Shore Bancshares Family of Companies

Strong Together

Shore Bancshares, Inc.

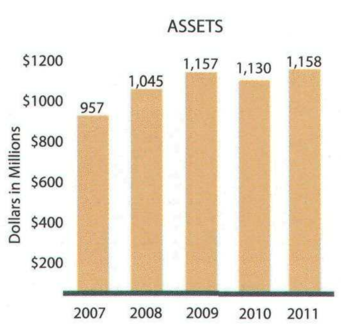
Banking. Insurance. Investments. Community.

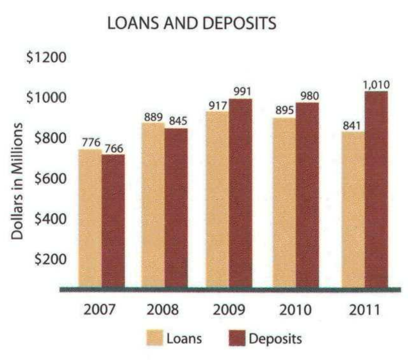
2011 Annual Report

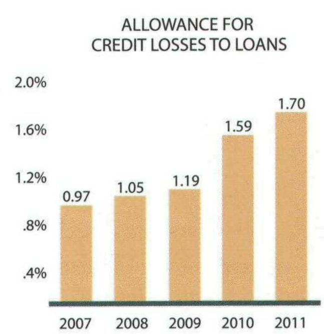
SELECTED FINANCIAL DATA

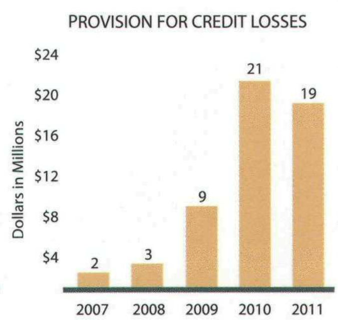
(Dollars in thousands, except per share data)	**2011**	2010	2009	2008	2007
	Years Ended December 31,				
RESULTS OF OPERATIONS:					
Interest income	**$50,852**	$55,461	$58,789	$61,474	$65,141
Interest expense	**11,088**	12,822	17,411	21,555	24,105
Net interest income	**39,764**	42,639	41,378	39,919	41,036
Provision for credit losses	**19,470**	21,119	8,986	3,337	1,724
Net interest income after provision for credit losses	**20,294**	21,520	32,392	36,582	39,312
Noninterest income	**17,318**	18,041	19,541	20,350	14,679
Noninterest expense	**39,167**	41,720	40,248	38,370	32,539
(Loss) income before income taxes	**(1,555)**	(2,159)	11,685	18,562	21,452
Income tax (benefit) expense	**(658)**	(492)	4,412	7,092	8,002
Net (loss) income	**(897)**	(1,667)	7,273	11,470	13,450
Preferred stock dividends and discount accretion	**—**	—	1,876	—	—
Net (loss) income available to common shareholders	**$(897)**	$(1,667)	$5,397	$11,470	$13,450
PER COMMON SHARE DATA:					
Net (loss) income – basic	**$(0.11)**	$(0.20)	$0.64	$1.37	$1.61
Net (loss) income – diluted	**(0.11)**	(0.20)	0.64	1.37	1.60
Dividends paid	**0.09**	0.24	0.64	0.64	0.64
Book value (at year end)	**14.34**	14.51	15.18	15.16	14.35
Tangible book value (at year end)[1]	**12.37**	12.32	12.64	12.55	11.68
FINANCIAL CONDITION (at year end):					
Loans	**$ 841,050**	$ 895,404	$ 916,557	$ 888,528	$776,350
Assets	**1,158,193**	1,130,311	1,156,516	1,044,641	956,911
Deposits	**1,009,919**	979,516	990,937	845,371	765,895
Long-term debt	**455**	932	1,429	7,947	12,485
Stockholders' equity	**121,249**	122,513	127,810	127,385	120,235
PERFORMANCE RATIOS (for the year):					
Return on average total assets	**(0.08)%**	(0.15)%	0.48%	1.13%	1.42%
Return on average stockholders' equity	**(0.74)**	(1.33)	4.00	9.22	11.79
Net interest margin	**3.74**	4.02	3.90	4.23	4.64
Efficiency ratio[2]	**68.35**	68.75	66.07	63.66	58.40
Dividend payout ratio	**(81.82)**	(120.00)	100.00	46.72	39.75
Average stockholders' equity to average total assets	**10.66**	11.05	11.96	12.30	12.04

[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,

Although our results for 2011 improved over 2010, we experienced a second consecutive year in which we incurred a net loss as the depressed state of Delmarva's real estate driven economy remained largely unchanged. It is both disappointing and frustrating for the Board and our Management team to quantify this year's "improvement" in terms of merely halving the net loss that we posted a year earlier.

Even though the tough external operating environment continued to produce a myriad of challenges that were not within our power to control, we can confidently report that all of our people and resources were diligently focused on those fundamental issues where we could make a direct impact, such as improving credit quality, conserving our strong capital position, adding new talent, growing deposit market share, and controlling expenses. First and foremost, we continued to address a variety of credit quality issues during 2011. We consistently reviewed existing credits in our loan portfolios, looking for early warning signs of potential problems. This is a critical ongoing process. Many of our longtime relationships are with real estate developers with very resilient track records, but in this unprecedented period of depressed property values and real estate sales, the landscape has changed materially. Where there has been deterioration, we are aggressively pursuing workout strategies with borrowers experiencing financial difficulties. Despite these efforts, charge-offs reached an all time high of $20.6 million, compared to $18.5 in 2010, as we made tough decisions to move problem credits through the resolution pipeline and ultimately remove them from our balance sheet.

During the year, the balance of our loan portfolio declined by $54.4 million, while nonaccrual loans increased $15.1 million, putting negative pressure on our net interest margin. The decline in our loan portfolio was a direct result of the competition among community and regional banks for quality loans, which remains intense and largely rate driven. Customers are often looking to lock in longer-term fixed-rate loans that are not typically offered by community banks, and are, therefore, seeking out larger regional institutions for these low-margin transactions.

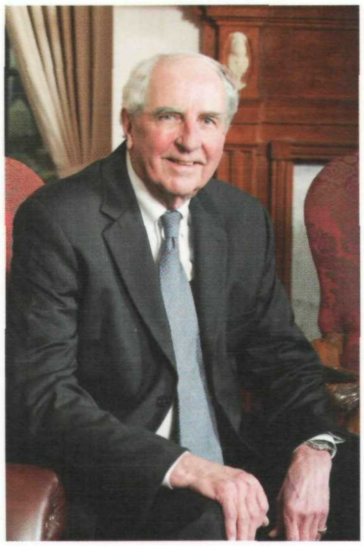
Conversely, deposits remained plentiful, as large depositors continued to seek the safety of expanded FDIC insurance, and retail customers continued to recognize the convenience of our branch network, our high quality customer service, and the benefits of dealing with Delmarva's dominant locally-managed bank of choice.

Financial Results

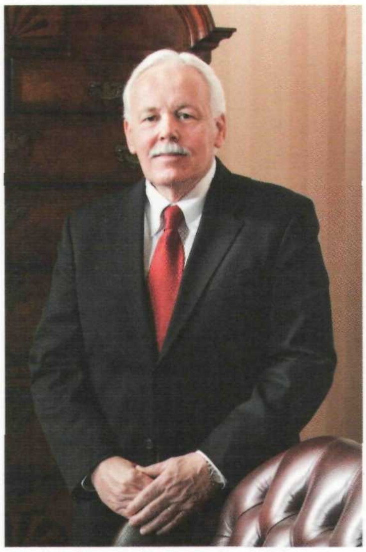
As noted above, the Company reported a net loss of $897 thousand for 2011, compared to a net loss for 2010 of $1.7 million. Diluted net loss per share was $0.11 compared to a diluted net loss per share of $0.20 for 2010. The 2011 results were once again significantly driven by the provision for credit losses which totaled $19.5 million, compared to $21.1 million for 2010, and a goodwill and other intangible assets impairment charge of $1.3 million compared to a charge of $3.1 million in 2010. The entire impairment charge in 2011 related to the Company's insurance operations, whereas in 2010 approximately half related to the Felton Bank.

Our return on average assets for 2011 was (0.08)%, compared to (0.15)% for 2010. The return on average equity was (0.74)% and (1.33)% for 2011 and 2010, respectively, while the return on average tangible equity was 0.32% and 1.05% for 2011 and 2010, respectively. Total assets were $1.158 billion at December 31, 2011, a $27.9 million increase over 2010. The increase was attributable to increased customer deposits of $30.4 million. This deposit growth, coupled with a decline in loans, resulted in increases in cash balances, primarily interest bearing deposits with other banks, and an increase in the Company's investment portfolio.

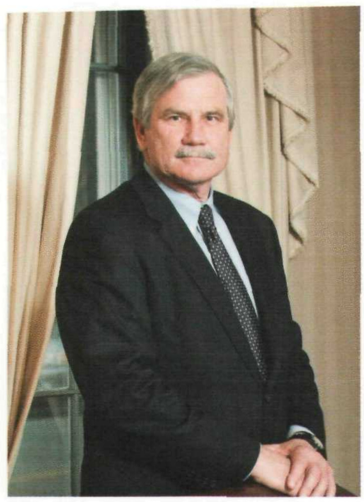
The shifting of interest bearing assets from loans to cash balances and investments with lower overall yields resulted in a decline in the total earning assets yield of 44 basis points to 4.78%. Despite a reduction in the rate paid for interest bearing liabilities from 1.46% for 2010 to 1.26% for 2011, the Company's net interest margin declined 28 basis points to 3.74%. This resulted in a net interest income decline of $2.9 million.



W. Moorhead Vermilye
Chief Executive Officer



Christopher F. Spurry
Chairman of the Board



Lloyd L. "Scott" Beatty, Jr.
President and COO

Noninterest income also declined in 2011 due to reduced insurance agency commission income and service charges on deposit accounts. The Company sold investment securities, realizing $563 thousand in gains, which offset some of the decline in noninterest income.

Management implemented cost cutting measures during 2011 and was able to reduce expenses associated with salaries and wages by $652 thousand. However, those savings were offset by elevated costs related to managing credit quality, such as increased levels of collection expense and write downs on other real estate owned. The overall reduction in noninterest expenses, excluding the provision for credit losses, was otherwise attributable to the reduction in the goodwill and other intangible assets impairment charge of $1.7 million and the reduced FDIC premium expense of $536 thousand resulting from changes to the FDIC assessment method.

Credit Quality

Despite recent indications of improvements in the real estate market, during most of 2011 the real estate markets in counties in which the Company operates remained depressed, underperforming when compared to other counties outside of our footprint in the states of Maryland and Delaware. As a result and because most of our lending is tied to the real estate market, credit quality continued to deteriorate in 2011. Total adversely classified loans increased $19.2 million, with $8.9 million of the increase relating to construction loans and $9.9 million of the increase relating to loans secured by residential real estate. Nonaccrual loans increased $15.1 million totaling $51.4 million at December 31, 2011. Most of the increase in nonaccruals was attributable to loans secured by residential real estate and commercial real estate. Accruing restructured loans remained relatively unchanged at $25.2 million. We are continuing to work aggressively with customers to enter into prudent work out arrangements to minimize our losses.

Capital Position

One of the most significant considerations for our Company, and the banking industry in general, has been the need to maintain capital at sufficient levels. We are pleased to report that we have been able to do this throughout the adverse economic conditions that existed throughout 2011. Our regulatory capital ratios are strong, with total risk based capital of 13.8% at December 31, 2011, compared to 13.07% one year ago, solidly above the level to be classified by regulatory authorities as "well capitalized." Our decision to reduce the quarterly dividend to $0.01 in May of 2011 was necessary to ensure capital remained at appropriate levels as we continue to absorb the costs of improving our credit quality.

Strategic Initiatives

As of January 1, 2012, our retail insurance division added two talented executives with considerable experience, as Rich Trippe was appointed President and CEO and Donna Sposa was named Vice President and COO. Both join our organization with impressive resumes in the insurance industry. Terry Mead, the former CEO, has retired after 24 years with Avon-Dixon, but remains available to support the new leaders during the transition. We wish Terry the very best in his retirement and thank him for his help in building such a great organization. Rich and Donna have begun an aggressive plan to improve upon the technology platforms available to our agents and support staff in order to optimize overall marketing and sales efforts across our insurance lines of business and to improve operating efficiency.

In the first quarter of 2012, the Banks will undertake the replacement of all ATMs in order to comply with the Americans with Disabilities Act. The new standards require all bank ATMs to support voice guidance and keypad controls for the visually impaired. Another significant project for the Company is the construction of the new Camden Delaware branch of CNB in order to relocate the existing branch that is inside the local Walmart store. We also plan to roll out a new mobile banking platform to customers in early 2012.

Looking Ahead to 2012

We expect to devote the majority of our efforts in 2012 toward further improvement of credit quality and earnings. On the credit quality side, this will involve closely monitoring the health of existing credit, continuing to focus intensely on prudent loan workouts, and reducing the level of nonperforming assets on our balance sheet through orderly liquidation of loan collateral and other real estate owned. As for the improvement of earnings, we have undertaken a variety of business development initiatives planned to attract selected new relationships, originate quality loans to reverse the decline in the loan portfolio, and grow deposit share. We have realigned key team leaders and other personnel to proactively conduct business development initiatives, as we clearly recognize there are solid opportunities, even in this environment, for our organization as the dominant independent banking company on the Delmarva Peninsula. We are confident that we understand how to effectively deploy our resources to be ideally positioned for recovery from the current economic recession.

On an encouraging but cautious note, recent data indicates that the number of sales transactions in some of our local real estate markets has increased. However, valuations have by no means returned to pre-recession levels. We hope that as 2012 unfolds we can begin to see this activity translate into meaningful economic improvement that will benefit our banking and insurance operations. We look forward to a more favorable external operating environment that will allow our fine organization to return to its historical levels of success, consistency and satisfactory returns. In the meantime, rest assured that we are relentlessly executing on every internal opportunity within our power to advance and improve Shore Bancshares.

As always, we remain grateful for the support of our stockholders, customers and employees.

Sincerely,

W. Moorhead Vermilye

Christopher F. Spurry

Christopher F. Spurry

LOCATIONS

SHORE BANCSHARES, INC.

Executive Office
18 East Dover Street
Easton, MD 21601
Phone (410) 763-7800

Headquarters
28969 Information Lane
Easton, MD 21601
Phone (410) 763-7800

www.shbi.com

BANKING

THE TALBOT BANK OF EASTON, MARYLAND

Main Office
18 East Dover Street
Easton, MD 21601
(410) 822-1400
(800) 673-8258

Tred Avon Square Branch
212 Marlboro Avenue
Easton, MD 21601
(410) 822-1400

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

Elliott Road Branch
8275 Elliott Road
Easton, MD 21601
(410) 822-1400

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

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 Walmart Drive
Camden, DE 19934
(302) 698-1432

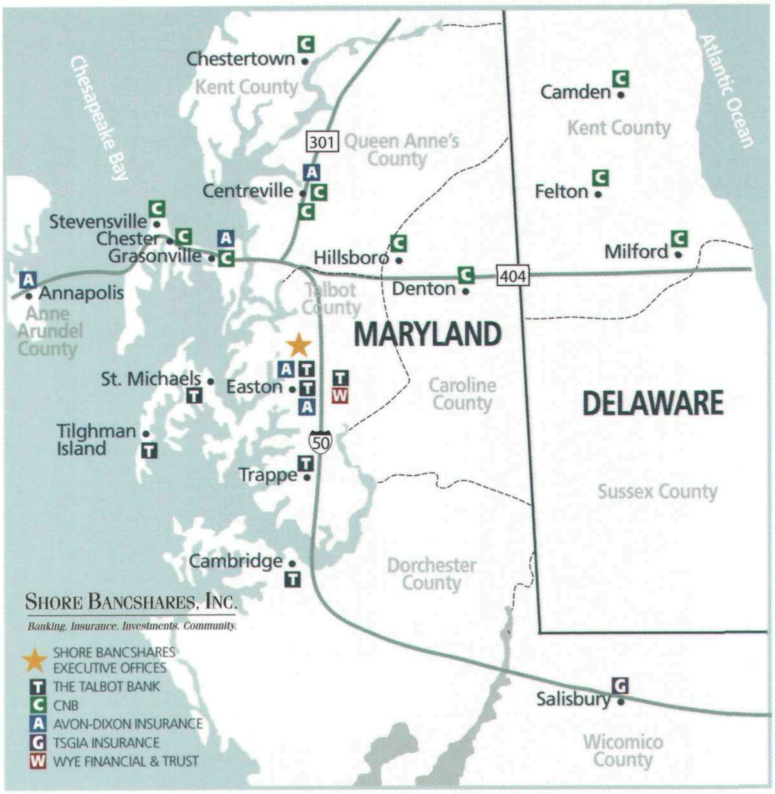
INSURANCE

THE AVON-DIXON AGENCY, LLC

Headquarters
106 N. Harrison Street
Easton, MD 21601
(410) 822-0506
(800) 242-8758

Benefits Office
28969 Information Lane
Easton, MD 21601
(410) 822-0506
(800) 242-8758

Grasonville Office
202 Pullman Crossing
Grasonville, MD 21638
(410) 827-3161
(800) 734-4176



Freestate & Son Office
105 Lawyers Row
Centreville, MD 21617
(410) 758-0757
(800) 462-0658

ELLIOTT WILSON INSURANCE, LLC

106 N. Harrison Street
Easton, MD 21601
(410) 820-7797
(800) 235-9885

JACK MARTIN & ASSOCIATES, INC.

135 Old Solomon's Island Road
Annapolis, MD 21401
(410) 626-1000
(800) 497-8101

TRI-STATE GENERAL INSURANCE AGENCY, LTD.

One Plaza East, 4th Floor
Salisbury, MD 21802
(410) 546-1255
(800) 556-7894

INVESTMENTS

WYE FINANCIAL & TRUST

16 N. Washington Street
Easton, MD 21601
(410) 763-8543

NASDAQ: SHBI
(410) 763-7800

SHORE BANCSHARES, INC. BOARD OF DIRECTORS

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*
Frank E. Mason, III, *President and CEO, JASCO*
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.*

Seated, left to right:
John H. Wilson
James A. Judge
Lloyd L. "Scott" Beatty, Jr.
W. Moorhead Vermilye
Blenda W. Armistead

Standing, left to right:
Herbert L. Andrew, III
Neil R. LeCompte
F. Winfield Trice, Jr.
Frank E. Mason, III
Jerry F. Pierson
William W. "Buck" Duncan
Christopher F. Spurry

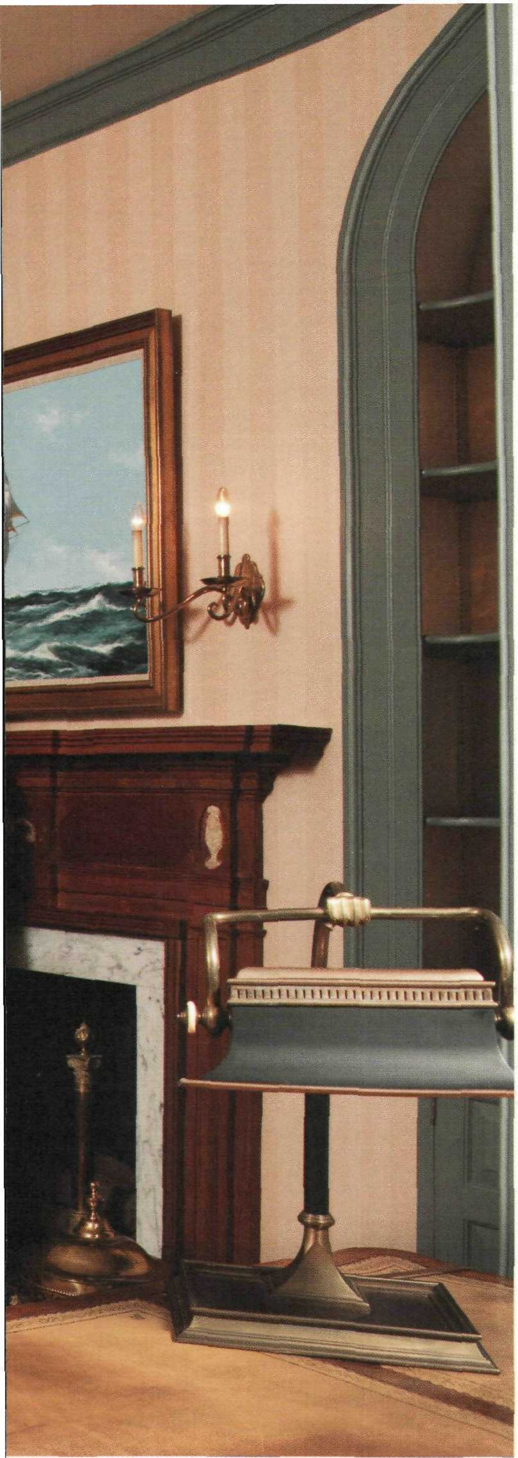


Photo: The Bullitt House, headquarters of the Mid-Shore Community Foundation in historic Easton, Maryland

BOARD OF DIRECTORS

BANKING

THE TALBOT BANK OF EASTON, MARYLAND

HERBERT L. ANDREW, III, *Chairman*
BLENDA W. ARMISTEAD
LLOYD L. "SCOTT" BEATTY, JR.
CAROLE ANN CLEM
R. MICHAEL CLEMMER, JR.
JOHN W. DILLON
WILLIAM W. "BUCK" DUNCAN
DAVID A. FIKE
DUANE F. MARSHALL
STEPHEN M. SHEARER
CHRISTOPHER F. SPURRY
DAVID P. VALLIANT
W. MOORHEAD VERMILYE

Officers

William W. "Buck" Duncan	*President and CEO*
Pat Bilbrough	*Executive Vice President*
Kevin Moran	*Senior 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
JAMES A. JUDGE
CLYDE V. KELLY, III
NEIL R. LeCOMPTE
DAVID W. MOORE
JERRY F. PIERSON
WM. MAURICE SANGER, *Chairman*
WILLIAM 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*
Edward C. Allen	*Vice President/Affiliate CFO*
Donna J. Stevens	*Vice President and Senior Operations and Compliance Officer*

INSURANCE

THE AVON-DIXON AGENCY, LLC
ELLIOTT WILSON INSURANCE, LLC
JACK MARTIN & ASSOCIATES, INC.

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
GEORGE T. MORAN
JOHN H. WILSON

Officers

Rich C. Trippe	*President and CEO*
Donna Sposa	*Vice President and COO*

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	*Executive Vice President*
Jodi Swift	*Operations Manager*

INVESTMENTS

WYE FINANCIAL & TRUST
A DIVISION OF CNB

Officers

Elizabeth Spurry	*Senior Vice President*
James M. Vermilye	*Senior Vice President*

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*

SHORE BANCSHARES, INC.

Banking. Insurance. Investments. Community.

Shore Bancshares family of companies. Strong Together.

SHORE BANCSHARES, INC.

Executive Office
18 East Dover Street
Easton, MD 21601
Phone (410) 763-7800
Fax (410) 820-4238

Headquarters
28969 Information Lane
Easton, MD 21601
Phone (410) 763-7800
Fax (410) 822-8893
www.shbi.com

BANKING

THE TALBOT BANK OF EASTON, MARYLAND
18 East Dover Street
Easton, MD 21601
Phone (410) 822-1400
Fax (410) 820-7180
www.talbot-bank.com

CNB
109 N. Commerce Street
Centreville, MD 21617
Phone (410) 758-1600
Fax (410) 758-2364
www.cnb-bank.com

NASDAQ: SHBI
(410) 763-7800

INSURANCE

THE AVON-DIXON AGENCY, LLC
106 N. Harrison Street
Easton, MD 21601
Phone (410) 822-0506
Fax (410) 820-5629
www.avondixon.com

ELLIOTT WILSON INSURANCE, LLC
106 N. Harrison Street
Easton, MD 21601
Phone (410) 820-7797
Fax (410) 820-7754
www.elliottwilsonins.com

JACK MARTIN & ASSOCIATES, INC.
135 Old Solomon's Island Road
Annapolis, MD 21401
Phone (410) 626-1000
Fax (410) 626-9966
www.jackmartin.com

TRI-STATE GENERAL INSURANCE AGENCY, LTD.
One Plaza East, 4th Floor
Salisbury, MD 21802
Phone (410) 546-1255
Fax (800) 518-1904
www.tsgia.com

INVESTMENTS

WYE FINANCIAL & TRUST
16 N. Washington Street
Easton, MD 21601
Phone (410) 763-8543
Fax (410) 763-8557
www.wyetrust.com

TRANSFER AGENT
Registrar & Transfer Company
10 Commerce Drive
Cranford, New Jersey 07016
Investor Relations: (800) 368-5948
E-mail for investor inquiries: info@rtco.com
www.rtco.com