DELMAR BANCORP

Annual Report

December 31, 2015

DELMAR BANCORP
AND SUBSIDIARIES
SELECTED FINANCIAL DATA

At year end:		2015	2014	2013
Total assets		**$ 483,591,917**	**$ 447,970,005**	**$ 415,913,206**
Loans receivable, net		**393,153,247**	**378,066,900**	**338,028,301**
Investment securities		**31,693,529**	**33,746,796**	**37,648,048**
Federal funds sold		**9,735,562**	**1,384,699**	**1,149,856**
Demand and NOW deposits		**155,715,954**	**138,571,471**	**121,197,347**
Savings and time deposits		**256,841,653**	**242,159,995**	**233,978,061**
Stockholders' equity		**43,320,312**	**45,113,435**	**40,864,389**
Common equity per share		**5.30**	**4.90**	**4.41**
For the year:				
Total income		**22,987,471**	**23,258,064**	**20,836,383**
Total expenses		**19,092,755**	**19,748,981**	**26,397,655**
Net income (loss)		**3,894,716**	**3,509,083**	**(5,561,272)**
Basic earnings (loss) per share		**0.479**	**0.324**	**(1.145)**
Basic earnings (loss) per share, excluding intangibles		**0.482**	**0.329**	**(1.138)**
Key ratios:				
Yield on earning assets		**4.53%**	**4.60%**	**4.52%**
Net interest income		**17,403,294**	**16,347,383**	**15,223,589**
Return on average assets		**0.84%**	**0.81%**	**-1.32%**
Return on average equity		**8.81%**	**8.16%**	**-13.98%**
Average equity to average assets		**9.49%**	**9.95%**	**9.40%**
Tier I risk-based capital	(Bank)	**11.45%**	**11.73%**	**10.37%**
Total risk-based capital	(Bank)	**12.71%**	**12.96%**	**11.64%**
Leverage capital ratio (See Note 15)	(Bank)	**9.17%**	**9.60%**	**8.33%**
Number of branch offices		**10**	**10**	**10**
Number of administrative offices		**2**	**2**	**2**
Number of employees		**115**	**110**	**111**
outstanding shares		8,174,317	8,116,066	8,116,066
weighted average outstanding shares		8,136,536	8,116,066	5,409,217

DELMAR BANCORP

March 7, 2016

Dear Shareholders:

I am pleased to report that 2015 was another successful year for Delmar Bancorp whose results are primarily driven by The Bank of Delmarva. Success is measured by a number of financial and non-financial metrics and I will discuss a few of the highlights here.

Total assets at the Bank grew by about $35.0 million or 7.8% of which $14.0 million was growth in the Bank's loan portfolio. The remainder of the asset growth was centered in various interest bearing short term investment accounts. The asset growth was funded by growth in all of the Bank's deposit categories of $30.9 million or 8.1% lead by an increase in demand deposit balances of $14.6 million. In addition, certificate of deposit account balances increased $8.9 million and savings account balances grew by $3.8 million. The Bank also added wholesale term borrowings of $10 million from the Federal Home Loan Bank at attractive rates during the year.

Net income at the Bank increased from $3.5 million in 2014 to $4.0 million in 2015. The income growth resulted from an increase in net interest income of nearly $1.1 million, a decrease in the amount expensed to the loan loss allowance of $800,000, a decrease in non-interest income of about $258,000, reduced overhead expenses which decreased by about $92,000 and increased income of taxes of about $213,000.

Earnings in Delmar Bancorp increased from $3.5 million to $3.9 million. Earnings per share in 2015 were $.48 compared to $.33 in 2014.

The Board and Management accomplished several strategic balance sheet goals in 2015. We entered the year with about $4.5 million of preferred stock plus accrued dividends and interest. Our goal was to redeem the preferred shares plus pay accrued dividends and interest. In October we borrowed $2 million at the Holding Company. The note has a 10 year term at a fixed interest rate of 6.71% and it can be repaid after five years. The Bank then paid a dividend of $3.8 million to the Holding Company. The third step was a dividend from the Holding Company of $5.8 million to pay a final and full redemption of all the remaining preferred shares plus accrued dividends and interest to the preferred shareholders in November.

In December, the Board declared a quarterly common stock dividend of $.01 per share, which was paid in early January. If annualized, that dividend represents less than 10 percent of projected 2016 earnings. We do expect to increase the cash dividend if Bank earnings continue to meet our expectations.

Also in 2015 Laura Bren was elected as a Board member of the Bank as well as the Holding Company. Laura is the President of Atlantic/Smith, Cropper & Deeley, which is one of the largest independent insurance agencies in our market and her knowledge of commercial insurance, flood insurance and businesses in Worcester County and Sussex County has already been a big benefit to the Bank.

You may be aware that this is a Presidential election year. Regardless of your politics it is impossible to deny that the country faces huge challenges. During the past seven years our national debt has increased by $9 trillion and in the administration prior the debt increased by $4 trillion. Even an unsophisticated, country banker like me understands that growing our debt at this rate is a recipe for disaster. Add to the mix additional demands for Social Security and Medicare spending for the next 20 years due to aging baby boomers and the fiscal challenge is even greater. Other areas demanding attention are overly burdensome regulation on small businesses (including small banks), a non-competitive business tax code and reforming the widely unpopular Affordable Care Act before it implodes. The next administration and Congress have their work cut out for them.

As many of you also know the Federal Reserve raised short term interest rates by 25 basis points in December. This was the first increase in rates in years. I expect the Fed to increase rates slowly this year and the Bank is positioned to benefit from rising rates. I hope that our national economy is strong enough to absorb higher (but normalized) interest rates so that fixed income investors can again earn a respectable return on their money market and certificate of deposit accounts. Someday a bright young economist will measure whether the prolonged low interest rate environment was more beneficial to consumer and commercial borrowers than it was harmful to fixed income investors. My guess is that we will find that fixed income investors got the short end of the stick and the Fed erred in keeping rates so low for so long.

We enter 2016 with a strong loan pipeline of potential new business. The Bank's problem assets have declined to acceptable levels. We have several exciting technology projects underway, which will enhance the ways our customers interact with the Bank. The Bank of Delmarva has been recognized as "The Best Bank" for three consecutive years by the readers of the local Metropolitan Magazine. The stock price of Delmar Bancorp has increased steadily since 2014 and is currently trading at about 1.1 times book value.

The Bank has a lot of momentum and positive things happening. On behalf of the Board and all Bank associates, thank you for your past support and we look forward serving you in the future.

Very truly yours,



Edward M. Thomas
President and Chief Executive Officer

Executive Overview

Delmar Bancorp is a bank holding company whose primary assets include The Bank of Delmarva. The financial statement of Delmar Bancorp consolidates the financial statements of Delmar Bancorp, The Bank of Delmarva, Davie Circle LLC, Delmarva Real Estate Holdings LLC, DHB Development LLC of which the Bank holds a 40.55% interest, West Nithsdale Enterprises LLC of which the Bank holds a 10.00% interest and Salisbury Housing LLC of which the Bank holds a 50.00% interest. The discussion and analysis which follow pertain to the operation of all the entities during 2015, but with the primary focus on the Bank.

Consolidated assets of Delmar Bancorp increased 8.0% to end the year at $483.6 million, which was an annual increase of $35.6 million.

The Bank's investment portfolio consists of Federal Agency, municipal, mortgage-backed and equity securities. The investment portfolio was $31.7 million at the end of 2015 or a decrease of $2.0 million from $33.7 million in 2014.

The Bank's loan portfolio, net of the Allowance for Credit Losses, was $393.1 million at the end of 2015 or an increase of $15.0 million from $378.1 million in 2014.

The Bank's Allowance for Credit Losses was $7.1 million at year end and represents 1.8% of ending loan balances. A total of $600,000 was expensed from operations and added to the Allowance in 2015. Charge-offs of $1.8 million and recoveries of $145,000 in addition to the $600,000 which was expensed from operations accounted for the change in the Allowance for 2015. Management believes that the Allowance for Credit Losses is considered adequate based upon the nature of the Bank's loan portfolio, historical loan losses and the credit quality of the current loan portfolio as of December 31, 2015, however there can be no guarantees that additional charge-offs or additional provisions for nonperforming loans will not be required or that currently performing loans will continue to perform at their current levels.

The primary source of funding for the Bank's loan and investment activities comes from deposit accounts owned by individuals, corporations, partnerships and other entities and from Federal Home Loan Bank borrowings. Total deposits increased by $31.8 million to $412.6 million. Non-interest bearing demand accounts were 32.8% of total deposits and were $135.2 million at the end of 2015, an increase of $15.4 million or 12.8% compared to 2014. Interest bearing deposits were $277.3 million at the end of 2015. NOW accounts, savings and money market account balances increased by 7.4% while certificates of deposit balances increased by 5.6% compared to 2014.

Federal Home Loan Bank borrowings provide additional funding for short term and long term needs. The Bank ended 2015 with $25 million in long term borrowings and no short term borrowings compared to $15 million in long term borrowings and $6.5 million in short term borrowings at December 31, 2014.

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

Total capital at the holding company decreased by approximately $1.8 million or 4.0%. Adjustments to capital in 2015 include net income of approximately $3.9 million, less the after tax adjustment of the difference between the book and market value of available for sale securities in the bond portfolio. Tangible capital at year end was $43.3 million in comparison to $45.1 million at the end of 2014. The holding company and the Bank are subject to various regulatory capital requirements administered by Federal banking agencies. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the holding company and Bank must meet specific capital adequacy guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting

practices. The Bank's capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. At December 31, 2015 the holding company and Bank met all capital adequacy requirements to which they are subject and are considered to be "Well Capitalized". Management's goal is to maintain capital levels in excess of minimum regulatory capital guidelines that are sufficient to support potential growth and absorb potential losses. During 2015 the Bank redeemed all shares of preferred stock, including dividends and interest in arrears of $1.3 million. During the fourth quarter of 2015 the Bank paid a dividend to common stock shareholders of $.01/share.

The Bank's primary source of income is interest income derived from the loan and bond portfolios. Total interest income in 2015 was $20.1 million, an increase of approximately $1.6 million from 2014. Interest income from the loan portfolio was $19.3 million at the end of 2015. Interest income from the bond portfolio was approximately $777,000, which included approximately $363,000 in income exempt from federal taxation.

The primary source of expense is interest expense paid to depositors and for other borrowed money. Interest paid to depositors totaled $2.1 million, an increase of approximately $205,000 from 2014. Total interest expense in 2015 was $2.7 million as compared to $2.2 million in 2014.

Net interest income for 2015 totaled $17.4 million. This is an increase of 6.5% over the prior year's $16.3 million in net interest income. The net interest margin in 2015 was 3.93%, compared to 4.06% in 2014.

Other income includes service charges on deposit products, rental of safe deposit boxes, the brokerage of stock and bond products, and gains on the sale of assets and securities. Other income decreased approximately $1.9 million in 2015 due to a one time gain on the sale of investment securities of approximately $1.7 million in 2014.

Operating expenses were $13.5 million in 2015 compared to $14.2 million in 2014, representing a decrease of $699,000 or 4.9%. The operating expense to average asset ratio of the holding company, excluding any impairment losses, was 2.9% in 2015 compared to 3.3% in 2014.

Net income was approximately $3.9 million in 2015 compared to net income of approximately $3.5 million reported in 2014. This is an increase of approximately $386,000. Total shares outstanding at year end 2015 were 8,174,317 and at year end 2014 were 8,116,066. The basic earnings (loss) per share increased to $.479 per share in 2015 from $.325 per share in 2014.

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



INDEPENDENT AUDITORS' REPORT

Board of Directors
Delmar Bancorp
Salisbury, Maryland

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Delmar Bancorp and subsidiaries, which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of operations, statements of comprehensive income (loss), changes in stockholders' equity, and cash flows for the three years in the period ended December 31, 2015, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Delmar Bancorp and its subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for the three years ended December 31, 2015, in accordance with accounting principles generally accepted in the United States of America.



Salisbury, Maryland
March 2, 2016

DELMAR BANCORP

CONSOLIDATED BALANCE SHEETS
December 31, 2015 and 2014

	2015	2014
ASSETS		
Cash and due from banks	**$ 26,339,638**	$ 13,223,201
Interest bearing deposits in other financial institutions	**5,464,327**	1,001,803
Federal funds sold	**9,735,562**	1,384,699
Cash and cash equivalents	**41,539,527**	15,609,703
Securities available for sale, at fair value	**31,693,529**	33,746,796
Loans, less allowance for credit losses 2015 **$7,083,653**; 2014 $8,185,387	**393,153,247**	378,066,900
Accrued interest receivable on loans and investment securities	**1,217,082**	1,301,035
Premises and equipment, at cost, less accumulated depreciation	**7,089,897**	7,375,268
Federal Home Loan Bank stock, at cost	**1,469,900**	1,341,800
Maryland Financial Bank stock, at cost	**30,000**	30,000
Atlantic Central Bankers Bank stock, at cost	**75,000**	75,000
Other investments	**1,000,000**	1,000,000
Intangible assets, net of accumulated amortization	**-**	38,578
Deferred tax asset	**1,953,710**	4,064,957
Other real estate owned	**2,955,623**	3,722,569
Other assets	**1,414,402**	1,597,399
Total assets	**$ 483,591,917**	$ 447,970,005
LIABILITIES		
Deposits:		
Non interest bearing demand	**$ 135,241,523**	$ 119,856,293
NOW	**20,474,431**	18,715,178
Savings and money market	**88,887,555**	83,076,235
Time, $100,000 or more	**55,224,615**	52,573,523
Other time	**112,729,483**	106,510,237
	412,557,607	380,731,466
Accrued interest payable on deposits	**200,703**	195,804
Short-term borrowings	**-**	6,500,000
Long-term borrowings	**25,000,000**	15,000,000
Note payable	**2,000,000**	-
Other liabilities	**513,295**	429,300
Total liabilities	**440,271,605**	402,856,570
COMMITMENTS, CONTINGENCIES & SUBSEQUENT EVENT		
STOCKHOLDERS' EQUITY		
Common stock, par value $.01, authorized 9,990,550 shares, issued and outstanding 2015 **8,174,317** and 2014 8,116,066	**81,743**	81,161
Preferred stock, Series A and B (See Note 18)	**-**	4,450,000
Surplus	**16,688,173**	16,488,679
Retained earnings	**26,369,200**	23,848,738
Accumulated other comprehensive income, net of deferred tax liabilities 2015 (**$118,130**); 2014 $(159,598)	**181,196**	244,857
Total stockholders' equity	**43,320,312**	45,113,435
Total liabilities and stockholders' equity	**$ 483,591,917**	$ 447,970,005

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

DELMAR BANCORP

CONSOLIDATED STATEMENTS OF OPERATIONS
Years Ended December 31, 2015, 2014, and 2013

	2015	2014	2013
INTEREST INCOME ON:			
Loans, including fees	**$ 19,273,015**	$ 17,672,000	$ 16,817,199
Investment securities:			
Taxable	**413,945**	411,099	511,797
Exempt from Federal income tax	**362,719**	396,916	437,288
Federal funds sold	**9,157**	7,415	22,670
Other interest income	**83,017**	58,046	58,043
	20,141,853	18,545,476	17,846,997
INTEREST EXPENSE ON:			
Deposits	**2,084,559**	1,879,532	2,264,462
Borrowings	**654,000**	318,561	358,946
	2,738,559	2,198,093	2,623,408
NET INTEREST INCOME	**17,403,294**	16,347,383	15,223,589
Provision for credit losses	**600,000**	1,400,000	9,794,000
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	**16,803,294**	14,947,383	5,429,589
OTHER INCOME:			
Service charges on deposit accounts	**1,410,954**	1,530,104	1,644,505
Gains on investment securities	**2,450**	1,667,779	27,700
Gains (losses) on disposal of other assets	**2,647**	46,620	(871)
Other income	**1,429,567**	1,468,085	1,318,052
	2,845,618	4,712,588	2,989,386
OTHER EXPENSES:			
Salaries and employee benefits	**7,129,641**	6,876,329	6,038,229
Premises and equipment	**1,942,489**	1,840,326	1,641,386
Amortization of intangibles	**38,576**	51,435	60,615
Losses on other real estate owned	**139,872**	628,081	492,961
Other expenses	**4,260,356**	4,814,099	5,535,087
Total other-than-temporary impairment losses:	**-**	-	3,554,942
Portion of other-than-temporary losses recognized in other comprehensive income (before taxes)	**-**	-	-
Net other than temporary impairments	**-**	-	3,554,942
	13,510,934	14,210,270	17,323,220
INCOME (LOSS) BEFORE TAXES (BENEFIT) ON INCOME (LOSS)	**6,137,978**	5,449,701	(8,904,245)
Federal and state income taxes (benefit)	**2,243,262**	1,940,618	(3,342,973)
NET INCOME (LOSS)	**$ 3,894,716**	$ 3,509,083	$ (5,561,272)
Earnings (losses) per common share (See Note 14)			
Basic	**$ 0.479**	$ 0.325	$ (1.145)
Diluted	**0.468**	0.315	(1.145)

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

DELMAR BANCORP

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
Years Ended December 31, 2015, 2014, and 2013

	2015	2014	2013
NET INCOME (LOSS)	**$ 3,894,716**	$ 3,509,083	$ (5,561,272)
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:			
Unrealized holding (losses) gains on securities available for sale arising during the period	**(102,688)**	2,439,092	(694,634)
Deferred income tax benefits (liabilities)	**40,510**	(962,222)	274,033
Other comprehensive income (loss), net of tax	**(62,178)**	1,476,870	(420,601)
Reclassification adjustment for gains included in net income	**(2,450)**	(1,667,779)	(27,700)
Deferred income tax liabilities	**967**	657,939	10,928
Other comprehensive loss, net of tax	**(1,483)**	(1,009,840)	(16,772)
Reclassification adjustment for impairment losses on investments included in net income	**-**	-	3,554,942
Deferred income tax benefits	**-**	-	(1,402,425)
Other comprehensive income, net of tax	**-**	-	2,152,517
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	**(63,661)**	467,030	1,715,144
COMPREHENSIVE INCOME (LOSS)	**$ 3,831,055**	$ 3,976,113	$ (3,846,128)

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

DELMAR BANCORP

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years Ended December 31, 2015, 2014, and 2013

	Common Stock	Surplus	Preferred Stock (See Note 18)	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balances, December 31, 2012	$ 48,661	$ 5,062,622	$ 9,450,000	$ 26,080,927	$ (1,937,317)	$ 38,704,893
COMPREHENSIVE INCOME (LOSS)						
Net loss	-	-	-	(5,561,272)	-	(5,561,272)
Other comprehensive gain, net of tax:						
Unrealized holding losses on securities available for sale arising during the period	-	-	-	-	(420,601)	
Reclassification adjustment for gains included in net income	-	-	-	-	(16,772)	
Reclassification adjustment for impairment loss included in net income	-	-	-	-	2,152,517	
						1,715,144
TOTAL COMPREHENSIVE INCOME						(3,846,128)
Stock issuance	32,500	5,967,500	-	-	-	6,000,000
Preferred stock converted to common stock	-	5,000,000	(5,000,000)	-	-	-
Accretion of TARP warrants	-	90,000	-	(90,000)	-	-
Stock-based compensation expense recognized in earnings	-	5,624	-	-	-	5,624
Balances, December 31, 2013	81,161	16,125,746	4,450,000	20,429,655	(222,173)	40,864,389
COMPREHENSIVE INCOME						
Net income	-	-	-	3,509,083	-	3,509,083
Other comprehensive gain, net of tax:						
Unrealized holding gains on securities available for sale arising during the period	-	-	-	-	1,476,870	
Reclassification adjustment for gains included in net income	-	-	-	-	(1,009,840)	
						467,030
TOTAL COMPREHENSIVE INCOME						3,976,113
Accretion of preferred warrants	-	90,000	-	(90,000)	-	-
Stock-based compensation expense recognized in earnings	-	272,933	-	-	-	272,933
Balances, December 31, 2014	81,161	16,488,679	4,450,000	23,848,738	244,857	45,113,435
COMPREHENSIVE INCOME						
Net income	**-**	**-**	**-**	**3,894,716**	**-**	**3,894,716**
Other comprehensive loss, net of tax:						
Unrealized holding losses on securities available for sale arising during the period	**-**	**-**	**-**	**-**	**(62,178)**	
Reclassification adjustment for gains included in net income	**-**	**-**	**-**	**-**	**(1,483)**	
						(63,661)
TOTAL COMPREHENSIVE INCOME						**3,831,055**
Cash dividends, $0.01 per share	**-**	**-**	**-**	**(81,743)**	**-**	**(81,743)**
Redemption of preferred stock	**-**	**-**	**(4,450,000)**	**(1,292,511)**	**-**	**(5,742,511)**
Restricted stock issuance	**582**	**(582)**	**-**	**-**	**-**	**-**
Stock-based compensation expense recognized in earnings, net of employee tax obligation	**-**	**200,076**	**-**	**-**	**-**	**200,076**
Balances, December 31, 2015	**$ 81,743**	**$ 16,688,173**	**$ -**	**$ 26,369,200**	**$ 181,196**	**$ 43,320,312**

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

DELMAR BANCORP

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2015, 2014, and 2013

	2015	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	**$ 3,894,716**	$ 3,509,083	$ (5,561,272)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Provision for credit losses and unfunded commitments	**600,000**	1,400,000	9,794,000
Depreciation	**631,715**	560,717	542,118
Amortization and accretion	**106,402**	176,265	255,374
Impairment loss on investment securities	**-**	-	3,554,942
Gain on investment securities	**(2,450)**	(1,667,779)	(27,700)
Net (gains) losses on sales of assets	**(2,647)**	-	871
Net losses on other real estate owned, including write-downs	**241,554**	628,081	492,961
Deferred income tax expenses (benefits)	**2,152,715**	1,935,095	(3,432,000)
Stock-based compensation expense, net of employee tax obligation	**200,076**	272,933	5,624
Changes in assets and liabilities:			
Decrease (increase) in accrued interest receivable	**83,953**	(128,180)	23,526
Decrease in other assets	**182,997**	189,492	752,187
Increase (decrease) in accrued interest payable	**4,899**	(8,121)	(90,121)
Increase (decrease) in other liabilities	**2,252**	(240,184)	102,579
Net cash provided by operating activities	**8,096,182**	6,627,402	6,413,089
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of securities available for sale	**(1,120,077)**	(7,055,304)	(3,409,934)
Proceeds from maturities and paydowns of securities available for sale	**2,510,391**	4,182,038	8,661,419
Proceeds from sales of securities available for sale	**492,450**	9,088,715	1,021,500
Net increase in loans	**(16,908,800)**	(44,606,491)	(30,930,152)
Proceeds from sale of assets	**4,000**	-	-
Purchases of premises and equipment	**(347,697)**	(640,077)	(259,344)
Proceeds from the sale of foreclosed assets	**1,747,845**	1,981,394	491,268
(Purchase) sale of Federal Home Loan Bank stock	**(128,100)**	29,500	190,100
Net cash used by investing activities	**(13,749,988)**	(37,020,225)	(24,235,143)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Increase in demand, NOW, money market, and savings deposits, net	**22,955,803**	14,847,853	9,023,227
Increase (decrease) in time deposits, net	**8,870,338**	10,708,205	(24,486,836)
Increase (decrease) in borrowings, net	**5,500,000**	2,500,000	(1,000,000)
Sale of common stock	**-**	-	6,000,000
Redemption of preferred stock	**(5,742,511)**	-	-
Net cash provided (used) by financing activities	**31,583,630**	28,056,058	(10,463,609)
Net increase (decrease) in cash and cash equivalents	**25,929,824**	(2,336,765)	(28,285,663)
Cash and cash equivalents, beginning	**15,609,703**	17,946,468	46,232,131
Cash and cash equivalents, ending	**$ 41,539,527**	$ 15,609,703	$ 17,946,468

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

(Continued)

DELMAR BANCORP

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2015, 2014, and 2013
(Continued)

	2015	2014	2013
Supplementary cash flow information:			
Interest paid	**$ 2,733,660**	$ 2,206,214	$ 2,713,529
Income taxes paid	**33,600**	34,400	8,400
Total (depreciation) appreciation on securities available for sale	**(105,138)**	771,248	(722,569)
SUPPLEMENTARY NON-CASH INVESTING ACTIVITIES			
Loans converted to other real estate owned	**$ 1,222,453**	$ 3,004,054	$ 2,312,639

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company and Its Significant Accounting Policies

The Bank provides financial services to individuals and corporate customers, and is subject to competition from other financial institutions. The Bank is also subject to the regulations of certain Federal and state agencies and undergoes periodic examinations by those regulatory authorities. The accounting policies of the Bank conform to generally accepted accounting principles and general practices within the banking industry.

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

Principles of Consolidation:

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

Use of Estimates:

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

Securities Available for Sale:

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

Other Securities:

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

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

Loans and the Allowance for Credit Losses:

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

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

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

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

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

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

Loan Charge-off Policies

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

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

Other Real Estate Owned (OREO):

OREO comprises properties acquired in partial or total satisfaction of problem loans. The properties are recorded at the lower of cost or fair value at the date acquired. Losses arising at the time of acquisition of such properties are charged against the allowance for credit losses. Subsequent write-downs that may be required and expenses of operation are included in other expenses. Gains and losses realized from the sale of OREO are included in other income. At December 31, 2015 there were eight properties with a combined value of **$2,955,623** included in other real estate owned, and at December 31, 2014 there were fifteen properties with a combined value of $3,722,569.

Bank Premises and Equipment and Depreciation:

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

Intangible Assets and Amortization:

In September 2008, the Bank acquired the deposit accounts and certain assets and liabilities of a local competitor bank located in Ocean City, Maryland for a deposit premium of 3.7% of total deposit balances. The Bank took over full operations of this location, under an already existing lease. The premium paid on deposits exceeded the fair value of assets received by $421,248, which is recognized as an intangible asset. The intangible asset is being amortized on a straight-line basis over a seven-year period. The bank incurred an amortization expense of **$38,576** during 2015, and as of December 31, 2015, the intangible asset was fully amortized.

During 2012, the Bank restructured three borrowings with the FHLB and incurred a total prepayment penalty of $1,645,571 (see Note 8). The prepayment penalty is being amortized to final maturity as an adjustment to interest expense. The unamortized premium was $817,526 as of December 31, 2015.

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, 2015 and 2014, certain loans were deemed to be impaired (see Note 3).

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

Income Taxes:

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

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

Securities Sold Under Agreements to Repurchase:

Securities sold under agreements to repurchase are comprised of six customer deposit agreements with various maturities, totaling **$1,969,047** at December 31, 2015 and $1,839,846 at December 31, 2014. This obligation is not federally insured, but is collateralized by investment securities. These pledged securities are segregated and maintained by a third-party institution. The amortized cost and fair value of these securities at December 31, 2015 was **$3,999,401** and **$3,973,705**, respectively. The amortized cost and fair value of these securities at December 31, 2014 was $4,499,032 and $4,430,655, respectively.

Credit Risk:

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

Cash and Cash Equivalents:

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

Accounting for Stock Based Compensation:

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

Earnings (Loss) Per Common Share:

Basic earnings (loss) per common share are determined by dividing net income (loss) adjusted for preferred stock dividends declared and/or accumulated and accretion of warrants by the weighted average number of shares outstanding for each year, giving retroactive effect to stock splits and dividends. Weighted average shares outstanding were **8,136,536**, 8,116,066, and 5,409,247 for the years ended December 31, 2015, 2014, and 2013, respectively. Calculations of diluted earnings (loss) per common share include the average dilutive common stock equivalents outstanding during the year, unless they are anti-dilutive. Dilutive common equivalent shares consist of stock options calculated using the treasury stock method (See Note 14).

Financial Statement Presentation

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

Note 2. Investment Securities

Securities available for sale are as follows:

	December 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Obligations of U.S. Government agencies and corporations	**$ 8,351,353**	**$ 16,267**	**$ (34,395)**	**$ 8,333,225**
Obligations of States and political subdivisions	**11,094,355**	**415,900**	**(6,109)**	**11,504,146**
Mortgage-backed securities	**10,448,372**	**90,939**	**(141,632)**	**10,397,679**
Equity securities	**1,500,000**	**-**	**(41,521)**	**1,458,479**
	$ 31,394,080	**$ 523,106**	**$ (223,657)**	**$ 31,693,529**

	December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Obligations of U.S. Government agencies and corporations	$ 8,354,230	$ 4,881	$ (86,024)	$ 8,273,087
Obligations of States and political subdivisions	10,998,418	546,880	(12,437)	11,532,861
Mortgage-backed securities	12,989,569	158,140	(168,516)	12,979,193
Equity securities	1,000,000	-	(38,345)	961,655
	$ 33,342,217	$ 709,901	$ (305,322)	$ 33,746,796

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, 2015, are as follows:

Securities available-for-sale:

	December 31, 2015					
	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	**$ 3,304,805**	**$ 34,395**	**$ -**	**$ -**	**$ 3,304,805**	**$ 34,395**
Mortgage-backed securities	**1,712,583**	**5,418**	**3,380,255**	**136,214**	**5,092,838**	**141,632**
Obligations of States and political subdivisions	**640,193**	**1,795**	**255,298**	**4,314**	**895,491**	**6,109**
Equity Securities	**-**	**-**	**1,458,479**	**41,521**	**1,458,479**	**41,521**
Total securities with unrealized losses	**$ 5,657,581**	**$ 41,608**	**$ 5,094,032**	**$ 182,049**	**$ 10,751,613**	**$ 223,657**

Note 2. Investment Securities (Continued)

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

The Company recognized $3,554,942 in 2013 of pre-tax other-than-temporary impairment losses related to $5,500,000 (original face) of trust preferred securities (TRUPs) issued by financial institutions. The other-than-temporary losses represent management's estimate of credit losses inherent in the securities considering projected cash flows using assumption of deferral and default rates, prepayment assumptions, loss severities, and future recoveries.

The following table presents a rollforward of the cumulative other-than-temporary credit losses recognized in earnings for all debt securities held at year end for which a portion of an other-than-temporary loss was recognized in accumulated other comprehensive loss:

Rollforward of Cumulative Other-Than-Temporary Investment Credit Losses Recognized in Earnings (a)

	2015	2014	2013
Estimated credit losses - beginning balance	**$ -**	$ 4,560,442	$ 1,005,500
Additions for credit losses not previously recognized	**-**	-	3,554,942
Reductions for realized losses	**-**	(4,560,442)	-
Estimated credit losses - ending balance	**$ -**	$ -	$ 4,560,442

(a) Excludes other-than-temporary investment credit losses related to equity securities.

During 2013, after management reviewed its investments in TRUPs it was determined to write the securities down to net realizable value by $3,554,562, which was reflected in other expenses. The other-than-temporary losses represented management's estimate of credit losses inherent in the securities considering projected cash flows and the lack of a market as of December 31, 2013.

During 2014, the Company sold its TRUPs holdings. The sale resulted in net gains before taxes of $1,675,219 and approximately $1,014,000 after taxes. During 2014, a market unexpectedly developed for the TRUPs that allowed the Company to dispose of the securities.

At December 31, 2015 there are was two obligations of U.S. Government Agency (Agencies), seven mortgage-backed securities (MBS), three municipal investments (MUNIs), and one equity investment that have been in a continuous unrealized loss position for more than twelve months. As of December 31, 2015, 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 2015, the Bank sold one security resulting in a net gain of $2,450. During 2014, the Bank sold 14 securities resulting in a net gain of $1,667,779. During 2013, the Bank sold one security resulting in a gain of $21,500. No securities were either matured or called during 2015, resulting in no gain or loss. Seven securities were either matured or called during 2014, resulting in no gain or loss. Six securities were either matured or called during 2013, resulting in a net gain of $6,200.

Note 2. Investment Securities (Continued)

Contractual maturities of investment securities at December 31, 2015 and 2014 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, 2015	
	Securities Available for Sale	
	Amortized Cost	Fair Value
Due in one year or less	**$ 1,249,859**	**$ 1,272,115**
Due after one year through five years	**8,883,027**	**8,905,576**
Due after five years through ten years	**7,155,459**	**7,434,044**
Due after ten years or more	**3,657,363**	**3,684,115**
Mortgage-backed, due in monthly installments	**10,448,372**	**10,397,679**
	$ 31,394,080	**$ 31,693,529**

	December 31, 2014	
	Securities Available for Sale	
	Amortized Cost	Fair Value
Due in one year or less	$ -	$ -
Due after one year through five years	6,354,230	6,315,427
Due after five years through ten years	11,457,042	11,865,840
Due after ten years or more	2,541,376	2,586,336
Mortgage-backed, due in monthly installments	12,989,569	12,979,193
	$ 33,342,217	$ 33,746,796

The Bank has pledged certain securities as collateral for qualified customers' deposit accounts at December 31, 2015 and 2014 as follows:

	2015	2014
Amortized cost	**$ 7,613,150**	$ 7,625,648
Fair value	**7,873,874**	7,987,498

The Bank has also pledged securities with the Federal Reserve Bank ("FRB") to collateralize its accounts held at the FRB with an amortized cost and fair value of $133,137 and $140,011 at December 31, 2015, respectively.

Note 3. Loans and Allowance for Credit Losses

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

	2015	2014
Other real estate secured	**$ 255,765,014**	$ 245,165,429
1 - 4 Family residential secured	**105,738,145**	102,124,037
Other	**38,733,741**	38,962,821
	400,236,900	386,252,287
Less: Allowance for loan losses	**(7,083,653)**	(8,185,387)
	$ 393,153,247	$ 378,066,900

Allowance for Loan Losses

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

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

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

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

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

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

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

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

The establishment of a specific reserve does not necessarily mean that the credit with the specific reserve will definitely incur loss at the reserve level. It is only an estimation of potential loss based upon anticipated events. A specific reserve will not be established unless loss elements can be determined and quantified based on known facts.

The total allowance reflects management's estimate of loan losses inherent in the loan portfolio as of December 31, 2015 and 2014.

The following table presents the total allowance by loan segment.

	Other Real Estate Secured	1 - 4 Family Residential Secured	Other	Unallocated	Total
Balance at December 31, 2014	$ 4,415,387	$ 2,192,000	$ 770,000	$ 808,000	$ 8,185,387
Charge-offs	(1,388,757)	(78,050)	(379,628)	-	(1,846,435)
Recoveries	62,511	9,424	72,766	-	144,701
Provision	780,512	(772,374)	580,862	11,000	600,000
Balance at December 31, 2015	$ 3,869,653	$ 1,351,000	$ 1,044,000	$ 819,000	$ 7,083,653
Individually evaluated for impairment:					
Balance in allowance	$ 690,974	$ 86,891	$ 647,933	$ -	$ 1,425,798
Related loan balance	16,671,643	4,057,731	1,002,447	-	21,731,821
Collectively evaluated for impairment:					
Balance in allowance	$ 3,178,679	$ 1,264,109	$ 396,067	$ 819,000	$ 5,657,855
Related loan balance	239,093,371	101,680,414	37,731,294	-	378,505,079

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

	Other Real Estate Secured	1 - 4 Family Residential Secured	Other	Unallocated	Total
Balance at December 31, 2013	$ 4,287,924	$ 2,411,000	$ 983,000	$ 615,000	$ 8,296,924
Charge-offs	(1,231,841)	(579,376)	(386,514)	-	(2,197,731)
Recoveries	455,998	142,703	87,493	-	686,194
Provision	903,306	217,673	86,021	193,000	1,400,000
Balance at December 31, 2014	$ 4,415,387	$ 2,192,000	$ 770,000	$ 808,000	$ 8,185,387
Individually evaluated for impairment:					
Balance in allowance	$ 738,999	$ 47,832	$ 311,632	$ -	$ 1,098,463
Related loan balance	17,046,771	4,524,260	407,260	-	21,978,291
Collectively evaluated for impairment:					
Balance in allowance	$ 3,676,388	$ 2,144,168	$ 458,368	$ 808,000	$ 7,086,924
Related loan balance	228,118,658	97,599,777	38,555,561	-	364,273,996

The Bank had an unallocated amount (overage) of approximately $819,000 in the allowance that is reflected in the above table as of December 31, 2015. The Bank had an unallocated amount (overage) of approximately $808,000 in the allowance that is reflected in the above table as of December 31, 2014. Management is comfortable with this amount as they feel it is adequate to absorb additional inherent potential losses in the loan portfolio as further detailed in Note 1, “Loans and the Allowance for Credit Losses”.

Credit Quality Information

The following table represents credit exposures by creditworthiness category for the year ending December 31, 2015. The use of creditworthiness categories to grade loans permits management to estimate a portion of credit risk. The Bank’s internal creditworthiness is based on experience with similarly graded credits. Loans that trend upward toward higher credit grades typically have less credit risk and loans that migrate downward typically have more credit risk.

The Bank’s internal risk ratings are as follows:

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

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

Non-accruals

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

A summary of loans by risk rating is as follows:

December 31, 2015	Other Real Estate Secured	1-4 Family Residential Secured	Other	Total
Excellent	**$ 701,356**	**$ -**	**$ 491,602**	**$ 1,192,958**
Superior	**7,196,104**	**95,401**	**307,672**	**7,599,177**
Good	**226,753,502**	**94,695,761**	**35,996,173**	**357,445,436**
Fair	**15,350,833**	**7,608,704**	**817,472**	**23,777,009**
Marginal	**-**	**50,699**	**14,593**	**65,292**
Substandard	**5,763,219**	**3,287,580**	**1,106,229**	**10,157,028**
TOTAL	**$ 255,765,014**	**$ 105,738,145**	**$ 38,733,741**	**$ 400,236,900**
Non-Accrual	**$ 2,207,082**	**$ 1,593,953**	**$ 647,933**	**$ 4,448,968**
Troubled debt restructures	**$ 14,939,222**	**$ 3,652,210**	**$ 354,515**	**$ 18,945,947**
Number of TDR accounts	**26**	**16**	**4**	**46**
Breakdown of TDRs				
TDRs on Nonaccrual	**$ 440,342**	**$ 1,268,446**	**$ -**	**$ 1,708,788**
TDRs Past Due 30-89	**237,225**	**689,153**	**-**	**926,378**
Performing TDRs	**14,261,655**	**1,694,611**	**354,515**	**16,310,781**
TOTAL	**$ 14,939,222**	**$ 3,652,210**	**$ 354,515**	**$ 18,945,947**
Total Non-performing TDR accounts	**$ 677,567**	**$ 1,957,599**	**$ -**	**$ 2,635,166**
Number of non-performing TDRs	**4**	**8**	**-**	**12**

December 31, 2014	Other Real Estate Secured	1-4 Family Residential Secured	Other	Total
Excellent	$ 745,004	$ -	$ 369,021	$ 1,114,025
Superior	5,330,385	-	685,002	6,015,387
Good	213,315,614	91,460,792	36,452,018	341,228,424
Fair	14,707,480	6,704,406	572,250	21,984,136
Marginal	3,504,354	271,008	135,946	3,911,308
Substandard	7,562,592	3,687,831	748,584	11,999,007
TOTAL	$ 245,165,429	$ 102,124,037	$ 38,962,821	$ 386,252,287
Non-Accrual	$ 3,138,635	$ 2,520,219	$ 382,251	$ 6,041,105
Troubled debt restructures	$ 14,327,350	$ 3,719,686	$ 275,955	$ 18,322,991
Number of TDR accounts	28	17	3	48
Breakdown of TDRs				
TDRs on Nonaccrual	$ 1,178,570	$ 1,245,871	$ 66,049	$ 2,490,490
TDRs Past Due 30-89	-	707,322	-	707,322
Performing TDRs	13,148,780	1,766,493	209,906	15,125,179
TOTAL	$ 14,327,350	$ 3,719,686	$ 275,955	$ 18,322,991
Total Non-performing TDR accounts	$ 1,178,570	$ 1,953,193	$ 66,049	$ 3,197,812
Number of non-performing TDRs	5	9	1	15

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

The following table includes an aging analysis of the recorded investment of past due financing receivables as of December 31, 2015 and 2014:

December 31, 2015	30-59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days Past Due *	Total Past Due	Current Balance	Total Financing Receivables	Recorded Investment > 90 Days Past Due and Accruing
Other Real Estate Secured	**$ 1,158,649**	**$ -**	**$ 2,207,082**	**$ 3,365,731**	**$ 252,399,283**	**$ 255,765,014**	**$ -**
1 - 4 Family Residential	**689,153**	**-**	**1,596,049**	**2,285,202**	**103,452,943**	**105,738,145**	**-**
Other	**150,166**	**-**	**650,810**	**800,976**	**37,932,765**	**38,733,741**	**-**
TOTAL	**$ 1,997,968**	**$ -**	**$ 4,453,941**	**$ 6,451,909**	**$ 393,784,991**	**$ 400,236,900**	**$ -**

* Includes $4,448,968 of non-accrual loans.

December 31, 2014	30-59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days Past Due *	Total Past Due	Current Balance	Total Financing Receivables	Recorded Investment > 90 Days Past Due and Accruing
Other Real Estate Secured	$ 736,429	$ 565,674	$ 3,138,635	$ 4,440,738	$ 240,724,691	$ 245,165,429	$ -
1 - 4 Family Residential	1,720,820	394,262	2,581,552	4,696,634	97,427,403	102,124,037	61,333
Other	274,001	17,841	394,480	686,322	38,276,499	38,962,821	12,229
TOTAL	$ 2,731,250	$ 977,777	$ 6,114,667	$ 9,823,694	$ 376,428,593	$ 386,252,287	$ 73,562

* Includes $6,041,105 of non-accrual loans.

Impaired Loans

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

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

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

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

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

December 31, 2015	**Recorded Investment**	**Unpaid Principal Balance**	**Interest Income Recognized**	**Specific Reserve**	**Average Recorded Investment**
Impaired loans with specific reserves:					
Other Real Estate Secured	**$ 2,011,731**	**$ 2,413,183**	**$ 115,877**	**$ 690,974**	**$ 4,044,446**
1 - 4 Family Residential Secured	**2,947,243**	**2,947,243**	**76,404**	**86,891**	**2,012,987**
Other	**647,933**	**673,933**	**19,271**	**647,933**	**514,783**
Total impaired loans with specific reserves	**$ 5,606,907**	**$ 6,034,359**	**$ 211,552**	**$ 1,425,798**	**$ 6,572,216**
Impaired loans with no specific reserve:					
Other Real Estate Secured	**$ 13,758,720**	**$ 14,235,626**	**$ 1,037,061**	**$ -**	**$ 12,385,164**
1 - 4 Family Residential Secured	**2,140,079**	**3,054,326**	**42,442**	**-**	**2,792,804**
Other	**495,312**	**495,312**	**28,207**	**-**	**443,946**
Total impaired loans with no specific reserve	**$ 16,394,111**	**$ 17,785,264**	**$ 1,107,710**	**$ -**	**$ 15,621,914**
TOTAL	**$ 22,001,018**	**$ 23,819,623**	**$ 1,319,262**	**$ 1,425,798**	**$ 22,194,130**

Total impaired loans of **$22,001,018** at December 31, 2015 include $269,196 of loans which did not meet the criteria whereby an individual evaluation for impairment was required. These loans were pooled with all other loans not requiring an evaluation for individual impairment and reviewed and analyzed using the weighted average historical charge-offs over a current three year period for their respective segments along with the qualitative factors stated previously in this disclosure, to result in a FAS 5 calculated reserve.

December 31, 2014	Recorded Investment	Unpaid Principal Balance	Interest Income Recognized	Specific Reserve	Average Recorded Investment
Impaired loans with specific reserves:					
Other Real Estate Secured	$ 6,077,160	$ 6,112,160	$ 306,221	$ 738,999	$ 7,105,844
1 - 4 Family Residential Secured	1,078,730	1,078,730	37,184	47,832	1,907,004
Other	381,632	381,632	15,389	311,632	498,527
Total impaired loans with specific reserves	$ 7,537,522	$ 7,572,522	$ 358,794	$ 1,098,463	$ 9,511,375
Impaired loans with no specific reserve:					
Other Real Estate Secured	$ 11,011,609	$ 12,379,963	$ 921,954	$ -	$ 12,618,217
1 - 4 Family Residential Secured	3,445,530	4,389,777	55,237	-	3,528,870
Other	392,580	404,380	21,343	-	405,319
Total impaired loans with no specific reserve	$ 14,849,719	$ 17,174,120	$ 998,534	$ -	$ 16,552,406
TOTAL	$ 22,387,241	$ 24,746,642	$ 1,357,328	$ 1,098,463	$ 26,063,781

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

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

Included in the amounts listed above are loans receivable from directors, principal officers, and stockholders of **$8,188,000** and $8,345,000 at December 31, 2015 and 2014, respectively. During 2015 and 2014, loan additions totaled **$306,000** and $5,415,000, respectively. During 2015 and 2014 repayments totaled **$464,000** and $524,000, respectively. These loans were made in the ordinary course of business on substantially the same terms and conditions as those prevailing at the same time for comparable transactions with other customers, including interest rates and collateral. They do not involve more than normal risk of collectability or present other unfavorable terms.

The Bank had no commitments to loan additional funds to the borrowers of restructured, impaired, or non-accrual loans as of December 31, 2015.

Note 4. Premises, Equipment and Depreciation

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

	2015	2014
Land	**$ 1,752,560**	$ 1,752,560
Buildings and improvements	**6,461,245**	6,434,569
Furniture and equipment	**6,806,852**	6,533,625
Total premises and equipment	**15,020,657**	14,720,754
Less: accumulated depreciation	**7,930,760**	7,345,486
Net premises and equipment	**$ 7,089,897**	$ 7,375,268

Depreciation expense totaled **$631,715,** $560,717, and $542,118 for the years ended December 31, 2015, 2014, and 2013, respectively.

Note 5. Income Taxes

Components of income tax expense (benefit) for each of the three years ended December 31, 2015, 2014, and 2013 are as follows:

	2015	2014	2013
Current			
Federal	**$ 90,547**	$ 5,523	$ 64,446
State	**-**	-	24,581
Total current	**90,547**	5,523	89,027
Deferred income tax benefits:			
Federal	**1,750,415**	1,570,355	(2,872,292)
State	**402,300**	364,740	(559,708)
Total deferred	**2,152,715**	1,935,095	(3,432,000)
Income tax expense (benefit)	**$ 2,243,262**	$ 1,940,618	$ (3,342,973)

A reconciliation of tax computed at the Federal statutory income tax rate of 34% to the actual expense (benefit) for the years ended December 31, 2015, 2014, and 2013 is as follows:

	2015	2014	2013
Tax at Federal statutory income tax rate	**$ 1,324,203**	$ 1,193,088	$ (3,027,443)
Tax effect of:			
Tax exempt income	**(305,001)**	(110,418)	(125,484)
Other	**892,927**	666,878	294,790
State income taxes, net of Federal tax benefit	**331,133**	191,070	(484,836)
Income tax expense (benefit)	**$ 2,243,262**	$ 1,940,618	$ (3,342,973)

Income taxes included in the balance sheets are as follows:

	2015	2014
Federal income tax receivable	**$ -**	$ -
State franchise tax receivable	**33,600**	34,400
Deferred income tax benefits:		
Allowance for credit losses and unfunded commitments	**$ 602,108**	$ 801,177
Net operating loss carryforward	**148,512**	1,801,573
Accumulated amortization on intangibles	**83,478**	79,453
Impairment loss on investment securities	**44,876**	44,876
Net losses on other real estate owned	**1,570,258**	1,815,776
Director stock option expense	**91,703**	143,192
Charitable contributions	**-**	30,451
	2,540,935	4,716,498
Deferred tax liabilities:		
Accumulated depreciation	**271,091**	291,633
Deferred gain	**192,098**	192,098
Accumulated securities discount accretion	**5,906**	8,212
Net unrealized appreciation on securities available for sale	**118,130**	159,598
	587,225	651,541
Net deferred income tax benefits	**$ 1,953,710**	$ 4,064,957

Note 5. Income Taxes (Continued)

Management has determined that no valuation allowance is required as it is more likely than not that the deferred tax assets will be fully realizable in the future. At December 31, 2015 and 2014, management believes there are no uncertain tax positions under ASC Topic 740 Income Taxes. The Bank's Federal and state income tax returns for 2012, 2013, and 2014 are subject to examination by the IRS and/or state tax authorities, generally for three years after they were filed. The 2015 tax returns will be filed in 2016.

Note 6. Deposits

Time deposits and their remaining maturities at December 31, 2015 are as follows:

2016	$ 86,006,066
2017	33,544,999
2018	23,594,952
2019	10,033,723
2020	14,704,127
2021 and thereafter	70,231
Total time deposits	$ 167,954,098

Interest expense on deposits for each of the years ended December 31, 2015, 2014, and 2013 is as follows:

	2015	2014	2013
NOW	**$ 23,495**	$ 22,102	$ 22,580
Money market	**115,520**	119,499	139,135
Savings	**64,940**	59,744	65,148
Time, $100,000 or more	**679,117**	634,576	791,138
Other time	**1,201,487**	1,043,611	1,246,461
	$ 2,084,559	$ 1,879,532	$ 2,264,462

Deposit balances of officers and directors and their affiliated interests totaled approximately **$5,314,000** and $3,753,000 as of December 31, 2015 and 2014, respectively.

Deposit accounts in an overdraft position totaled approximately **$190,000** and $181,000 as of December 31, 2015 and 2014, respectively.

Some of the Company's CD deposits are through participation in the Certificate of Deposit Account Registry Service (CDARS). These deposits totaled **$3,879,047** and $3,736,197 at December 31, 2015 and 2014, respectively.

Note 7. Other Income

Other income consists of the following:

	2015	2014	2013
Investment fees and commissions	**$ 127,543**	$ 245,443	$ 78,675
Safe deposit box rentals	**43,326**	42,993	41,118
Visa debit income	**690,521**	636,197	601,070
Other non-interest income	**695,720**	788,895	675,864
	$ 1,429,567	$ 1,468,085	$ 1,318,052

Note 8. Credit Facilities

The Bank owns capital stock of the Federal Home Loan Bank of Atlanta (FHLB) as a condition for a $96,660,400 convertible advance credit facility from the FHLB. As of December 31, 2015, the Bank had remaining credit availability of $71,660,400 under this facility.

In June 2005, the Bank borrowed $5,000,000 from the FHLB with interest payable quarterly fixed at 3.78% through June 2010, maturing in June 2015. The FHLB had the option of converting the rate on this borrowing to a three month LIBOR based floating rate in 2010, however it chose not to do so, therefore the rate on this borrowing would have remained at 3.78% until maturity. During 2012, this borrowing was restructured to a three month LIBOR based floating rate for the first two years, then adjusting to 1.83% until maturity in December 2018. Due to a prepayment penalty of $405,011, which is being amortized to final maturity as an adjustment to interest expense, the effective rate is the three month LIBOR based floating rate plus 1.35% for the first two years, adjusting to 3.18% until maturity. The unamortized premium was $201,211 as of December 31, 2015.

In September 2005, the Bank borrowed an additional $5,000,000 with interest payable quarterly fixed at 4.06% through September 2009, maturing in September 2015. The FHLB had the option of converting the rate on this borrowing to a three month LIBOR based floating rate in 2009, however it chose not to do so, therefore the rate on this borrowing would have remained at 4.06% until maturity. During 2012, this borrowing was restructured to a three month LIBOR based floating rate for the first two years, then adjusting to 1.83% until maturity in December 2018. Due to a prepayment penalty of $500,195, which is being amortized to final maturity as an adjustment to interest expense, the effective rate is the three month LIBOR based floating rate plus 1.67% for the first two years, adjusting to 3.50% until maturity. The unamortized premium was $248,499 as of December 31, 2015.

In September 2006, the Bank borrowed an additional $5,000,000 with interest payable quarterly fixed at 4.57% through September 2011, maturing in September 2016. The FHLB has the option of converting the rate on this long-term borrowing to a three month LIBOR-based floating rate in 2011, however it chose not to do so, therefore the rate on this borrowing would have remained at 4.57% until maturity. During 2012, this borrowing was restructured to a three month LIBOR based floating rate for the first two years, then adjusting to 1.83% until maturity in December 2018. Due to a prepayment penalty of $740,365, which is being amortized to final maturity as an adjustment to interest expense, the effective rate is the three month LIBOR based floating rate plus 2.47% for the first two years, adjusting to 4.30% until maturity. The unamortized premium was $367,816 as of December 31, 2015.

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

The Bank has pledged a portion of its residential and commercial mortgage loan portfolio as collateral for these credit facilities. Principal balances outstanding on these pledged loans totaled approximately **$106,201,000** and $110,105,500 at December 31, 2015 and 2014, respectively.

In addition to the FHLB credit facility, in October 2015, the Company entered into a subordinated loan agreement for an aggregate principal amount of $2,000,000. Interest-only payments are due quarterly at 6.71% per annum, and the outstanding principal balance matures in October 2025.

The proceeds of these long-term borrowings were generally used to purchase higher yielding investment securities, fund additional loans, or redeem preferred stock (see Note 18). Additionally, the Bank has secured credit availability of $5,000,000 with a correspondent bank for short-term liquidity needs, if necessary. This facility must be collateralized by specific securities at the time of any usage. At December 31, 2015, there were no borrowings outstanding, and securities pledged under this credit facility had an amortized cost and fair value of **$14,458** and **$17,235**, respectively. At December 31, 2014 there were no borrowings outstanding, and securities pledged under this credit facility had an amortized cost and fair value of $16,885 and $19,444.

Note 9. Profit Sharing Plan

The Bank has a defined contribution 401(k) profit sharing plan covering substantially all full-time employees. Under the 401(k) provision the Bank is currently matching 50% of employee contributions of up to 6% of their compensation as defined under the plan. Additional employer contributions are at the discretion of the Board of Directors. The Bank's contributions to this plan totaled **$99,887**, $96,872, and $92,152, for the years ended December 31, 2015, 2014, and 2013, respectively.

Note 10. Lease Commitment

The Bank has a branch facility lease for its Seaford, Delaware branch through December 31, 2018. The Bank also has a fifteen-year land lease for its Rehoboth, Delaware branch, with (5) five-year renewal options for a total of twenty-five years, which began in 2000. In 2008 the Bank entered into a six-year lease agreement for its Ocean City branch with a five-year renewal option, for a total of 11 years. In February 2014 this renewal option was exercised. Rent expense under these arrangements was **$194,582**, $181,479, and $176,510 for the years ended December 31, 2015, 2014, and 2013, respectively.

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

2016	$ 187,667
2017	189,390
2018	191,164
2019	142,085
2020	64,634

Note 11. Other Operating Expenses

Other operating expenses include the following:

	2015	2014	2013
Professional services	**$ 217,265**	$ 258,082	$ 231,317
Stationery, printing and supplies	**130,574**	141,552	153,074
Postage and delivery	**147,442**	146,841	155,055
FDIC assessment	**416,464**	656,946	966,451
State bank assessment	**1,000**	1,000	3,023
Directors fees and expenses	**224,950**	194,200	216,275
Marketing	**215,680**	198,460	190,086
Correspondent bank services	**75,179**	75,851	75,545
ATM expenses	**494,470**	552,748	515,962
Telephones and mobile devices	**157,138**	92,124	175,497
Membership dues and fees	**53,934**	52,457	55,757
Legal fees	**205,375**	296,718	541,543
Audit and related professional fees	**108,824**	116,621	166,027
Insurance	**134,588**	131,555	141,360
Other	**1,677,473**	1,898,944	1,948,115
	$ 4,260,356	$ 4,814,099	$ 5,535,087

Note 12. Stock Option Plans

The Bank had employee and director stock option plans and reserved **118,868** shares of stock for issuance thereunder. Options granted under these plans have a ten-year life with a four-year vesting period that begins one year after date of grant, and are exercisable at a price equal to the fair value of the Company's stock on the date of the grant. Each award from all plans is evidenced by an award agreement that specifies the option price, the duration of the option, the number of shares to which the option pertains, and such other provisions as the grantor determines. The plan term ended in 2014, therefore no new options can be granted.

Options for 118,868 shares were outstanding as follows:

	Employees			Directors		
	Shares	Average Price	Amount	Shares	Average Price	Amount
December 31, 2012	208,529	$ 15.28	$ 3,185,793	76,554	$ 15.36	$ 1,176,096
Forfeited in 2013	(32,503)	9.05	(294,042)	(21,338)	12.12	(258,705)
December 31, 2013	176,026	16.43	2,891,751	55,216	16.61	917,391
Forfeited in 2014	(35,314)	10.20	(360,068)	(11,488)	10.78	(123,822)
December 31, 2014	140,712	17.99	2,531,683	43,728	18.15	793,569
Forfeited in 2015	**(54,608)**	**17.97**	**(981,329)**	**(10,964)**	**17.59**	**(192,885)**
December 31, 2015	**86,104**	**$ 18.01**	**$ 1,550,354**	**32,764**	**$ 18.33**	**$ 600,684**

No stock options were exercised in 2013, 2014, or 2015. Shares issued in connection with stock option exercises are issued from available authorized shares.

As stated in Note 1, the Company adopted the provisions of ASC Topic 718-10 in January 1, 2006. ASC Topic 718-10 requires that stock-based compensation to employees and directors be recognized as compensation cost in the income statement based on their fair values on the measurement date, which, for the Company, is the date of the grant. As a result of applying the provisions of ASC Topic 718-10 during 2015 and 2014, the Company recognized additional stock-based compensation expense of **$555** in each year. Stock-based compensation expense for 2015 and 2014 relates to 2012 stock options. Unrecognized stock-based compensation expense related to stock options totaled approximately $600 at December 31, 2014. The 2012 options expense was fully recognized in 2015.

Note 13. Restricted Stock Plan

The Bank has an employee and director restricted stock plan and has reserved **405,805** shares of stock for issuance thereunder. The Company has adopted the Plan, pursuant to which employee and directors of the Company may acquire shares of common stock. The Plan was adopted by the Company's Board of Directors in April 2014, and, subject to the right of the Board of Directors to terminate the Plan at any time, terminates on June 30, 2018. The termination of the Plan, either at the scheduled termination date or before such date, will not affect any award issued prior to termination. Shares awarded in 2015 have a four-year vesting period. The number of shares that will vest is based on the Company's performance relative to pre-established performance goals during the four year vesting period. During 2015, **32,642** shares of stock were awarded under the restricted stock plan. 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.

Note 13. Restricted Stock Plan (Continued)

As of December 31, 2015 non-vested restricted stock awards totaling 167,837 were outstanding as follows:

	Employees		Directors	
	Shares	Weighted Average Fair Value	Shares	Weighted Average Fair Value
Nonvested Awards December 31, 2014	206,949	$ 4.00	48,405	$ 4.00
Granted in 2015	**14,202**	**5.48**	**18,440**	**4.51**
Vested in 2015	**(43,010)**	**4.00**	**(16,596)**	**4.04**
Forfeited in 2015	**(56,404)**	**4.00**	**(4,149)**	**4.04**
Nonvested Awards December 31, 2015	**121,737**	**$ 4.17**	**46,100**	**$ 4.19**

As stated in Note 1, the Company adopted the provisions of ASC Topic 718-10 in January 1, 2006. ASC Topic 718-10 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 2015 is equal to the underlying fair value of the stock. As a result of applying the provisions of ASC Topic 718-10 during 2015, the Company recognized restricted stock-based compensation expense of **$239,643**, or **$147,385** net of tax, related to the 2015 restricted stock awards. Unrecognized restricted stock-based compensation expense related to 2015 restricted stock awards totaled approximately **$561,000** at December 31, 2015. The remaining period over which this unrecognized expense is expected to be recognized is two years.

Note 14. Earnings (Loss) Per Share

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

	2015	2014	2013
Net income (loss)	**$ 3,894,716**	$ 3,509,083	$ (5,561,272)
Less: Preferred stock dividends declared and/or accumulated and warrant accretion	**-**	871,625	631,125
Net income (loss) applicable to basic earnings (loss) per common share	**$ 3,894,716**	$ 2,637,458	$ (6,192,397)
Weighted average shares outstanding	**8,136,536**	8,116,066	5,409,217
Basic earnings (loss) per share	**0.479**	0.325	(1.145)
Effect of dilutive securities:			
Weighted average shares outstanding under options (1)	**176,692**	225,234	262,965
Weighted average exercise price	**$ 18.10**	$ 18.02	$ 16.47
Assumed proceeds on exercise	**$ 3,198,125**	$ 4,058,717	$ 4,331,034
Average market value	**$ 4.62**	$ 4.25	$ 3.62
Weighted average shares outstanding under restricted stock plans (2)	**189,269**	249,011	-
Diluted weighted average shares and common stock equivalents	**8,325,805**	8,365,077 -	5,409,217
Diluted earnings (loss) per share	**$ 0.468**	$ 0.315	$ (1.145)

(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, 2015.

Note 15. Regulatory Capital Requirements

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

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

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

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

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

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

Note 15. Regulatory Capital Requirements (Continued)

The following table presents actual and required capital ratios as of December 31, 2015 for the Bank and Bancorp under the Basel III Capital Rules. The minimum required capital amounts presented include the minimum required capital levels as of December 31, 2015 based on the phase-in provisions of the Basel III Capital Rules and the minimum required capital levels as of January 1, 2019 when the Basel III Capital Rules have been fully phased-in. Capital levels required to be considered well capitalized are based upon prompt corrective action regulations, as amended to reflect the changes under the Basel III Capital Rules.

A comparison of the Company's and the Bank's capital amounts and ratios as of December 31, 2015 and 2014 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, 2015						
Total Capital Ratio						
(To Risk Weighted Assets)						
Delmar Bancorp	**$ 47,778**	**12.4 %**	**$ 30,949**	**8.0 %**	**$ -**	**N/A**
The Bank of Delmarva	**49,175**	**12.7 %**	**30,952**	**8.0 %**	**38,690**	**10.0 %**
Tier I Capital Ratio						
(To Risk Weighted Assets)						
Delmar Bancorp	**42,908**	**11.1 %**	**23,214**	**6.0 %**	**-**	**N/A**
The Bank of Delmarva	**44,307**	**11.5 %**	**23,218**	**6.0 %**	**30,957**	**8.0 %**
Common Equity Tier I Ratio						
(To Risk Weighted Assets)						
Delmar Bancorp	**42,908**	**11.1 %**	**17,411**	**4.5 %**	**-**	**N/A**
The Bank of Delmarva	**44,307**	**11.5 %**	**17,413**	**4.5 %**	**25,152**	**6.5 %**
Tier I Leverage Ratio						
(To Average Assets)						
Delmar Bancorp	**42,908**	**8.9 %**	**19,306**	**4.0 %**	**-**	**N/A**
The Bank of Delmarva	**44,307**	**9.2 %**	**19,327**	**4.0 %**	**24,159**	**5.0 %**
As of December 31, 2014						
Total Capital						
(To Risk Weighted Assets)						
Delmar Bancorp	$ 47,522	13.1 %	$ 29,065	8.0 %	$ -	N/A %
The Bank of Delmarva	47,042	13.0 %	29,038	8.0 %	36,298	10.0 %
Tier I Capital						
(To Risk Weighted Assets)						
Delmar Bancorp	43,056	11.9 %	14,534	4.0 %	-	N/A %
The Bank of Delmarva	42,578	11.7 %	14,519	4.0 %	21,779	6.0 %
Tier I Capital						
(To Average Assets)						
Delmar Bancorp	43,056	9.7 %	17,737	4.0 %	-	N/A %
The Bank of Delmarva	42,578	9.6 %	17,741	4.0 %	22,176	5.0 %

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

Note 16. Fair Values of Financial Instruments

The following table shows the estimated fair value and the related carrying values of the Company's financial instruments at December 31, 2015 and 2014. Items that are not financial instruments are not included. Amounts are shown in thousands (000).

	2015		2014	
	Carrying Amount	**Estimated Fair Value**	Carrying Amount	Estimated Fair Value
Financial assets:				
Cash and due from banks	**$ 26,340**	**$ 26,340**	$ 13,223	$ 13,223
Interest bearing deposits	**5,464**	**5,464**	1,002	1,002
Federal funds sold	**9,736**	**9,736**	1,385	1,385
Securities:				
Available for sale	**31,694**	**31,694**	33,747	33,747
Loans, net of allowance for credit losses	**393,153**	**393,978**	378,067	378,786
Intangible assets	**-**	**-**	39	39
Accrued interest receivable	**1,217**	**1,217**	1,301	1,301
Federal Home Loan Bank stock	**1,470**	**1,470**	1,342	1,342
Maryland Financial Bank stock	**30**	**30**	30	30
Atlantic Central Bankers stock	**75**	**75**	75	75
Other investments	**1,000**	**1,000**	1,000	1,000
Financial liabilities:				
Deposits	**$ 412,558**	**$ 386,923**	$ 380,731	$ 358,468
Accrued interest payable	**201**	**201**	196	196
Short-term borrowings	**-**	**-**	6,500	6,500
Long-term borrowings and note payable	**27,000**	**27,842**	15,000	16,142
Unrecognized financial instruments:				
Commitments to extend credit	**$ 61,653**	**$ 61,653**	$ 54,480	$ 54,480
Standby letters of credit	**3,410**	**3,410**	4,622	4,622

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.

Note 16. Fair Values of Financial Instruments (Continued)

Loans:

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

Deposits:

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

Borrowings:

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

Other assets and liabilities:

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

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, 2015. This table excludes financial instruments for which the carrying amount approximates fair value.

	2015		Fair Value Hierarchy		
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Loans, net	$ 393,153,247	$ 393,977,937	$ -	$ 393,977,937	$ -
Financial liabilities:					
Interest-bearing deposits	$ 277,316,084	$ 266,862,923	$ 98,240,701	$ 168,622,222	$ -
Long-term borrowings and note payable	27,000,000	27,842,304	-	27,842,304	-

Note 17. Fair Value Measurements

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

ASC Topic 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC Topic 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value.

Fair Value Hierarchy

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

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

The following table presents fair value measurements on a recurring basis as of December 31, 2015:

	Level 1	Level 2	Level 3	Fair Value
Securities available for sale:				
Obligations of U.S Government agencies	$ -	$ 8,333,225	$ -	$ 8,333,225
Obligations of States and political subdivisions	-	11,504,146	-	11,504,146
Mortgage-backed securities	-	10,397,679	-	10,397,679
Equity securities	-	1,458,479	-	1,458,479
Total securities available for sale	$ -	$ 31,693,529	$ -	$ 31,693,529

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.

Note 17. Fair Value Measurements (Continued)

The Bank may also be required, from time to time, to measure certain other financial and non-financial assets and liabilities at fair value on a non-recurring basis in accordance with GAAP. The following table presents all fair value measurements on a non-recurring basis as of December 31, 2015:

	Level 1	Level 2	Level 3	Fair Value
Impaired loans	$ -	$ -	$ 20,575,220	$ 20,575,220
OREO	-	2,955,623	-	2,955,623
Total	$ -	$ 2,955,623	$ 20,575,220	$ 23,530,843

Measured on a Non-Recurring Basis:

Financial Assets and Liabilities

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

Non Financial Assets and Non Financial Liabilities

Application of ASC Topic 820 to non-financial assets and non-financial liabilities became effective January 1, 2009. The Corporation has no non-financial assets and non-financial liabilities measured at fair value on a recurring basis. Certain non-financial assets and non-financial liabilities typically measured at fair value on a non-recurring basis include foreclosed assets (upon initial recognition or subsequent impairment), non-financial assets and non-financial liabilities measured at fair value in the second step of a goodwill impairment test, and intangible assets and other non-financial long-lived assets measured at fair value for impairment assessment.

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

Note 18. Troubled Asset Relief Program/Preferred Stock

On December 4, 2009, Delmar Bancorp participated in the United States Department of the Treasury ("Treasury") Troubled Asset Relief Program ("TARP") Capital Purchase Program by issuing 9,000 shares of Fixed Rate Cumulative Perpetual Preferred, Series A ("Series A") and 450 shares of Fixed Rate Cumulative Perpetual Preferred, Series B ("Series B") to the treasury for a total sales price of $9,000,000.

The Fixed Rate Cumulative Perpetual Preferred, Series B Preferred Stock was part of a cashless exercise of a warrant that took place on December 4, 2009. The Warrant was recorded at its liquidation amount of $1,000 per share and is considered to be an imputed dividend that will be amortized over five years.

The agreement with Treasury contained limitations on certain actions of Delmar Bancorp, including the payment of quarterly cash dividends on Delmar Bancorp's common stock in excess of $0.056 per share and the repurchase of its common stock during the first three years of the agreement. Delmar Bancorp also agreed that, while Treasury owns the Preferred Stock, Delmar Bancorp and its subsidiaries' employee benefit plans and other executive compensation arrangements for its senior executive officers must comply with Section 111(b) of the Emergency Economic Stabilization Act of 2008.

Cumulative dividends on the Series A Preferred Stock were payable at 5% per annum for the first five years and at a rate of 9% per annum thereafter. Cumulative dividends on the Series B Preferred Stock were payable at 9% per annum. The shares of Series A and Series B Preferred Stock had no stated maturity, did not have voting rights except in limited circumstances and were not subject to mandatory redemption or a sinking fund. The Series A and Series B Preferred Stock had priority over Delmar Bancorp common stock with regard to the payment of dividends and liquidation distribution.

So long as any share of the Series A or Series B Preferred Stock remained outstanding, no dividend or distribution could be declared or paid on Common Stock and no Common Stock could be, directly or indirectly, purchased, redeemed or otherwise acquired for consideration by the Company or any of its subsidiaries unless all accrued and unpaid dividends for all past dividend periods, including the latest completed dividend period on all outstanding Series A and Series B Preferred Stock had been or were contemporaneously declared and paid in full (or had been declared and a sum sufficient for the payment thereof had been set aside for the benefit of the holders of the Series A and Series B Preferred Stock on the applicable record date).

Under the terms of the Preferred Stock, whenever dividends payable on the shares of the Series A and Series B Preferred Stock have not been paid for an aggregate of six quarterly dividend periods or more, whether or not consecutive, the holders of the Series A and Series B Preferred Stock, voting as a single class, shall have the right to elect two directors until such time as dividends are paid in full.

On January 29, 2013, Treasury auctioned the Company's outstanding Series A and Series B Preferred Stock to private parties as part of its strategy to wind down its remaining TARP bank investments. Effective February 7, 2013, the Company was no longer a participant in Treasury's Troubled Asset Relief Program and was no longer subject to the compensation and benefit limitations and restrictions under the TARP program.

During 2013, the Company entered into an agreement with a holder of TARP preferred pursuant to which the holder acquired 3,250,000 newly issued shares of the Company's common stock for aggregate consideration consisting of $6,000,000 in cash, the cancellation of the holder's 5,000 shares of the Company's Fixed Rate Cumulative Perpetual Preferred Stock, Series A, having an aggregate liquidation amount of $5,000,000, and the waiver of unpaid dividends on the Series A Preferred Stock and interest on unpaid dividends, in an amount equal to approximately $600,000 at closing. The transaction closed on November 1, 2013 and resulted in an increase of $11,000,000 in the Company's common stockholders' equity, and a reduction of $5,000,000 in the preferred stock account. The new capital was down-streamed to the Bank as a capital infusion.

Note 18. Troubled Asset Relief Program/Preferred Stock (Continued)

During 2015, the Company redeemed the remaining 4,000 shares of Series A Preferred Stock and 450 shares of Series B Preferred Stock (cumulatively the "Preferred Stock") at a price of $1,000 per share plus accrued but unpaid dividends. The Company paid a total of $5,742,513 to redeem the Preferred Stock. The Company utilized proceeds from a subordinated loan agreement of $2,000,000 (see Note 8) and a capital up-stream from the Bank of $3,740,000 to fund the redemption.

Note 19. Enforcement Action

On April 20, 2012 the Board of Directors of the Bank entered into a Consent Order (the "Order") with the Federal Deposit Insurance Corporation ("FDIC"). The Bank entered into the Order without admitting or denying any charges of unsafe or unsound banking practices or violations of law or regulation. The Order covered areas of the Bank's operations that warranted improvement and various requirements in making those improvements. The Order was terminated May 28, 2014 and replaced with a Memorandum of Understanding (the "MOU") which addresses certain of the matters covered by the Order with similar requirements. Following the results of a December 1, 2014 Report of Examination, in March 2015, the MOU was terminated.

On June 12, 2012 the Board of Directors of the Company entered into a Written Agreement (the "Agreement") with the Federal Reserve Bank of Richmond ("FRB"). The Company entered into the Agreement without admitting or denying any charges of unsafe or unsound banking practices or violations of law or regulation. The Agreement requires the Board of Directors to take appropriate steps to fully utilize the Company's financial and managerial resources to serve as a source of strength to the Bank. The Agreement was terminated by the FRB August 22, 2014 and replaced with a Memorandum of Understanding (the "FRB MOU") which contained substantially similar requirements as the Agreement. The FRB MOU was terminated in April 2015.

Note 20. Parent Company Financial Information

Presented below are comparative balance sheets of the parent company, Delmar Bancorp, as of December 31, 2015 and 2014, and statements of operations and cash flows for each of the years ended December 31, 2015, 2014 and 2013.

BALANCE SHEETS
December 31, 2015 and 2014

	2015	2014
ASSETS		
Cash	**$ 187,481**	$ 304,863
Investment in subsidiaries, at equity	**44,899,593**	44,635,271
Other assets	**329,696**	181,205
Total assets	**$ 45,416,770**	$ 45,121,339
LIABILITIES		
Other liabilities	**$ 96,458**	$ 7,904
Note payable	**2,000,000**	-
Total liabilities	**$ 2,096,458**	$ 7,904
STOCKHOLDERS' EQUITY		
Common stock, par value $.01 per share, authorized 9,990,550 shares; issued and outstanding 2015 **8,174,317** and 2014 8,116,066	**$ 81,743**	$ 81,161
Preferred Stock, Series A and B (See Note 18)	**-**	4,450,000
Surplus	**16,688,173**	16,488,679
Retained earnings	**26,369,200**	23,848,738
Accumulated other comprehensive income, net of deferred tax liabilities 2015 ($118,130); 2014 $(159,598)	**181,196**	244,857
Total stockholders' equity	**43,320,312**	45,113,435
Total liabilities and stockholders' equity	**$ 45,416,770**	$ 45,121,339

Note 20. Parent Company Financial Information (Continued)

STATEMENTS OF OPERATIONS
Years Ended December 31, 2015, 2014, and 2013

	2015	2014	2013
Stock-based compensation expense	**$ (555)**	$ (272,933)	$ (5,624)
Interest expense on borrowings	**(29,077)**	-	-
Other expenses, net	**(53,513)**	23,250	(39,941)
Loss before income taxes and equity in undistributed net income (loss) of subsidiaries	**(83,145)**	(249,683)	(45,565)
Income tax benefits (1)	**27,656**	116,941	8,269
Equity in undistributed net income (loss) of subsidiaries	**3,950,205**	3,641,825	(5,523,976)
Net income (loss)	**$ 3,894,716**	$ 3,509,083	$ (5,561,272)

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

Note 20. Parent Company Financial Information (Continued)

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2015, 2014, and 2013

	2015	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	**$ 3,894,716**	$ 3,509,083	$ (5,561,272)
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:			
Equity in undistributed net (income) loss of subsidiaries	**(3,950,205)**	(3,641,825)	5,523,976
Stock-based compensation expense	**555**	272,933	5,624
Changes in assets and liabilities:			
Increase in other assets	**(148,491)**	(121,701)	(1,405)
Increase (decrease) in other liabilities	**88,554**	(92,648)	100,552
Net cash (used in) provided by operating activities	**(114,871)**	(74,158)	67,475
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payments for investments in subsidiary	**-**	-	(6,000,000)
Proceeds from liquidation of subsidiary	**-**	-	279,214
Net cash used by investing activities	**-**	-	(5,720,786)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from Eastern Shore Insurance Holdings, Inc.	**-**	-	20,000
Proceeds from stock issuance	**-**	-	6,000,000
Proceeds from long-term borrowings	**2,000,000**	-	-
Dividends received from subsidary	**3,740,000**	-	-
Redemption of preferred stock	**(5,742,511)**	-	-
Net cash (used in) provided by financing activities	**(2,511)**	-	6,020,000
Net (decrease) increase in cash	**(117,382)**	(74,158)	366,689
Cash, beginning of year	**304,863**	379,021	12,332
Cash, end of year	**$ 187,481**	$ 304,863	$ 379,021

Note 21. Date of Management's Review

In preparing the financial statements, management has evaluated events and transactions for potential recognition or disclosure through March 2, 2016, the date that the financial statements were available to be issued.

Delmarva
Investment Services

John Bennish

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Investment Executive - Infinex

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• Not a deposit • Not FDIC - Insured	• Not insured by any Federal Government Agency	• Not guaranteed by the bank • May go down in value

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and
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Baird, Mandalas Brockstedt, LLC
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Audit Committee
Governance Committee
Loan Committee

Robert C. Wheatley
Loan Committee
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J. Phillips Wright, Jr.
Audit Committee
Governance Committee, Chairman

Member FDIC **THE BANK OF DELMARVA** Equal Housing Lender

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

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Delmar Bancorp Officers

Chairman of the Board - Jeffrey F. Turner
President and Chief Executive Officer - Edward M. Thomas
Vice President - John W. Breda
Secretary - Elizabeth Eicher
Treasurer and Assistant Secretary - John A. Craig

The Bank of Delmarva Officers

President and Chief Executive Officer
Edward M. Thomas

Executive Vice President and Chief Credit Officer
John W. Breda

Senior Vice President and Chief Financial Officer
Elizabeth Eicher, CPA

Senior Vice President
Deborah S. Abbott
Carl L. Cottingham
John A. Craig
Lawrence L. Dernulc

Vice President
John Q. Aukward, Jr.
Karin A. D'Armi Hunt
Marcia L. Dayton
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Joseph F. Gordy, III
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Sandy L. Nailor
Staci M. Niblett
S. Jeanne Robertson
Matthew P. Shaffer
Jeanette S. Smith
Michele U. Thomas
Gray B. Warrington
Paige Widdowson

Internal Auditor
Brooke L. Dickerson, CCBIA
Charles S. Gallo

Assistant Vice President
Carol J. Adams
June E. Betts
Matthew E. Bounds
Kevin J. Christophel
Jodi L. Close
Casey L. Coco
Crystal L. Hudson
Alesia Lukashova
Robin H. Parker
Scott J. Rukowicz
Nancy L. Shrieves
Kelsey Dickerson Tilghman
Amy L. Townsend
Karen M. Turner

Investment Executive
John Bennish

Assistant Cashier
Mona Mullinix
Christine J. Welsh

The Bank of Delmarva
Branch Offices

Delmar Office
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9550 Ocean Highway
Delmar, Maryland 21875

North Salisbury Office
Lisa L. Ellis, Manager
(410)742-9401
2727 North Salisbury Boulevard
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East Salisbury Office
Nancy L. Shrieves, Manager
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Salisbury, Maryland 21804

Eastern Shore Drive Office
John Q. Aukward, Jr., Manager
(410)548-1700
921 Eastern Shore Drive
Salisbury, Maryland 21801

Pecan Square Office
Marcia L. Dayton, Manager
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Salisbury, Maryland 21801

Cash Mgt./Remote Deposit Capture
Karin D' Armi - Hunt
(410)548-1100
2245 Northwood Drive
Salisbury, Maryland 21801

Seaford Office
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Seaford, Delaware 19973

Laurel Office
Kelsey Dickerson Tilghman, Manager
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Laurel, Delaware 19956

Dagsboro Office
Crystal L. Hudson, Manager
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28280 Clayton Street, Post Office Box 98
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Pelican Square Office
June E. Betts, Manager
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Karen M. Turner, Manager
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Ocean City, Maryland 21842

Loan Department
Sandy L. Nailor, Manager
(410)548-1100
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