recognition of these revenue streams did not change significantly upon adoption of Topic 606. Substantially all of the Company's revenue is generated from contracts with customers. Noninterest revenue streams in-scope of Topic 606 are discussed below.

Service Charges on Deposit Accounts

Service charges on deposit accounts consist of account analysis fees (i.e., net fees earned on analyzed business and public checking accounts), monthly service fees, check orders, and other deposit account related fees. The Company's performance obligation for account analysis fees and monthly service fees is generally satisfied, and the related revenue recognized, over the period in which the service is provided.

Check orders and other deposit account related fees are largely transactional based, and therefore, the Company's performance obligation is satisfied, and related revenue recognized, at a point in time. Payment for service charges on deposit accounts is primarily received immediately or at the end of the month through a direct charge to customers' accounts.

Mortgage Division Income

Mortgage division income, which is included is noninterest income, consists of fees for loans originated by Delmar through an application process that are sent to a mortgage broker. The loan application and underwriting processes are completed by other various financial institutions. Delmar receives a pre-negotiated fee at settlement for initiating the loan origination. Delmar receives the fee and recognizes the income when the loan goes to settlement.

Other Noninterest Income

Other noninterest income consists of: fees, exchange, other service charges, safety deposit box rental fees, and other miscellaneous revenue streams. Fees and other service charges are primarily comprised of debit and credit card income, ATM fees, merchant services income, and other service charges. Debit and credit card income is primarily comprised of interchange fees earned whenever the Company's debit and credit cards are processed through card payment networks such as Visa. ATM fees are primarily generated when a Company cardholder uses a non-Company ATM or a non-Company cardholder uses a Company ATM. Merchant services income mainly represents fees charged to merchants to process their debit and credit card transactions, in addition to account management fees. Other service charges include revenue from processing wire transfers, bill pay service, cashier's checks, and other services. The Company's performance obligation for fees, exchange, and other service charges are largely satisfied, and related revenue recognized, when the services are rendered or upon completion. Payment is typically received immediately or in the following month. Safe deposit box rental fees are charged to the customer on an annual basis and recognized upon receipt of payment.

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Maryland Partners Bank (a Division of Virginia Partners Bank)
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Maryland Partner Bank
(A Division of Virginia Partners Bank)
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William J. Vakos, III
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