Shore Bancshares, Inc.

Banking. Insurance. Investments.

2008 ANNUAL REPORT

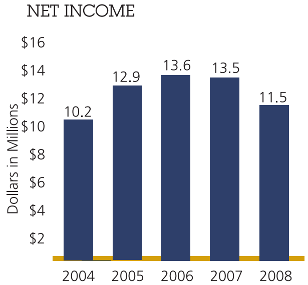
SELECTED FINANCIAL DATA

(Dollars in thousands, except per share data)	Years Ended December 31, **2008**	2007	2006	2005	2004
RESULTS OF OPERATIONS:					
Interest income	**$61,474**	65,141	$57,971	$47,384	$38,291
Interest expense	**21,555**	24,105	19,074	11,899	9,010
Net interest income	**39,919**	41,036	38,897	35,485	29,281
Provision for credit losses	**3,337**	1,724	1,493	810	931
Net interest income after provision for credit losses	**36,582**	39,312	37,404	34,675	28,350
Noninterest income	**20,350**	14,679	12,839	11,498	10,224
Noninterest expense	**38,370**	32,539	28,535	25,431	22,535
Income before income taxes	**18,562**	21,452	21,708	20,742	16,039
Income tax expense	**7,092**	8,002	8,154	7,854	5,841
NET INCOME	**$11,470**	*$13,450*	*$13,554*	*$12,888*	*$10,198*
PER SHARE DATA:					
Net income – basic	**$1.37**	$1.61	$1.62	$1.55	$1.24
Net income – diluted	**1.37**	1.60	1.61	1.54	1.23
Dividends paid	**0.64**	0.64	0.59	0.54	0.48
Book value (at year end)	**15.16**	14.35	13.28	12.17	11.24
Tangible book value (at year end) (1)	**12.55**	11.68	11.67	10.51	9.53
FINANCIAL CONDITION (at year end):					
Assets	**$1,044,641**	$956,911	$945,649	$851,638	$790,598
Deposits	**845,371**	765,895	774,182	704,958	658,672
Total loans, net of unearned income and allowance for credit losses	**879,208**	768,799	693,419	622,227	590,766
Long-term debt	**7,947**	12,485	25,000	4,000	5,000
Stockholders' equity	**127,385**	120,235	111,327	101,448	92,976
PERFORMANCE RATIOS (for the year):					
Return on average assets	**1.13%**	1.42%	1.52%	1.51%	1.32%
Return on average stockholders' equity	**9.22**	11.79	12.66	13.20	11.17
Net interest margin	**4.23**	4.64	4.70	4.69	4.10
Efficiency ratio (2)	**63.66**	58.40	55.15	54.13	57.04
Dividend payout ratio	**46.72**	39.75	36.42	34.84	38.71
Average stockholders' equity to average total assets	**12.30**	12.04	11.98	11.86	11.79

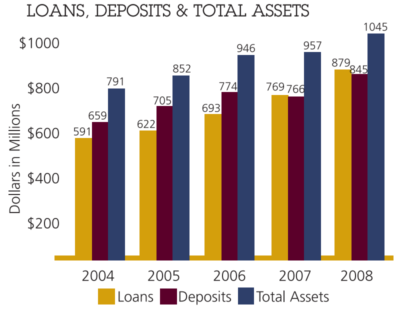
(1) Total stockholders' equity, net of goodwill and other intangible assets, divided by the number of shares of common stock outstanding at year end.

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

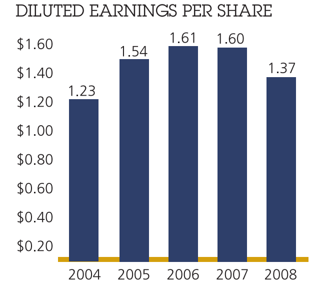
NET INCOME



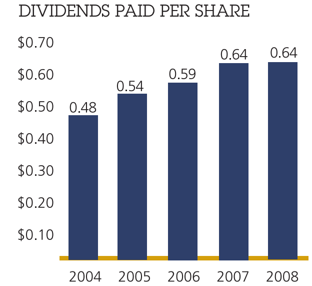
LOANS, DEPOSITS & TOTAL ASSETS



DILUTED EARNINGS PER SHARE



DIVIDENDS PAID PER SHARE



LETTER TO STOCKHOLDERS

W. Moorhead Vermilye
President and CEO

Christopher F. Spurry
Chairman of the Board

To our shareholders,

After a year when our industry experienced the most significant challenges we can remember, we are confident that when the final results for community banks are all reported we will have once again outperformed our peer group in terms of the meaningful measures of financial performance, credit quality, and stability.

Performance

Net income for 2008 was $11.47 million or diluted net income per share of $1.37 compared to $13.45 million or diluted net income per share of $1.60 for 2007. Our return on average assets was 1.13% for 2008 compared to 1.42% for 2007, and return on stockholders' equity was 9.22% for 2008 compared to 11.79% for 2007.

Our total assets expanded by 9.2% to $1.045 billion at December 31, 2008 compared to $956.9 million at December 31, 2007. The Company produced solid loan growth during 2008, increasing total loans by $112.2 million from December 31, 2007 to December 31, 2008. This growth was funded primarily by organic deposit growth of $79.5 million. Deposits at December 31, 2008 and 2007 totaled $845.4 million and $765.9 million, respectively. The Company experienced solid growth in Certificates of Deposit as investors sought FDIC insured deposits and the raised limit for FDIC insurance coverage from $100,000 to $250,000 came into play. In addition to the inflows of new deposits to the Company, customers shifted from money market and savings deposits into Certificates of Deposit in order to achieve higher yields. This shifting of deposits coupled with declining rates throughout the year had a negative impact on the Company's net interest margin which was 4.23% for 2008, compared to 4.64% for 2007; still a very strong margin in comparison to the overall industry. The Company's nonperforming assets increased from $3.7 million at December 31, 2007 to $8.3 million at December 31, 2008. This amount is not a large number when compared to the value of our loan portfolio, but the 124% increase over last year is nonetheless indicative of the deteriorating economy and real estate environment. Our nonaccrual loans are primarily secured by real estate; the losses anticipated for those loans were considered in determining the 2008 provision for credit losses. During the fourth quarter, the Company recorded a provision for credit losses of $1.4 million, bringing the total provision for the year to $3.3 million. The overall level of the allowance for credit losses increased $1.8 million to $9.3 million or 1.11% of average loans outstanding during 2008.

Community Banking

In the Company's banking division during 2008, our focus remained on overall credit quality, strong underwriting of new loans, and an intense focus on core deposit growth. We believe these core banking values contributed to the overall success of the Company in 2008. We have a solid reputation as the consumer and small business bank of choice for local customers across Delmarva. Despite the ongoing recession, we have never diminished our lending or the provision of basic banking services that are intrinsic to the growth and economic vitality of our communities.

Many of the larger banks now operating in our markets have either reduced resources allocated to this area, or are merely maintaining legacy networks from old acquisitions. We believe that only our banks have the local talent, local decision-making capability, and local scale to meet the current needs – and grow over time, in step with both the Delmarva business community and its individual residents. We have assembled the full spectrum of banking services and specialty financial products needed to support these relationships.

Of note, The Talbot Bank recently opened a branch operation in Tilghman, Maryland in a location that was closed by PNC Bank earlier in 2008. This was a logical and well-received service oriented decision that should benefit our large customer base in the area.

Wye Financial & Trust continued to experience steady growth in 2008. We expect this important fee-generating portion of our business to continue to expand in 2009 and well into the future, as we refine our efforts to cross-sell new products to existing customers and to promote to all customers the value of consolidating their business under one roof.

should be completed and fully implemented during the second quarter of 2009, and the Company expects to see overall cost savings following the conversion.

Insurance

In our Insurance division, the challenges of a "soft" insurance market continued in 2008, whereby the very strong new business premium growth has been largely offset by lower premium levels, a reduction in profit sharing from companies, and ongoing competition from other agencies. The acquisitions of Jack Martin & Associates and Tri-State General Insurance Agency in 2007 contributed this past year to an overall commission income growth of $4.4 million or 57.1% when compared to 2007. Total insurance agency commission income reached $12.1 million in 2008. Customer retention and new business growth were the focus in 2008, and we believe we have been successful in those initiatives, such that the insurance division will be positioned to produce at higher levels of profitability for the Company when the market returns to a more normal condition.

Strategic Growth Initiatives …and Challenges

During 2008, the Company began the process of selecting a new core processing vendor. This national vendor selection revolved around a comprehensive overarching goal to replace and upgrade the majority of our banking systems and many of the ancillary systems relating to financial reporting, record archives and retrieval, and automation of compliance monitoring systems. Throughout the process, we evaluated technology needs and focused acutely on automation efficiencies. The project should be completed and fully implemented during the second quarter of 2009, and the Company expects to see overall cost savings following the conversion.

On January 9, 2009, in consideration of $25 million, the Company issued 25,000 shares of fixed rate cumulative preferred stock and a warrant to purchase 172,970 shares of common stock of the Company pursuant to the U.S. Department of Treasury's TARP Capital Purchase Program. Our decision to participate in the program was based on liquidity needs in fulfilling the steady loan demand in our local markets that was not being met by the larger regional and national banks. Recent legislative changes have significantly altered this program , and we are studying these changes to determine whether they have reduced the program's value to strong banks such as ours. However, a favorable change to the program will enable us to repay the government's investment without any restriction other than obtaining regulatory approvals. We are currently evaluating our continued participation in the program.

One of our key challenges in 2009 will be offsetting the increased cost of our FDIC Insurance. During the first quarter of 2009 all financial institutions will experience a uniform 7-basis-point increase to the basic insurance assessment rates that we must pay. Effective April 1, our 2009 FDIC insurance premiums will be set on risk-based criteria, which include additional assessments for unsecured debt, secured liabilities, and brokered deposits. The impact of the increase, plus possible further special assessments from the FDIC, will be a significant drag on Company earnings and the earnings of the banking industry in 2009.

Closing thoughts

In a time when the media is full of negative news about our industry, the economy, and the uncertain future, we are pleased to have delivered a profitable year, robust loan growth, stable credit quality, improved market share, a strong balance sheet, and the addition of selected new and experienced talent to our organization. As a full-service financial institution with superior branch coverage and market share in those Delmarva counties with the best demographics and growth characteristics, we believe we are uniquely positioned to consistently outperform our local peers and many of the best community banks across the country.

The Board of Directors, management team, and employees of Shore Bancshares, Inc, remain dedicated to the success of the Company. We are as well-equipped to tackle the future and as enthusiastic as we have ever been, albeit with a bit more caution and the expectation that economic uncertainty will persist for the foreseeable time horizon.

Thank you for your continued support.

Sincerely,

W. Moorhead Vermilye, President and CEO

Christopher F. Spurry, Chairman of the Board

2008 SHORE BANCSHARES, INC. BOARD OF DIRECTORS

Seated, left to right: Blenda W. Armistead, Mark M. Freestate

Standing, left to right: Christopher F. Spurry; Paul M. Bowman; W. Moorhead Vermilye; F. Winfield Trice, Jr.; Lloyd L. "Scott" Beatty, Jr.

On the stage, left to right: Thomas H. Evans; Jerry F. Pierson; William W. "Buck" Duncan; W. Edwin Kee, Jr.; Richard C. Granville; Herbert L. Andrew, III; Neil R. LeCompte

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Attorney, Law Office of Paul M. Bowman

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Dianne L. Webb	Vice President

WYE MORTGAGE GROUP, LLC

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Rick Rider	President

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Lloyd L. "Scott" Beatty, Jr.	Vice President
Brenda Dickerson	Secretary/Treasurer

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A DIVISION OF THE CENTREVILLE NATIONAL BANK OF MARYLAND

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Elizabeth Spurry	Senior Vice President, Business Development
James M. Vermilye	Senior Vice President, Trust Officer
Richard B. Grieves	Vice President

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Camden Branch
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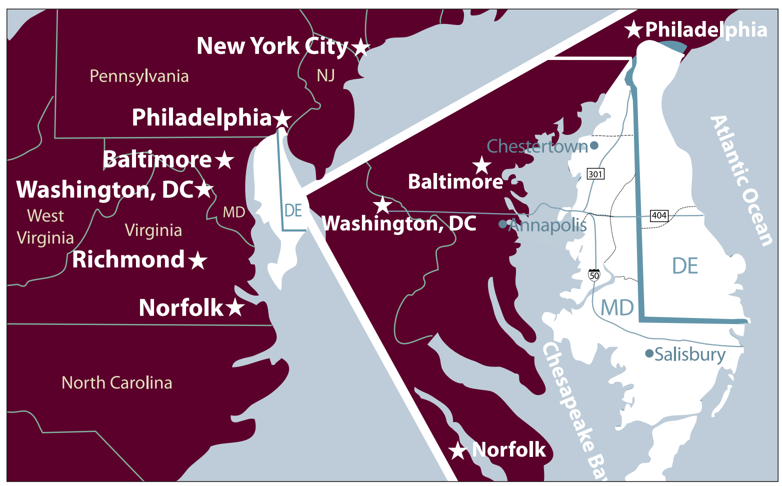

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