

FOURTH QUARTER 2018 EARNINGS

Delmarva Bancshares, Inc. (the “Company” or “Delmarva”), parent company for 1880 Bank, today reported net income of \$1.2 million or \$0.19 per share for the quarter ended December 31, 2018, compared to net income of \$1.2 million or \$0.20 per share for the fourth quarter of 2017. The Company’s net income for the twelve months ended December 31, 2018 was \$3.4 million or \$0.56 per share, compared to \$4.1 million or \$0.69 per share for the December 2017 twelve month period.

Net income for the December 2017 quarter includes a deferred tax asset (DTA) write-down of \$2.6 million, \$0.43 per share, related to the Tax Cut and Jobs Act (TCJA) signed into law in December 2017, recapture of the remaining \$3.4 million in DTA valuation allowance, \$0.57 per share, and nonrecurring charges related to nonperforming loans and other real estate owned of \$339 thousand, \$0.03 per share. DTA recapture for the year ended December 2017 was \$4.4 million, \$0.74 per share. Excluding the impact of the TCJA, recapturing the remaining DTA valuation allowance and nonrecurring items, core net income was \$563 thousand and \$2.5 million, or \$0.09 and \$0.42 per share respectively, for the December 2017 three and twelve month periods. Fully diluted tangible book value per share increased to \$7.26 at December 31, 2018 from \$6.73 at December 31, 2017.

Delmarva’s total assets were \$378 million at December 31, 2018, compared to \$355 million and \$355 million at September 30, 2018 and December 31, 2017, respectively. Total loans were \$256 million at December 31, 2018, representing a \$7.3 million or 3% increase over December 2017. Total deposits were \$320 million at December 31, 2018, compared to \$297 million and \$300 million at September 30, 2018 and December 31, 2017, respectively. Non-interest bearing deposits represented 27% of total deposits at December 31, 2018. As of December 31, 2018, non-performing assets were 1.33% of total assets compared to 1.16% and 1.63% of total assets at September 30, 2018 and December 31, 2017, respectively.

Fourth Quarter Performance Highlights:

- Net income was \$1.2 million or \$0.19 per share for the December 2018 quarter, compared to net income of \$1.2 million or \$0.20 per share in the fourth quarter of 2017. Net income for the twelve months ended December 31, 2018 was \$3.4 million or \$0.56 per share, compared to \$4.1 million or \$0.69 per share for the December 2017 twelve month period.
- Total Deposits increased by \$20 million or 7% over December 2017. Non-interest bearing deposits represented 27% of total deposits at December 31, 2018.
- Total loans increased by \$7.3 million or 3% increase over December 2017.
- Non-performing assets were 1.33% of total assets at December 31, 2018, compared to 1.16% and 1.63% of total assets at December 31, 2017, respectively.
- Total assets at December 31, 2018 were \$378 million versus \$355 million and \$355 million at September 30, 2018 and December 31, 2017, respectively.

- Cost of funds at the Bank was 0.37% and 0.32% for the three and twelve months ended December 31, 2018, respectively, compared to 0.29% and 0.25% for the three and twelve months ended December 31, 2017, respectively.
- Net interest margin at the Bank was 4.02% and 3.94% for the three and twelve months ended December 31, 2018, respectively, compared to 3.80% and 4.01% for the three and twelve months ended December 31, 2017, respectively.
- Return on assets (ROA) was 1.26% and 0.96% for the three and twelve months ended December 31, 2018, respectively, compared to 1.37% and 1.26% for the three and twelve months ended December 31, 2017, respectively.
- Return on equity (ROE) was 10.23% and 7.62% for the three and twelve months ended December 31, 2018, respectively, compared to 11.28% and 10.06% for the three and twelve months ended December 31, 2017, respectively.
- The efficiency ratio was 60.40% and 67.37% for the three and twelve months ended December 31, 2018, respectively, compared to 77.41% and 70.90% for the three and twelve months ended December 31, 2017, respectively.
- Fully diluted tangible book value per share was \$7.26 at December 31, 2018, compared to \$7.04 and \$6.73 at September 30, 2018 and December 31, 2017, respectively.
- Liquidity remained strong and capital ratios exceeded all regulatory guidelines for a “well-capitalized” financial institution.

“We are pleased to report good performance results for fourth quarter and yearend 2018. We paid our first quarterly cash dividend since 2009 in early November 2018 for shareholders of record as of October 1, 2018. We expect continuation of a quarterly dividend in 2019,” said Kim C. Liddell, Delmarva’s Chairman and President.

Delmarva Bancshares, Inc. and Subsidiary

Consolidated Balance Sheets

December 31, 2018

	December 31, 2018	December 31, 2017	September 30, 2018
Assets			
Cash and due from banks	\$ 2,183,443	\$ 2,533,473	\$ 4,980,913
Interest-bearing deposits in other banks	49,055,712	40,501,344	24,372,986
Federal funds sold	583,038	204,316	471,815
Total cash and cash equivalents	51,822,193	43,239,133	29,825,714
Investment securities available-for-sale, at fair value	41,212,705	33,818,170	42,367,106
Restricted stock, at cost	1,733,700	1,706,600	1,733,700
Total investment securities	42,946,405	35,524,770	44,100,806
Loans receivable, gross	255,910,995	248,582,321	252,878,582
Allowance for loan losses	(1,917,676)	(1,846,815)	(1,873,731)
Loans receivable, net of allowance for loan losses	253,993,319	246,735,506	251,004,851
Bank premises and equipment, net	5,167,235	5,141,751	5,169,265
Other real estate owned, net of valuation allowance	641,705	334,239	604,805
Accrued interest receivable	650,840	618,791	692,095
Cash surrender value of life insurance	14,209,783	13,900,553	14,149,714
Goodwill	1,852,120	1,852,120	1,852,120
Core Deposit Intangible	342,601	596,993	399,620
Deferred tax asset	5,448,767	6,257,465	5,871,784
Other assets	986,824	790,211	1,077,183
Total Assets	\$ 378,061,792	\$ 354,991,532	\$ 354,747,957
Liabilities and Stockholders' Equity			
Liabilities:			
Deposits:			
Non-interest-bearing	\$ 85,251,328	\$ 80,360,996	\$ 86,782,270
Interest-bearing	234,261,400	219,339,163	210,506,433
Total deposits	319,512,728	299,700,159	297,288,703
Accrued interest payable	131,691	95,366	113,335
Accrued benefit obligations	4,723,646	4,707,804	4,801,055
FRB/FHLB Borrowings	-	-	-
Noncumulative subordinated notes	4,100,000	4,100,000	4,100,000
Trust preferred	2,536,753	2,503,953	2,528,442
Other liabilities	1,001,324	994,559	1,053,820
Total Liabilities	332,006,142	312,101,841	309,885,355
Commitments and Contingent Liabilities	-	-	-
Stockholders' Equity:			
Preferred stock, \$.01 par value per share - 2,059,713 shares authorized, issued and outstanding	20,597	20,597	20,597
Common stock, \$.01 par value per share - 10,000,000 shares authorized, 3,945,395, 3,915,921 and 3,947,088 issued and outstanding, respectively	39,201	38,945	39,513
Additional paid-in capital	43,903,507	43,636,518	43,825,252
Retained earnings (deficit)	2,487,420	(590,088)	1,628,978
Accumulated other comprehensive income	(395,075)	(216,281)	(651,738)
Total Stockholders' Equity	46,055,650	42,889,691	44,862,602
Total Liabilities and Stockholders' Equity	\$ 378,061,792	\$ 354,991,532	\$ 354,747,957

Delmarva Bancshares, Inc. and Subsidiary
Consolidated Statements of Operations
December 31, 2018

	Three Months Ended			Year to Date	
	December 31, 2018	December 31, 2017	September 30, 2018	December 31, 2018	December 31, 2017
Interest and Dividend Income					
Loans, including fees	\$ 3,146,286	\$ 2,917,530	\$ 3,026,079	\$ 12,040,407	\$ 11,645,859
Investment securities	274,797	177,419	243,558	882,766	660,843
Dividends on restricted stock	48,588	47,042	6,230	106,305	105,733
Interest on deposits in other banks	196,813	98,010	122,322	585,786	200,694
Interest on federal funds sold/duel from banks	2,591	183	1,892	6,488	780
Total interest income	<u>3,669,075</u>	<u>3,240,184</u>	<u>3,400,081</u>	<u>13,621,752</u>	<u>12,613,909</u>
Interest Expense					
Deposits	284,413	215,913	240,637	960,454	673,379
Junior subordinated debt	50,260	41,396	49,382	188,337	163,847
Senior subordinated debt	73,344	73,344	73,345	290,986	290,986
Borrowed funds	-	-	-	3	2
Total interest expense	<u>408,017</u>	<u>330,653</u>	<u>363,364</u>	<u>1,439,780</u>	<u>1,128,214</u>
Net interest income	<u>3,261,058</u>	<u>2,909,531</u>	<u>3,036,717</u>	<u>12,181,972</u>	<u>11,485,695</u>
Provision for Loan Losses	<u>46,377</u>	<u>255,861</u>	<u>47,886</u>	<u>168,064</u>	<u>320,813</u>
Net interest income after provision for loan losses	<u>3,214,681</u>	<u>2,653,670</u>	<u>2,988,831</u>	<u>12,013,908</u>	<u>11,164,882</u>
Noninterest Income					
Service charges on deposit accounts	175,167	203,515	161,458	710,227	779,186
Other fees and commissions	178,347	166,135	159,845	654,799	621,879
Income on bank owned life insurance	60,068	65,751	58,813	309,228	297,396
Other income	269,156	19,866	45,851	356,013	99,223
Total noninterest income	<u>682,738</u>	<u>455,267</u>	<u>425,967</u>	<u>2,030,267</u>	<u>1,797,684</u>
Noninterest Expense					
Salaries and employee benefits	1,126,151	1,058,369	1,105,836	4,426,537	4,053,280
Premises and equipment	277,726	327,893	282,380	1,134,242	1,204,324
Data processing	434,469	395,295	432,526	1,653,973	1,514,519
OREO write-downs, net losses on sales and operating expenses	10,518	185,782	10,888	28,542	211,648
Professional fees	172,115	216,354	239,808	848,623	782,154
Director fees	60,000	77,875	60,000	240,000	280,000
Core deposit amortization	57,019	74,564	61,405	254,391	324,570
FDIC assessments	23,639	28,183	25,026	100,244	108,170
Regulatory examination assessments	10,287	10,287	10,287	41,148	41,148
Other insurance expense	31,922	27,312	29,943	121,826	110,705
Other expense	178,092	202,874	171,531	725,028	787,041
Total noninterest expense	<u>2,381,938</u>	<u>2,604,788</u>	<u>2,429,630</u>	<u>9,574,554</u>	<u>9,417,559</u>
Net Income before income taxes	<u>1,515,481</u>	<u>504,149</u>	<u>985,168</u>	<u>4,469,621</u>	<u>3,545,007</u>
Provision for Income Taxes	<u>356,696</u>	<u>(688,244)</u>	<u>253,889</u>	<u>1,091,774</u>	<u>(586,058)</u>
Net Income	<u>\$ 1,158,785</u>	<u>\$ 1,192,393</u>	<u>\$ 731,279</u>	<u>\$ 3,377,847</u>	<u>\$ 4,131,065</u>
Net Income Per Common Share: Basic	<u>\$ 0.19</u>	<u>\$ 0.20</u>	<u>\$ 0.12</u>	<u>\$ 0.56</u>	<u>\$ 0.69</u>
Net Income Per Common Share: Diluted	<u>\$ 0.19</u>	<u>\$ 0.20</u>	<u>\$ 0.12</u>	<u>\$ 0.56</u>	<u>\$ 0.69</u>
Average Common Shares Outstanding: Basic	<u>6,006,470</u>	<u>5,975,634</u>	<u>6,007,152</u>	<u>6,001,259</u>	<u>5,965,288</u>
Average Common Shares Outstanding: Diluted	<u>6,049,508</u>	<u>6,008,349</u>	<u>6,049,956</u>	<u>6,041,321</u>	<u>5,990,513</u>