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Presence. Stability. Strength. Knowledge.

SHORE BANCSHARES, INC.

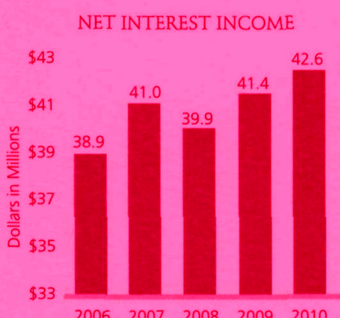
Banking. Insurance. Investments.

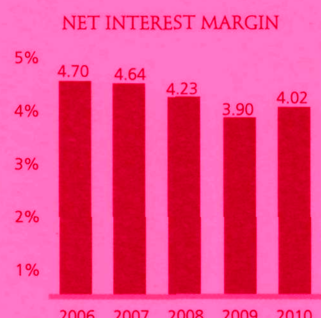
2010 ANNUAL REPORT

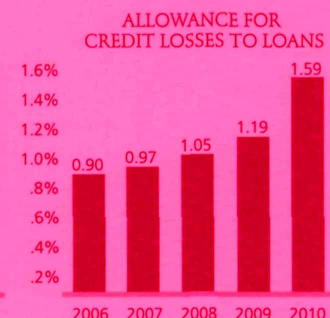
SELECTED FINANCIAL DATA

(Dollars in thousands, except per share data)	2010	2009	2008	2007	2006
		Years Ended December 31,			
RESULTS OF OPERATIONS:					
Interest income	**$55,461**	$58,789	$61,474	$65,141	$57,971
Interest expense	**12,822**	17,411	21,555	24,105	19,074
Net interest income	**42,639**	41,378	39,919	41,036	38,897
Provision for credit losses	**21,119**	8,986	3,337	1,724	1,493
Net interest income after provision for credit losses	**21,520**	32,392	36,582	39,312	37,404
Noninterest income	**18,041**	19,541	20,350	14,679	12,839
Noninterest expense	**41,720**	40,248	38,370	32,539	28,535
(Loss) income before income taxes	**(2,159)**	11,685	18,562	21,452	21,708
Income tax (benefit) expense	**(492)**	4,412	7,092	8,002	8,154
Net (loss) income	**(1,667)**	7,273	11,470	13,450	13,554
Preferred stock dividends and discount accretion	**—**	1,876	—	—	—
Net (loss) income available to common shareholders	**$(1,667)**	$5,397	$11,470	$13,450	$13,554
PER COMMON SHARE DATA:					
Net income – basic	**$(0.20)**	$0.64	$1.37	$1.61	$1.62
Net income – diluted	**$(0.20)**	0.64	1.37	1.60	1.61
Dividends paid	**0.24**	0.64	0.64	0.64	0.59
Book value (at year end)	**14.51**	15.18	15.16	14.35	13.28
Tangible book value (at year end)[1]	**12.32**	12.64	12.55	11.68	11.67
FINANCIAL CONDITION (at year end):					
Loans	**$ 895,404**	$ 916,557	$ 888,528	$776,350	$699,719
Assets	**1,130,311**	1,156,516	1,044,641	956,911	945,649
Deposits	**979,516**	990,937	845,371	765,895	774,182
Long-term debt	**932**	1,429	7,947	12,485	25,000
Stockholders' equity	**122,513**	127,810	127,385	120,235	111,327
PERFORMANCE RATIOS (for the year):					
Return on average total assets	**(0.15) %**	0.48 %	1.13 %	1.42%	1.52 %
Return on average stockholders' equity	**(1.33)**	4.00	9.22	11.79	12.66
Net interest margin	**4.02**	3.90	4.23	4.64	4.70
Efficiency ratio[2]	**68.75**	66.07	63.66	58.40	55.15
Dividend payout ratio	**(120.00)**	100.00	46.72	39.75	36.42
Average stockholders' equity to average total assets	**11.05**	11.96	12.30	12.04	11.98

[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,

Our primary focus during 2010 was on managing credit quality in the most prolonged difficult operating environment any of us have seen during our banking careers. The recession, which began to materially impact our performance in the second half of 2009, continued unabated across our markets throughout the past year, resulting in unfavorable increases in our loan losses and an overall net loss for the Company.

The Board of Directors and the management team remained determined and consistent in allocating the correct resources to identify what we believe should be substantially all of our potential problem credits, and to engage in loan workout solutions that should eventually enable favorable resolution or disposal of these troubled loans.

The majority of our commercial loans are real estate related. Either the underlying collateral or the ultimate purpose behind these loans is and always has been the dominant driver of the lending business for Delmarva-based banking companies. As property values and real estate sales have declined markedly over the past eighteen months across the Delmarva Peninsula, a wide range of related businesses – such as developers, brokers, construction trades, title companies, etc. – have slowed to a virtual standstill. Clearly, these circumstances are the root cause of our current credit quality issues.

That said, the Delmarva markets in which we are the dominant banking institution still display above-average demographics, outpacing both the State of Maryland and the nation in terms of per capita income and other salient benchmarks. Hundreds of miles of Chesapeake Bay waterfront and open space throughout our valuable footprint are combined with the easy proximity of our geography to the major metro areas of Norfolk, Washington, Baltimore, Annapolis, Wilmington, Philadelphia and New York. We believe that when this unprecedented cycle breaks, we will see timely resolution of our current credit problems along with much improved balance sheet and income statement metrics.

In the meantime, we are confident we have the staff talent, the patience, and the foresight to judiciously manage our way through the coming quarters to minimize further credit losses while moving existing problem loans through the resolution pipeline as rapidly as possible. Our capital levels remain solid. Our reputation continues to be quite strong. In terms of customer preference we are the leading banking company in our area and employees regard us as the employer of choice. Our franchise has huge intrinsic value.

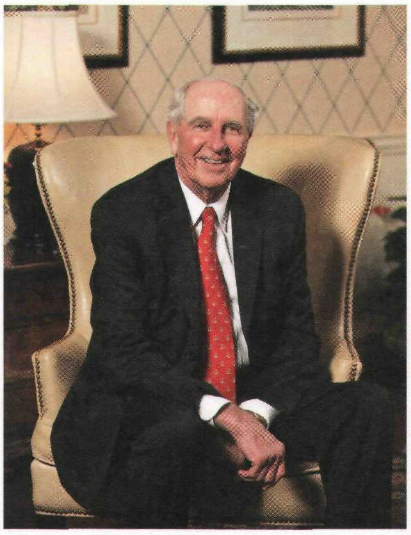
Financial Highlights

The Company reported a net loss of $1.7 million for 2010 compared to net income of $5.4 million in 2009. Diluted net loss per share was $0.20 for the year ended December 31, 2010 compared to diluted net income per share of $0.64 for 2009. The 2010 results were significantly impacted by a $21.1 million provision for credit losses, an increase of $12.1 million over 2009, and a goodwill and other intangible assets impairment charge of $3.1 million, of which approximately half is attributable to the 2004 acquisition of Felton Bank and the other half is attributable to our 2007 purchase of TSGIA, Inc., a wholesale insurance operation. Our return on average assets was (0.15)% and return on average stockholders' equity was (1.33)% compared to 0.48% and 4.00%, respectively, for 2009.

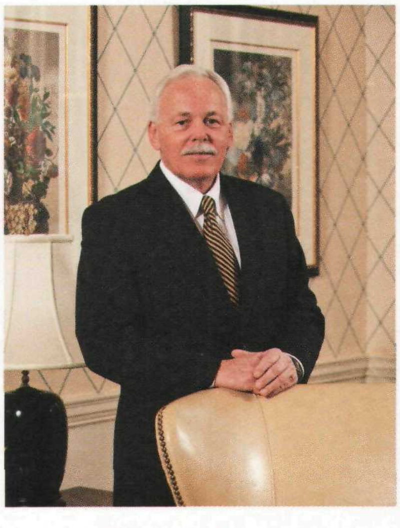
On a positive note, it is important to point out that despite continued high levels of provisioning for credit losses, the Company earned a profit during the second and fourth quarters of 2010; and the Company would have been profitable in the third quarter had it not been for the goodwill and other intangible assets impairment charge. This clearly validates the strength and soundness of our core business activities—accumulating deposits, originating profitable loans and generating fees from trust, investment, insurance and mortgage banking activities. Our core businesses are operating as expected and very satisfactorily considering the external operating conditions. This is why we currently are, and should remain, the dominant Delmarva financial institution.

Net interest income reached its peak for the year during the fourth quarter, totaling $10.9 million. Net interest income for the year increased 3% to $42.6 million when compared to 2009. The improvement was a result of lower interest expense and resulted in a net interest margin of 4.02% compared to 3.90% for 2009. In these turbulent times, we believe our greater than 4% net interest margin compares very favorably with our mid-Atlantic peers, as well as the larger universe of community banks our size.

Excluding the goodwill and other intangible assets impairment charge, the Company was able to reduce noninterest expenses by $1.6 million, primarily due to reduced salaries and benefits costs of $1.8 million. Increased collection expense and write-downs of other real estate owned properties offset a portion of the expense reductions. We want you to know that Management is working diligently to control spending during this period of reduced earnings.



W. Moorhead Vermilye
Chief Executive Officer



Christopher F. Spurry
Chairman of the Board

Total assets were $1.130 billion at December 31, 2010, a decline of 2.3% when compared to December 31, 2009. The overall asset decline was primarily a result of a lower level of total loans (down $21.2 million) due to charge-offs. Total deposits also declined (down $11.4 million), primarily in the interest-bearing deposit categories, as many rates were reduced to reflect current market conditions and liquidity needs of the Company.

Credit Quality

As previously explained, during 2010, the local economy and real estate markets continued to underperform, putting pressure on the Company's loan portfolio in a variety of ways. For instance, borrowers operating in the housing or real estate sectors of the local economy simply ran out of resources to service loans due to the lack of demand for their products and services. In addition, other borrowers who needed to liquidate real estate collateral often found no buyers, even at reduced prices, leading to eventual default on their loans and in some cases foreclosures. These conditions, which have been increasing in intensity over the last two years, obviously caused significant loan losses for our Company in 2010 and, in turn, forced us to increase the overall level of the allowance for credit losses and to accelerate the charge off of substantial unpaid loans.

The provision for credit losses in 2010 totaled $21.1 million compared to $9.0 million in 2009. The Company charged off $18.5 million in loan balances, $14.2 million in real estate secured loans, $3.7 million in non real estate secured commercial loans and $589 thousand in consumer loans. As a result of this activity and approximately $751 thousand in recoveries, the Company's allowance for credit losses totaled $14.2 million or 1.59% of total loans at December 31, 2010.

Nonperforming assets, including loans 90 days or more past due and still accruing, at December 31, 2010 totaled $44.6 million or 3.95% of total assets, compared to $41.6 million or 3.67% at September 30, 2010 and $26.3 million or 2.27% at December 31, 2009. The Company had other real estate owned of $3.7 million at December 31, 2010 compared to $1.5 million at September 30, 2010 and $2.6 million at December 31, 2009. While we are not pleased by the trend, we are encouraged by the number of sales and restructures we have been able to accomplish thus far, and we expect to work diligently to ramp up efforts to resolve even more of these troubled credits in 2011.

Capital Position

Our capital position remains strong as we look toward 2011. The action we took in 2010 to reduce the dividend from $0.16 to $0.06 per quarter was necessary to ensure that our capital ratios remained at levels sufficient to meet the risk profile of the Company as well as the expectations of the various regulators. The dividend reduction was a very difficult decision for the Board of Directors, but one we felt was both prudent and necessary given the operating environment we are facing.

Strategic Initiatives

Effective January 1, 2011, The Felton Bank was merged into CNB (formerly The Centreville National Bank of Maryland). Receiving regulatory approval to merge the two banks was an important strategic initiative we accomplished in 2010. This merger should allow us to leverage the strength of CNB in growing our Delaware franchise in the future. Increasingly burdensome regulatory issues made it impractical to operate the Felton Bank as a stand-alone institution with its $81 million in total assets. CNB's contiguous market area made the incorporation of Felton's three branches a logical and natural fit.

One of our primary objectives is to grow our business via expanding the scope and profitability of customer relationships with new "touch points" that interconnect people and businesses to our organization in different ways. We offer a comprehensive suite of insurance services and products, wealth management, trust, mortgage banking, and all of the mainstay consumer and commercial services expected by our banking customers. We have recently invested heavily in state-of-the-art information technology and data processing systems to upgrade the principal operating platform that we outgrew in 2009, and we are quite confident that we now have the capacity to support strategies for future growth.

Strategically, we continue to look to acquire banking and insurance operations on the Delmarva Peninsula that will expand our footprint and result in enhanced stockholder value. We anticipate that as the business cycle persists, there could be worthwhile opportunities to evaluate.

Looking on to 2011

It appears that 2011 will begin as 2010 ended. We anticipate facing continued credit quality issues and earnings pressure. Asset quality management and loan workouts will surely remain top priorities. Beyond that, we will continue to manage the Company for capital adequacy, modest growth, a proper net interest margin, and reduced costs—all of which, if executed properly, should produce positive stockholder returns. We want to thank our loyal stockholders for their continued confidence in our management team and the future of the Company.

Sincerely,

W. Moorhead Vermilye, Chief Executive Officer

Christopher F. Spurry, Chairman of the Board

The Board of Directors was pleased to announce that effective January 1, 2011 ***Lloyd L. "Scott" Beatty, Jr.*** *was promoted to President and Chief Operating Officer of the Company. This was an important strategic succession plan initiative that we are pleased to have accomplished. Scott's understanding of our Company, customers and market were key factors in the decision of the board to appoint him to this position. We know Scott will continue to be effective in his new role as President.*

LOCATIONS

SHORE BANCSHARES, INC.

Executive Office
18 East Dover Street
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Headquarters
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Phone (410) 763-7800

www.shbi.com

BANKING

THE TALBOT BANK OF EASTON, MARYLAND

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Easton, MD 21601
(410) 822-1400
(800) 673-8258

Tred Avon Square Branch
212 Marlboro Avenue
Easton, MD 21601
(410) 819-3015

St. Michaels Branch
1013 S. Talbot Street
St. Michaels, MD 21663
(410) 745-9166

Elliott Road Branch
8275 Elliott Road
Easton, MD 21601
(410) 819-0181

Sunburst Branch
424 Dorchester Avenue
Cambridge, MD 21613
(410) 228-8402

Tilghman Branch
5804 Tilghman Island Road
Tilghman, MD 21671
(410) 886-9802

Trappe Branch
29349 Maple Avenue, Suite 1
Trappe, MD 21673
(410) 476-3181

CNB

Maryland Branches

Main Office
109 N. Commerce Street
Centreville, MD 21617
(410) 758-1600
(877) 758-1600

Route 213 Branch
2609 Centreville Road
Centreville, MD 21617
(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

Tuckahoe Branch
22151 Wes Street
Ridgely, MD 21660
(410) 820-2121

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

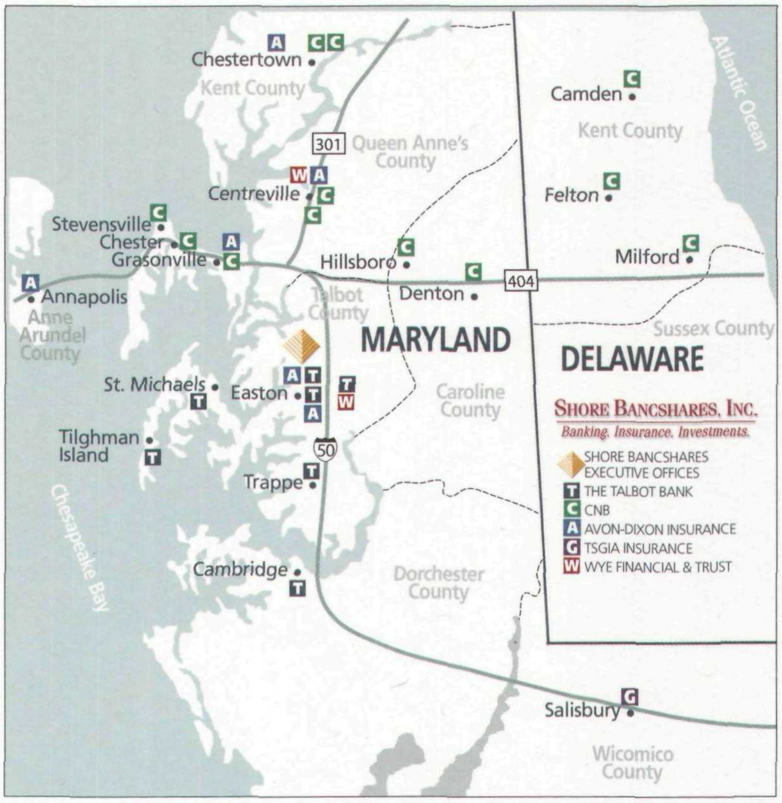
Washington Square Branch
899 Washington Avenue
Chestertown, MD 21620
(410) 810-0591

Delaware Branches

Felton Branch
120 W. Main Street
Felton, DE 19943
(302) 284-4600
(800) 989-4383

Milford Branch
698A N. DuPont Blvd.
Milford, DE 19963
(302) 424-4600

Camden Branch
263 Wal-Mart Drive
Camden, DE 19934
(302) 698-1432



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Chestertown, MD 21620
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Grasonville, MD 21638
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Centreville, MD 21617
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NASDAQ: SHBI
(410) 763-7800

BOARDS OF DIRECTORS

BANKING

THE TALBOT BANK OF EASTON, MARYLAND

HERBERT L. ANDREW, III, *Chairman*
BLENDA W. ARMISTEAD
LLOYD L. "SCOTT" BEATTY, JR.
JOHN W. DILLON
WILLIAM W. "BUCK" DUNCAN
DUANE F. MARSHALL
JEROME M. McCONNELL
DAVID L. PYLES
STEPHEN M. SHEARER
CHRISTOPHER F. SPURRY
DAVID P. VALLIANT
W. MOORHEAD VERMILYE

Officers

William W. "Buck" Duncan	*President and CEO*
Jerome M. McConnell	*Executive Vice President and SLO*
Susan E. Leaverton	*Vice President and CFO*
Laura P. Heikes	*Vice President and Senior Operations and Compliance Officer*

CNB

ANN B. COLLIER
MARK M. FREESTATE
THOMAS K. HELFENBEIN, *Chairman*
JAMES A. JUDGE
CLYDE V. KELLY, III
NEIL R. LeCOMPTE
DAVID W. MOORE
JERRY F. PIERSON
WM. MAURICE SANGER
WM. E. SYLVESTER, JR.
JEFFREY E. THOMPSON
F. WINFIELD TRICE, JR.
MARY ELLEN VALLIANT

Officers

F. Winfield Trice, Jr.	*President and CEO*
Thomas E. Beery	*Senior Vice President and SLO*
Charles E. Ruch, Jr.	*Senior Vice President and SCO*
Charles T. DeBilio	*Vice President/Affiliate CFO*

INSURANCE

THE AVON-DIXON AGENCY, LLC

LLOYD L. "SCOTT" BEATTY, JR.
LEONARD "JAY" DAYTON, JR.
JAMES DEERIN, JR.
MARK M. FREESTATE
DIANA H. JOHNSON
WILLIAM L. LANE, JR., CHAIRMAN
DAVID C. LEE
EDWARD "NED" McDONALD
TERRY M. MEAD
JOHN H. WILSON

Officers

Terry M. Mead	*Chief Executive Officer*

ELLIOTT WILSON INSURANCE, LLC

EDWARD "NED" McDONALD
TERRY M. MEAD
ERIKA S. WILSON

Officers

Terry M. Mead	*Chief Executive Officer*

JACK MARTIN & ASSOCIATES, INC.

Officers

Terry M. Mead	*Chief Executive Officer*

TRI-STATE GENERAL INSURANCE AGENCY, LTD.

Officers

Edward A. Dickerson, III	*President*
Lloyd L. "Scott" Beatty, Jr.	*Secretary, President and COO, Shore Bancshares*
Brenda Dickerson	*Treasurer, Executive Vice President*

INVESTMENTS

WYE FINANCIAL & TRUST
A DIVISION OF CNB

Officers

Elizabeth Spurry	*Senior Vice President, Business Development*
James M. Vermilye	*Senior Vice President, Trust Officer*

2010 SHORE BANCSHARES, INC. OFFICERS

W. Moorhead Vermilye, *Chief Executive Officer*
Lloyd L. "Scott" Beatty, Jr., *President and COO*
Susan E. Leaverton, *Treasurer and CFO*
W. David Morse, *Secretary*
Andrea G. Bayline, *Vice President, Internal Audit*
Timothy J. Berrigan, *Vice President and CIO*
Pamela J. Councell, *Vice President and CHRO*
Laurie H. Yorkilous, *Director of Marketing*

Seated, left to right:
Jerry F. Pierson, James A. Judge, W. Moorhead Vermilye, Lloyd L. "Scott" Beatty, William W. "Buck" Duncan

Standing, left to right:
F. Winfield Trice, Jr., Blenda W. Armistead, Christopher F. Spurry, Neil R. LeCompte, Herbert L. Andrew, III, John H. Wilson

2010 SHORE BANCSHARES, INC. BOARD OF DIRECTORS

Photo: The Rose Room in the Historic Tidewater Inn, Easton, Maryland

HERBERT L. ANDREW, III, *Farmer*
BLENDA W. ARMISTEAD, *Investor*
LLOYD L. "SCOTT" BEATTY, JR., *President and COO, Shore Bancshares, Inc.*
WILLIAM W. "BUCK" DUNCAN, *President and CEO, The Talbot Bank of Easton, Maryland*
JAMES A. JUDGE, *Certified Public Accountant, Anthony, Judge & Ware, LLC*
NEIL R. LeCOMPTE, *Certified Public Accountant, Office of Neil R. LeCompte*
JERRY F. PIERSON, *President, Jerry F. Pierson, Inc.*
CHRISTOPHER F. SPURRY, *Chairman, President, Spurry and Associates, Inc.*
F. WINFIELD TRICE, JR., *President and CEO, CNB*
W. MOORHEAD VERMILYE, *Chief Executive Officer, Shore Bancshares, Inc.*
JOHN H. WILSON, *President, Coastal South of MD, Inc.*

SHORE BANCSHARES, INC.

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