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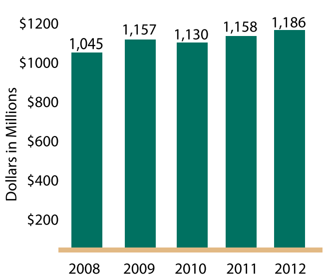
Shore Bancshares, Inc.
2012 Annual Report

Selected Financial Data

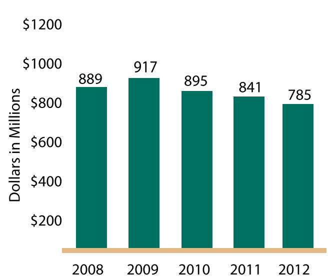
(Dollars in thousands, except per share data)	**2012**	2011	2010	2009	2008
	Years Ended December 31,				
RESULTS OF OPERATIONS:					
Interest income	**$45,901**	$50,852	$55,461	$58,789	$61,474
Interest expense	**10,562**	11,088	12,822	17,411	21,555
Net interest income	**35,339**	39,764	42,639	41,378	39,919
Provision for credit losses	**27,745**	19,470	21,119	8,986	3,337
Net interest income after provision for credit losses	**7,594**	20,294	21,520	32,392	36,582
Noninterest income	**15,758**	17,318	18,041	19,541	20,350
Noninterest expense	**39,555**	39,167	41,720	40,248	38,370
(Loss) income before income taxes	**(16,203)**	(1,555)	(2,159)	11,685	18,562
Income tax (benefit) expense	**(6,565)**	(658)	(492)	4,412	7,092
Net (loss) income	**(9,638)**	(897)	(1,667)	7,273	11,470
Preferred stock dividends and discount accretion	**—**	—	—	1,876	—
Net (loss) income available to common shareholders	**$ (9,638)**	$(897)	$(1,667)	$5,397	$11,470
PER COMMON SHARE DATA:					
Net (loss) income – basic	**$(1.14)**	$(0.11)	$(0.20)	$0.64	$1.37
Net (loss) income – diluted	**(1.14)**	(0.11)	(0.20)	0.64	1.37
Dividends paid	**0.01**	0.09	0.24	0.64	0.64
Book value (at year end)	**13.48**	14.34	14.51	15.18	15.16
Tangible book value (at year end)[1]	**11.56**	12.37	12.32	12.64	12.55
FINANCIAL CONDITION (at year end):					
Loans	**$ 785,082**	$ 841,050	$ 895,404	$ 916,557	$ 888,528
Assets	**1,185,807**	1,158,193	1,130,311	1,156,516	1,044,641
Deposits	**1,049,273**	1,009,919	979,516	990,937	845,371
Long-term debt	—	455	932	1,429	7,947
Stockholders' equity	**114,026**	121,249	122,513	127,810	127,385
PERFORMANCE RATIOS (for the year):					
Return on average total assets	**(0.82)%**	(0.08)%	(0.15)%	0.48%	1.13%
Return on average stockholders' equity	**(8.07)**	(0.74)	(1.33)	4.00	9.22
Net interest margin	**3.23**	3.74	4.02	3.90	4.23
Efficiency ratio[2]	**77.17**	68.35	68.75	66.07	63.66
Dividend payout ratio	**(0.88)**	(81.82)	(120.00)	100.00	46.72
Average stockholders' equity to average total assets	**10.18**	10.66	11.05	11.96	12.30

[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.

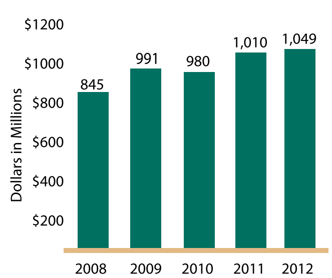
ASSETS



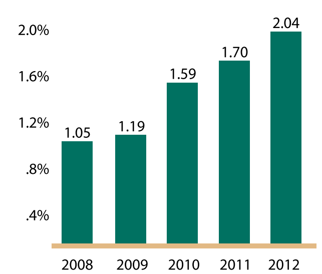
LOANS



DEPOSITS



ALLOWANCE FOR CREDIT LOSSES TO LOANS



Letter to Shareholders

To Our Shareholders,

A year ago, when we closed 2011 and wrote our annual message to shareholders, our comments included:

"We expect to devote the majority of our efforts in 2012 toward further improvement of credit quality and the improvement of earnings."

"On the credit quality side, this will involve closely monitoring the health of existing credits, 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 new business development, as we clearly recognize there are solid opportunities across our footprint, even in this environment, for our organization as the dominant independent banking company on the Delmarva Peninsula."

So, how well did we deliver on what we said we expected to do?

• We significantly reduced troubled assets (loans) and bank-owned real estate that we have foreclosed upon by writing off approximately $26 million during 2012, bringing the total during this multi-year Delmarva real estate downturn to about $63 million since 2010. Our historically strong capital levels resulting from our hallmark conservative balance sheet management enabled the company to absorb necessary write-downs and to dispose of nonperforming loans. Our capital ratios remain strong, with Tier 1 Leverage and Total Risk-Based ratios of 8.32% and 13.32% at year-end. Both are substantially above the levels required to be considered "well capitalized" as defined by the regulatory authorities.

• In terms of improving earnings, we made a major decision late in the fourth quarter to incur the cost of terminating a portion of an interest rate cap instrument, as reported in our year-end earnings press release. This action will contribute to an ongoing improvement in the net interest margin of our banking operations beginning in the first quarter of 2013 and continuing thereafter. Restoring the margin to historical levels in our lead subsidiary Talbot Bank will be meaningful in increasing net income.

• On controlling the expense side of the income statement, we have been closely-focused. There have been no senior executive bonuses paid, pay raises given to employees were modest—where deserved, director fees have been capped and to further contain costs, open but non-critical positions remain unfilled. We continue to assess a variety of other cost-containment options as we move into 2013.

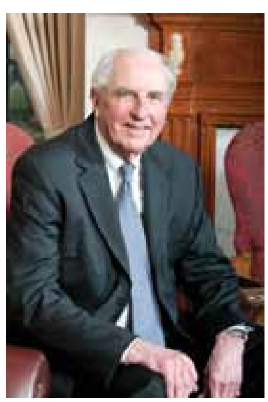
Our operating environment remains challenging. Adverse external circumstances and unpredictable variables—the factors beyond our control, continue to resist improvement. Everyone recognizes the uncertainty associated with the future of the national economy, but there are unique factors affecting the Delmarva micro-economy. These revolve around commercial and residential real-estate development, construction, housing sales, and real estate maintenance. Still, we are quite confident that our company will emerge from this unprecedented cycle as the ongoing dominant financial institution across our geographic footprint. We have the capital strength, the management talent—with a good succession plan, the leading market share, and the long-standing reputation needed to prevail as the dominant and most successful financial services provider locally headquartered in the Delmarva region.

We appreciate the support and confidence of all of our loyal shareholders.

Sincerely,

W. Moorhead Vermilye

Christopher F. Spurry



W. Moorhead Vermilye
Chief Executive Officer

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Chairman of the Board

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

SHORE BANCSHARES, INC.

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Farmer

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Investor

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President and COO, Shore Bancshares, Inc.

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Retired Bank Executive

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Certified Public Accountant, Anthony, Judge & Ware, LLC

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Certified Public Accountant, Office of Neil R. LeCompte

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Investor

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F. WINFIELD TRICE, JR.
President and CEO, CNB

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Chief Executive Officer, Shore Bancshares, Inc.

JOHN H. WILSON
President, Coastal South of MD, Inc.

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Debra H. Rich	*Vice President and Chief Project Officer*

BANKING

THE TALBOT BANK OF EASTON, MARYLAND

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CHRISTOPHER F. SPURRY
DAVID P. VALLIANT
W. MOORHEAD VERMILYE

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Laura P. Heikes	*Vice President and Branch Administration Officer*

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JAMES A. JUDGE
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DAVID W. MOORE
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JEFFREY E. THOMPSON
F. WINFIELD TRICE, JR.
MARY ELLEN VALLIANT

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Charles E. Ruch, Jr.	*Senior Vice President and SCO*
Edward C. Allen	*Vice President and CFO*
Donna J. Stevens	*SeniorVice President and Senior Operations and Compliance Officer*

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ELLIOTT WILSON INSURANCE, LLC
JACK MARTIN & ASSOCIATES, INC.

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JAMES "DICK" DEERIN, JR.
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MARY ANN HENKER
WILLIAM L. LANE, JR., *Chairman*
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EDWARD "NED" McDONALD
GEORGE T. MORAN
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Richard C. Trippe, Jr.	*President and CEO*

TRI-STATE GENERAL INSURANCE AGENCY, LTD.

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Lloyd L. "Scott" Beatty, Jr.	*Secretary*
Brenda Dickerson	*Executive Vice President*
Jodi Swift	*Operations Manager*

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WYE FINANCIAL & TRUST
A DIVISION OF CNB

Officer

Elizabeth Spurry	*Senior Vice President*

From top of staircase, left to right:
Herbert L. Andrew, III, Frank E. Mason, III, John H. Wilson, James A. Judge, Christopher F. Spurry, Neil R. LeCompte, F. Winfield Trice, Jr., Lloyd L. "Scott" Beatty, Jr., David J. Bates, Blenda W. Armistead, William W. "Buck" Duncan, W. Moorhead Vermilye

Photo: The Tidewater Inn in Historic Easton, Maryland

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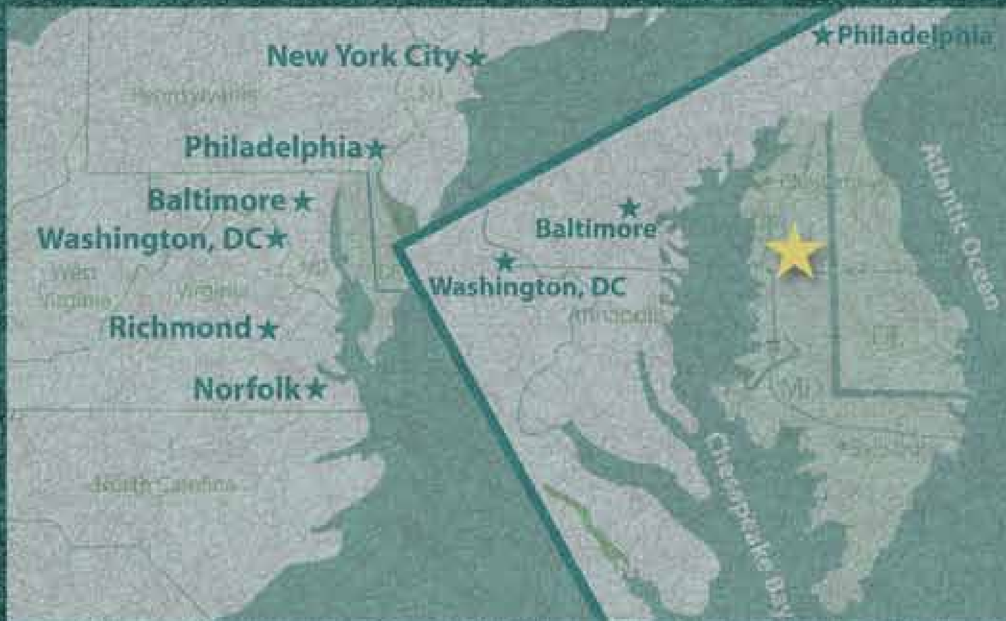

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NASDAQ:SHBI