

SHORE BANCSHARES, INC.
Banking. Insurance. Investments.

2007 ANNUAL REPORT

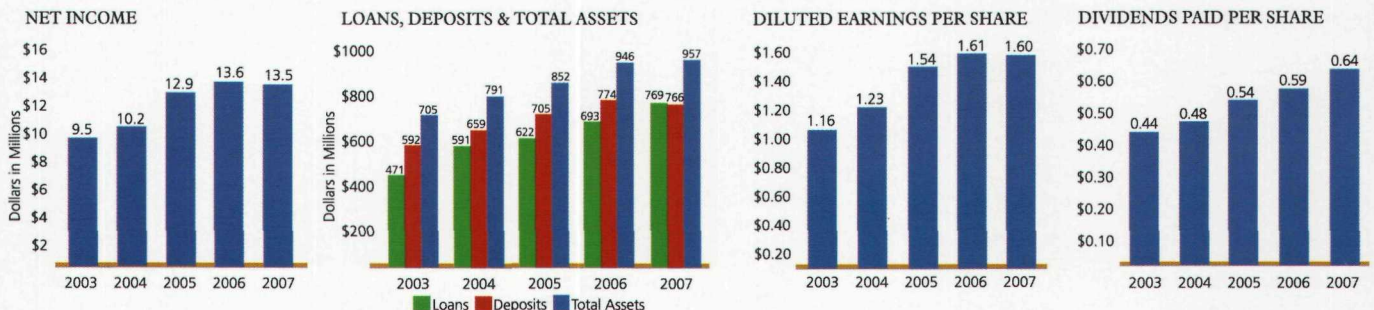
Filings Services
APR 18 2008
SNL Financial, LC
1-800-969-4121

SELECTED FINANCIAL DATA

(Dollars in thousands, except per share data)	Years Ended December 31,				
	2007	2006	2005	2004	2003
RESULTS OF OPERATIONS:					
Interest income	\$65,141	\$57,971	\$47,384	\$38,291	\$34,339
Interest expense	<u>24,105</u>	<u>19,074</u>	<u>11,899</u>	<u>9,010</u>	<u>9,743</u>
Net interest income	41,036	38,897	35,485	29,281	24,596
Provision for credit losses	<u>1,724</u>	<u>1,493</u>	<u>810</u>	<u>931</u>	<u>335</u>
Net interest income after provision for credit losses	39,312	37,404	34,675	28,350	24,261
Noninterest income	14,679	12,839	11,498	10,224	9,845
Noninterest expense	<u>32,539</u>	<u>28,535</u>	<u>25,431</u>	<u>22,535</u>	<u>19,344</u>
Income before income taxes	21,452	21,708	20,742	16,039	14,762
Income tax expense	<u>8,002</u>	<u>8,154</u>	<u>7,854</u>	<u>5,841</u>	<u>5,266</u>
<i>NET INCOME</i>	\$13,450	\$13,554	\$12,888	\$ 10,198	\$ 9,496
PER SHARE DATA:					
Net income – basic	\$1.61	\$1.62	\$1.55	\$1.24	\$1.18
Net income – diluted	1.60	1.61	1.54	1.23	1.16
Dividends paid	0.64	0.59	0.54	0.48	0.44
Book value (at year end)	14.35	13.28	12.17	11.24	10.31
Tangible book value (at year end) (1)	11.68	11.67	10.51	9.53	9.37
FINANCIAL CONDITION (at year end):					
Assets	\$956,911	\$945,649	\$851,638	\$790,598	\$705,379
Deposits	765,895	774,182	704,958	658,672	592,409
Total loans, net of unearned income and allowance for credit losses	768,799	693,419	622,227	590,766	470,895
Long-term debt	12,485	25,000	4,000	5,000	5,000
Stockholders' equity	120,235	111,327	101,448	92,976	83,527
PERFORMANCE RATIOS (for the year):					
Return on average assets	1.42 %	1.52%	1.51%	1.32 %	1.40%
Return on average stockholders' equity	11.79	12.66	13.20	11.17	11.70
Net interest margin	4.64	4.70	4.69	4.10	3.91
Efficiency ratio (2)	58.40	55.15	54.13	57.04	56.17
Dividend payout ratio	39.75	36.42	34.84	38.71	37.29
Average stockholders' equity to average total assets	12.04	11.98	11.86	11.79	11.96

(1) Total stockholders' equity, net of goodwill and other intangible assets, divided by the number of shares of common stock outstanding at year end.

(2) Noninterest expense as a percentage of total revenue (net interest income plus total noninterest income). Lower ratios indicate improved productivity.



LETTER TO STOCKHOLDERS

To Our Stockholders,

2007 was a good year for Shore Bancshares, Inc. As many financial institutions struggled with declining margins, deteriorating credit quality, a crippling national mortgage crisis and generally weak local and national economies; we were pleased to report very sound earnings and we continued to develop a very strong foundation to weather the challenges ahead in 2008.

As evidence of our financial **STRENGTH**, the Company continues to maintain a very strong capital position. Capital ratios are well in excess of regulatory minimums for each of our bank subsidiaries, and the Company overall. Although we will not rule out possibilities for capital deployment such as stock buybacks, we feel very comfortable with conserving our capital resources to permit execution of longer-term strategic initiatives focused on growing the organization organically and through acquisitions. We have emerged as a dominant force in community banking in the Delmarva marketplace, and we want to sustain and increase our momentum.

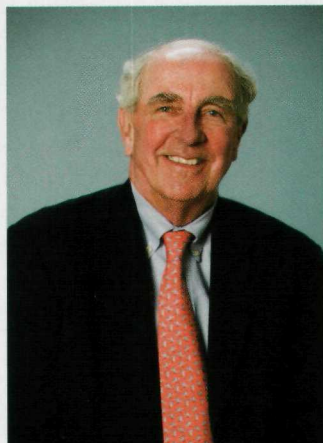
Net income for 2007 was \$13.45 million or diluted net income per share of \$1.60, compared to \$13.55 million or diluted net income per share of \$1.61 for 2006. Our return on average assets was 1.42% for 2007, compared to 1.52% for 2006, and return on stockholders' equity was 11.79% for 2007, compared to 12.66% for 2006. Our high capital levels have been a primary reason for the decline in our return on stockholders' equity.

The Company's total assets increased 1.2% to \$956.9 million at December 31, 2007 from \$945.6 million at December 31, 2006. We produced solid loan growth during 2007, as total loans grew by \$76.6 million from December 31, 2006 to December 31, 2007. This growth was funded primarily by utilization of liquid assets such as cash balances and maturing investment securities. Deposits at December 31, 2007 and 2006 totaled

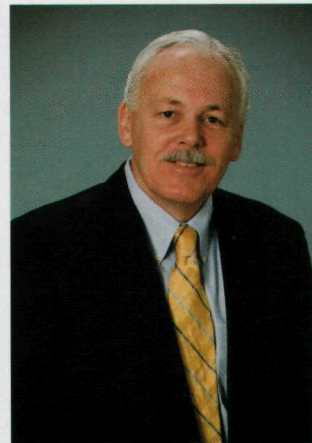
\$765.9 million and \$774.2 million, respectively. The decline was in large part due to a strategic decision by our banks to allow our highest cost deposits to run off while interest margins were under pressure during the second half of 2007. Nonetheless, the Company's net interest margin for 2007 held up well at 4.64% versus 4.70% for 2006, which is quite favorable in comparison to the overall industry.

The Company's nonperforming assets declined from \$8.1 million at December 31, 2006 to \$3.7 million at December 31, 2007. While our ratios are not at historic lows, we are very pleased with the levels of past due and nonperforming assets at year end. The overall level of the allowance for loan losses increased \$1.25 million to \$7.55 million, or 1.04% of average loans outstanding during 2007. We also took action in 2007 to further strengthen our underwriting standards and to enhance monitoring tools to ensure early identification of problem credits.

During 2007, we continued to focus on our core business activities: generating quality loans; attracting stable deposits; and producing a growing stream of fee-based revenue. In a time when we are inundated with bad news in the financial markets and within the banking industry, we think it is important to discuss a few things we have not done. We have not engaged in any sub-prime, alternative, or option lending activities through our banking subsidiaries or mortgage division. Our investment portfolios are concentrated in very high quality government-backed agency bonds and do not include higher risk types of investments. We do not intend to change this model in 2008.



W. Moorhead Vermilye
President and CEO



Christopher F. Spurry
Chairman of the Board

Our investment advisory and trust operations continued to experience steady growth in 2007. Our strategy of attracting high caliber experienced individuals and bringing a very high level of **KNOWLEDGE** to the program has been achieved in part through our partnerships with organizations like Brown Advisory and Trust. We expect the wealth management and trust portion of our business to continue growing in 2008 and well into the future.

In June 2007, we accomplished another goal that was critical to the future success of the Company and Centreville National Bank—filling the President and CEO position at Centreville National Bank by adding F. Winfield Trice, Jr. Prior to joining the Company and since 1997, Mr. Trice served as the Executive Vice President and Senior Lending Officer for Mercantile Peninsula Bank of Salisbury, Maryland. We are very pleased to have Win on board, and we are impressed with the progress he has made at



the Centreville National Bank during his seven months of service in 2007.

We are proud to offer the insurance products that complement our banking products and add **STABILITY** to the lives of our customers. Our insurance subsidiaries are ready to serve our very broad customer base, whether a customer's insurance needs involve individual property, liability, auto, luxury yacht, life or long-term care coverage, or commercial business coverage such as property and casualty, or group benefit plans.

During 2007, the insurance subsidiaries continued to deal with the challenges of a "soft" insurance market. Very strong new-business premium growth was largely offset by lower premium levels, a reduction in profit sharing from the companies we represent, and competition from other agencies. However, we believe that the level of new business growth and retention are such that our insurance operations will be positioned to produce at a higher profitability level for the Company when the market returns to its normal condition.

During the fourth quarter of 2007, we expanded our market **PRESENCE** through the acquisition of two new insurance entities: Jack Martin & Associates, Inc. and Tri-State General Insurance Agency, Inc. Jack Martin is a marine insurance agency located in Annapolis, Maryland. The addition of Jack Martin solidified and expanded an existing marine

insurance niche, and also extends our geographic market reach to beyond the Delmarva Peninsula. The addition of Tri-State, a wholesale insurance firm located in Salisbury, Maryland, expanded the southern boundaries of our geographic market. Both Jack Martin and Tri-State focus on market areas that are essentially contiguous to our existing markets and were logical additions to the organization.

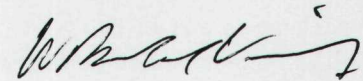
The Felton Bank expanded its Delaware presence with the opening of its third banking office in Camden during the first quarter of 2007. The new branch is located within the Camden Wal-Mart store and has enjoyed a very successful first year of operations.

Of note to investors is the upgrading of our stock exchange listing to The NASDAQ Global Select Market from The NASDAQ Global Market. We are the only financial services company headquartered on the Delmarva Peninsula that is listed on the Global Select Market. The Company's shares began trading under this new designation on January 1, 2008. The Global Select Market is NASDAQ's top tier, has the highest initial listing standards of any exchange in the world based on

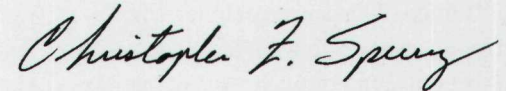
financial and liquidity requirements, and is home to about one-third of NASDAQ-listed companies. Moving to The Global Select Market reflects our continued growth and is significant for our stockholders because it should give us increased visibility and liquidity, especially with institutional investors.

The Board of Directors, management, and employees remain dedicated to the success of Shore Bancshares, Inc. As we work through what is sure to be a challenging environment in 2008, we remain enthusiastic and optimistic about our future.

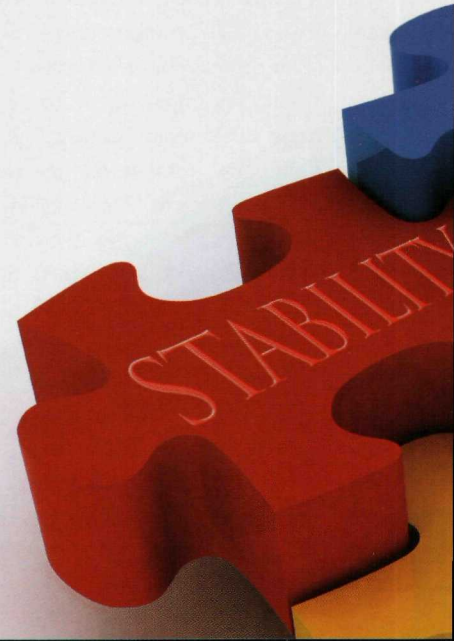
Sincerely,



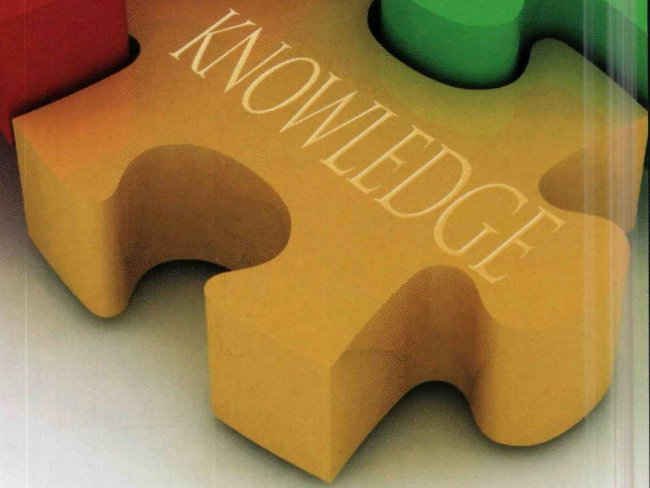
W. Moorhead Vermilye, President and CEO



Christopher F. Spurry, Chairman of the Board



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James M. Vermilye Senior Vice President, Trust Officer
Henry Brandt Vice President, Trust Officer

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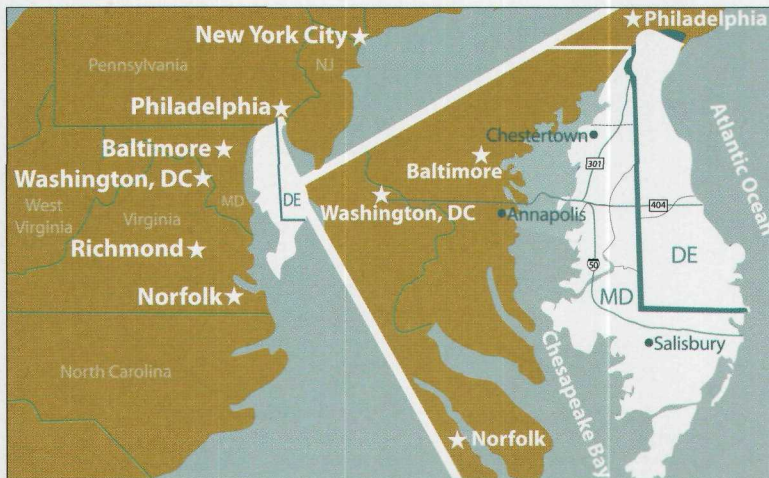
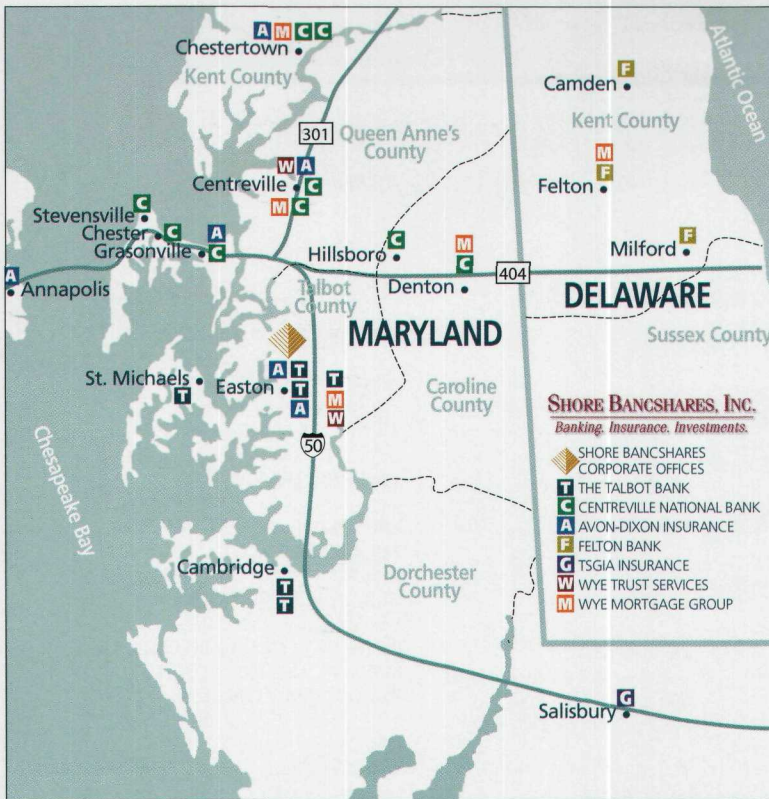
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Laurie Schnaitman Vice President

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Officers
Terry M. Mead CEO
Damon Hostetter Secretary/Treasurer

TRI-STATE GENERAL INSURANCE AGENCY, LTD.

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Edward A. Dickerson, III President
Lloyd L. Beatty, Jr. Vice President
Brenda Church Secretary/Treasurer



LOCATIONS

THE TALBOT BANK OF EASTON, MARYLAND

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Tred Avon Square Branch
212 Marlboro Avenue
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410/819-3015

St. Michaels Branch
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St. Michaels, MD 21663
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Elliott Road Branch
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Easton, MD 21601
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Sunburst Branch
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Cambridge, MD 21613
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410/228-8402

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Route 213 Branch
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410/758-2414

Chester Branch
300 Castle Marina Road
Chester, MD 21619
410/604-6270

Chestertown Branch
305 High Street
Chestertown, MD 21620
410/778-1299

Denton Branch
850 South 5th Avenue
Denton, MD 21629
410/820-4007

Grasonville Branch
202 Pullman Crossing
Grasonville, MD 21638
410/827-4636

Hillsboro Branch
21913 Shore Highway
Hillsboro, MD 21641
410/820-2121

Stevensville Branch
408 Thompson Creek Road
Stevensville, MD 21666
410/643-2233

Washington Square Branch
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Milford, DE 19963
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Camden Branch
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302/698-1432

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NASDAQ: SHBI

Shore Bancshares Family of Companies

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E-mail for investor inquiries: info@rtco.com

NASDAQ: SHBI