

# Shore Bancshares, Inc.

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2015 ANNUAL REPORT

*Good things happen when we're*

**United**

# SELECTED FINANCIAL DATA

Years Ended December 31

(Dollars in thousands, except per share data)

## RESULTS OF OPERATIONS:

	2015	2014	2013	2012	2011
Interest income	\$ 38,871	\$ 38,289	\$ 41,351	\$ 45,901	\$ 50,852
Interest expense	3,346	4,247	6,475	10,562	11,088
Net interest income	35,525	34,042	34,876	35,339	39,764
Provision for credit losses	2,075	3,350	27,784	27,745	19,470
Net interest income after provision for credit losses	33,450	30,692	7,092	7,594	20,294
Noninterest income	15,416	16,781	17,459	15,758	17,318
Noninterest expense	37,350	39,361	40,686	39,555	39,167
Income (loss) before income taxes	11,516	8,112	(16,135)	(16,203)	(1,555)
Income tax expense (benefit)	4,408	3,061	(6,501)	(6,565)	(658)
Net income (loss)	\$ 7,108	\$ 5,051	\$ (9,634)	\$ (9,638)	\$ (897)

## PER COMMON SHARE DATA:

Net income (loss) – basic	\$ 0.56	\$ 0.46	\$ (1.14)	\$ (1.14)	\$ (0.11)
Net income (loss) – diluted	0.56	0.46	(1.14)	(1.14)	(0.11)
Dividends paid	0.04	-	-	0.01	0.09
Book value (at year end)	11.64	11.13	12.19	13.48	14.34
Tangible book value (at year end) <sup>1</sup>	10.59	10.08	10.31	11.56	12.37

## FINANCIAL CONDITION (at year end):

Loans	\$ 795,114	\$ 710,746	\$ 711,919	\$ 785,082	\$ 841,050
Assets	1,135,143	1,100,402	1,054,124	1,185,807	1,158,193
Deposits	975,464	949,004	933,468	1,049,273	1,009,919
Long-term debt	-	-	-	-	455
Stockholders' equity	146,967	140,469	103,299	114,026	121,249

## PERFORMANCE RATIOS (for the year):

Return on average total assets	0.64%	0.47%	(0.89)%	(0.82)%	(0.08)%
Return on average stockholders' equity	4.93	4.04	(8.64)	(8.07)	(0.74)
Net interest margin	3.43	3.43	3.48	3.23	3.74
Efficiency ratio <sup>2</sup>	73.21	77.45	77.59	77.17	68.35
Dividend payout ratio	7.14	-	-	(0.88)	(81.82)
Average stockholders' equity to average total assets	13.04	11.66	10.31	10.18	10.66

## ASSET QUALITY RATIOS (for the year):

Nonperforming assets to total assets	1.44%	1.57%	2.11%	3.76%	5.48%
Nonperforming assets and accruing TDRs to total assets	2.81	3.09	4.58	8.18	7.66
Allowance for credit losses to average loans	1.06	1.09	1.40	1.96	1.64
Allowance for credit losses to nonaccrual loans	68.77	57.14	59.10	43.84	27.81
Allowance for credit losses to nonaccrual loans and TDRs	30.14	25.53	24.25	18.00	18.66

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

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

Dear Shareholders:

2015 was a very successful year for Shore Bancshares, Inc. The Company reported net income of \$7.108 million or \$.56 per diluted common share for the year as compared to \$5.051 million or \$0.46 per diluted common share for 2014. Perhaps the most significant event of 2015 was the termination of the regulatory Consent Order on the Talbot Bank. The combination of steady quarterly earnings growth and the release of the Order enabled us to restore the quarterly dividend during the third quarter of 2015.

We experienced a noticeable improvement in the local economy which enabled us to grow our loan portfolio. Loans grew by \$84 million reflecting a 11.9% increase in total loans. In addition we experienced an increase in total deposits of 2.8% in 2015 primarily through growth in non-interest-bearing accounts from our commercial customers. Our earnings performance does not rely strictly on growing the traditional margin business of our banks. In addition to banking, Shore Bancshares offers a complete line of financial services including insurance and wealth management. We will continue to explore all of our fee-based business products and services to enhance client relationships and supplement the Company's fee income. The introduction of innovative products and services to existing and prospective customers enhances our competitive position as the largest independent financial holding company headquartered on the Eastern Shore of Maryland.

In 2015, we launched a Company-wide marketing campaign to show the connection between our companies and our diverse product and service offerings. To further support this campaign, our employees have been actively engaged in conversations with our business partners to enhance client relationships and increase referrals across our companies.

We continue to explore opportunities to expand our market share. In January of 2015, we extended our footprint in Delaware with our affiliate bank, CNB, by opening a new branch location in Dover. In early October, CNB opened a loan production office in Middletown. We believe both of these areas offer significant growth opportunities. We also intend to seek acquisition opportunities through branch or whole bank acquisitions that will enhance our position in our existing and complementary markets.

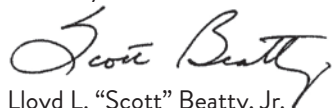
While the financial performance of any business is the primary indicator of success, there are multiple initiatives that occur behind the scenes that contribute to our success. At Shore Bancshares, we believe that our employees are the key to achieving our goals. We have committed to the professional growth of our employees by offering training and education to improve their technical and leadership skills. We now have a formal training program with two full time training associates. In 2015, employees participated in over 6,100 hours of training. We believe our focus on education is a vital component to the achievement of our objectives.

At Shore Bancshares, we believe that investing in our communities is another key component of our ongoing success. In 2015, we invited our employees to participate in a company-wide fundraising challenge for children in our region. The Company offered to match the money the employees raised dollar for dollar up to \$5 thousand dollars. As always, our employees went over and above the challenge. They gave a significant amount of their personal time and demonstrated tremendous creativity and resourcefulness in raising more than \$21 thousand through a variety of events. These funds and the additional Company donation generated in excess of \$26 thousand dollars to support various grant requests for youth programs across the Mid-Shore. It is also important to note that our employees typically contribute in excess of 15,000 volunteer hours annually to our communities. This commitment of time by our employees to the communities we serve is a fact that is often overlooked when discussing the significance of community banking to local citizens and economies.

As we look to 2016 and beyond, we will continue to focus on helping our clients, shareholders, employees and communities achieve the success they deserve. We believe we have built a very strong organization that is well positioned to continue to grow and further contribute to the needs of all of our stakeholders.

We thank you, our shareholders, for your continued support of Shore Bancshares and commitment to our plans for our continued success.

Sincerely,



Lloyd L. "Scott" Beatty, Jr.



Christopher F. Spurry



*Pictured:*  
Scott Beatty, CEO (left),  
Chris Spurry, Chairman (right)

# WE CONTINUE TO LOOK AT OPPORTUNITIES FOR EXPANSION



The Delaware market area continues to show growth. To capitalize on this opportunity our affiliate bank, CNB opened a new location in Dover, Delaware with a two year growth target to grow deposits by \$20 million and loans by \$10 million. As of year-end the Dover location has reached the halfway point on its deposit goal and is at 70% of meeting its two year loan goal.

CNB also opened a new Loan Production Office in Middletown, Delaware to service the expanding business market in the New Castle County area. Early results of new business relationships indicate positive outcomes in 2016.

In January of 2015, our affiliate Jack Martin & Associates, specializing in boat, yacht and marine insurance expanded their footprint into South Carolina and Georgia by adding a remote agent who specializes in the marine industry.

# ENHANCING CLIENT RELATIONSHIPS



## BANKING

To respond to the increased use of debit cards versus checks for payment, we expanded our Overdraft Services giving clients the option to add ATM and debit card transactions to our discretionary overdraft service.

In the wake of large scale data breaches and the increase in counterfeit card fraud, we are actively working with our third party vendors to implement EMV (Europay, MasterCard and Visa) technology to our debit cards in the first quarter of 2016. EMV is a global standard for credit and debit cards to be equipped with computer chips to authenticate chip-card transactions, protect consumers and improve payment security.

Streamlining our internal processes continues to be a high priority. In August, we consolidated the sales and service of our Cash Management and Merchant Services department to Shore Bancshares, allowing our branches to focus more on day to day sales and servicing.

We continue to explore new core products and services to improve efficiencies, increase fee based revenue and offer added convenience to our clients, employees, communities and shareholders.



## INSURANCE

The recognition of consumers' potential role as an active participant in selecting insurance coverage is not a new development but one that keeps our insurance team on its toes. Our insurance division uses demand-side strategies to help consumers and business owners differentiate between high and low value services when shopping for insurance coverage. Unlike captive agents who are only able to write a policy with one company, our agents are able to compare rates and coverage with over 100 top-rated insurance companies. In the last year, the Avon-Dixon Agency increased new business origination by 16% ranging from auto, health, cyber-security, marine, trucking services and more. The agency continues to help customers with risks involving employment practices, professional services and travel.



## INVESTMENTS

As the financial markets report crashing oil prices, a slowdown in China and a slow moving U.S. economy, our investment business was not immune to churn. Over the last year, we have rebuilt our team of financial advisors at Wye Financial & Trust bringing new energy and focus to the company. We view this change as an opportunity for increased sales activity and growth in the coming year.

To enhance our investment client's online experience, the evaluation of a new trust platform was conducted in 2015 to bring new features and functionality to the user's online experience. The new platform was implemented in the first quarter of 2016.

Banking, insurance and investments are competitive businesses. Continuously **adding products** and **services** allows us to **enhance** our client **relationships** and maintain a competitive advantage.

# Focus on **Employees**

We believe that by providing formal **training** in addition to on the job training to our **employees**, we are able to **better serve** our **community** and our **clients**.

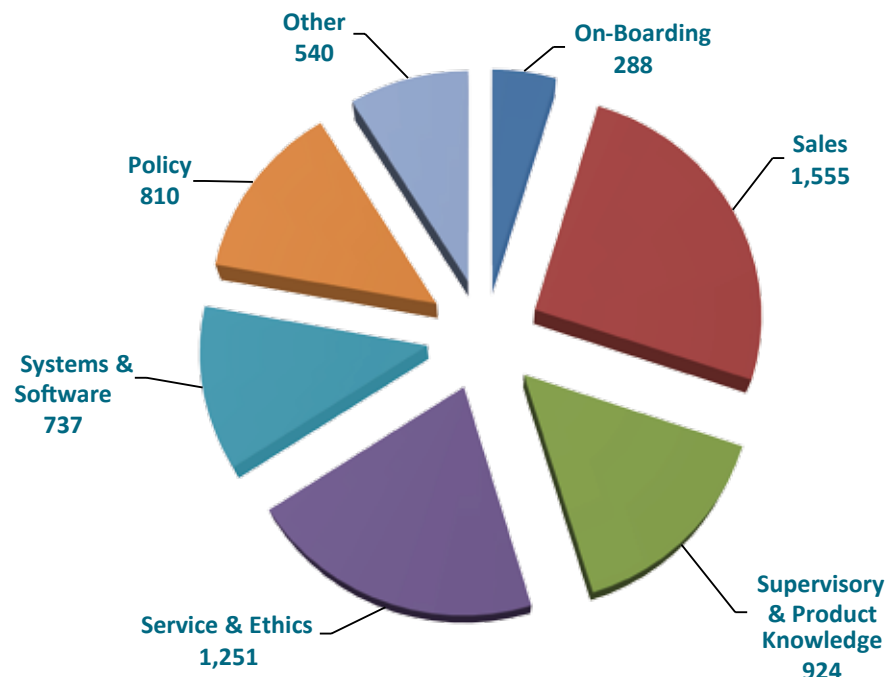
Employee Education  
**6,100**  
Hours

## *Helping our employees and*

In our effort to enhance our employees' knowledge and foster opportunities for career advancement, we opened a centralized training facility in Ridgely, Maryland. We believe that by providing formal training in addition to on the job training to our employees, we are able to better serve our community and our clients. During the year, our employees attended training and education sessions with topics ranging from sales, product knowledge, systems and software to service and ethics. Overall our employees participated in 1,797 training classes totaling over 6,100 hours in 2015.

### Employee Training Hours by Category 2015

In 2015, our **employees participated** in over 6,100 hours of **training** to **help** our **local economy thrive** and our **employees grow professionally**.



# Focus on **Community**

Employees Volunteered

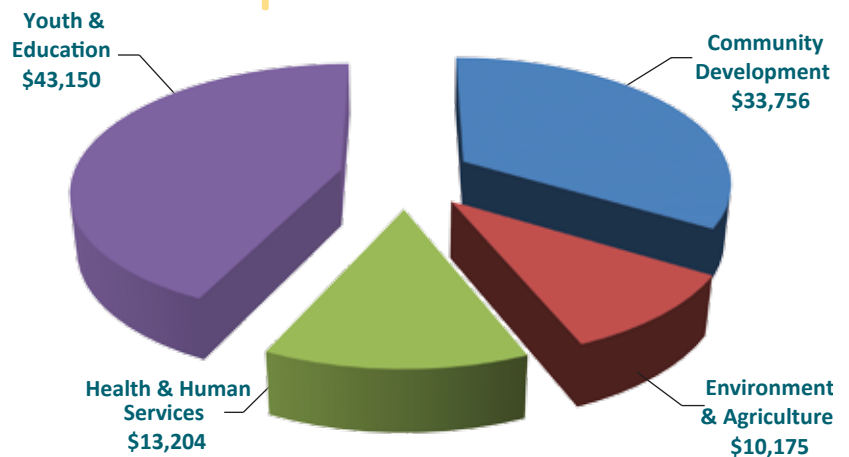
**15,000** Hours

At Shore Bancshares, our community of companies is built around the **character** of our **people**. We are **vested** in our **communities** and we demonstrate our commitment by **giving back**.

*our communities grow.*

In 2015, our employees volunteered over **15,000 hours** of their time in addition to **Corporate contributions** that totaled over **\$100k**.

**\$100k**  
Corporate Contributions



While we're proud to help so many different organizations in our service areas, we felt it was important to look for a way for all of our companies to participate in a challenge that could unite our efforts of volunteering and fundraising to have a more significant impact. In April, we accepted a Community Challenge for Kids with the Bryan Brothers Foundation. The Bryan Brothers Foundation asked businesses like ours to step up and participate in the challenge by competing against other local businesses to raise money for programs and organizations designed to help kids. The Bryan Brothers

Foundation benefits multiple non-profit organizations throughout our communities by giving grants to those organizations and programs that help children and youth on the Shore.

To kick-off this challenge, employees were encouraged to participate in one of the following ways: make a donation or create a team fundraising event for the Bryan Brothers Foundation. In return, Shore Bancshares agreed to match a portion of the fundraising proceeds, and incent participants with an opportunity to win a day off with pay and offer additional prizes for

the team raising the most money. Our employees have embraced the team challenge by creating multiple fund-raising events from bake sales and ugly tie contests to a designer purse bingo, silent auction and more. Since April of 2015, the employees of Shore Bancshares and its community of companies have raised over \$21,837 dollars towards the Bryan Brothers Community Challenge for Kids. The challenge will continue through March 2016 when the company and its employees will declare a victory!

# COMPANY WIDE MARKETING CAMPAIGN

Our overall marketing strategy is to increase public awareness of Shore Bancshares, Inc. and the connection between our bank, insurance and investment companies. By developing campaign messages to demonstrate the unity across our community of companies along with the consistent use of our tagline, “**Good things are happening here®**” we have been successful in connecting the dots and demonstrating our breadth of services. Through the use of multi-media channels; print, online, digital, radio, television, direct mail and now social media, our message has been broadcasted to all demographics in our market areas and beyond.

To reach our growing audience of millennials, we began actively engaging in the social conversation in May of 2015 for our insurance affiliates and in October for our banks. We believe that social media is a great space for sustaining and promoting a positive brand reputation and image to our employees and clients. Social media sites are powerful communication tools that can have a positive impact on a company’s reputation and the overall brand experience for the client. With the volume of conversations occurring in the social world, it is good business sense to be invested in listening to our clients, prospects or any other discussions relating to our products or services. By listening to these conversations, we have the ability to analyze and monitor customer sentiments and trends which can be used to improve our customer management process, enhance product quality and develop new offerings to meet client needs.

It can also help us identify areas to improve client satisfaction, allow us to fully engage our clients in every interaction and deepen our client relationships. Through the use of Facebook and LinkedIn our companies now have a social presence with a growing fan base and many followers.

The logo for CNB (Central National Bank) is displayed in a white circle. It features the letters 'CNB' in a green, serif font, with a stylized map of the United States integrated into the letter 'C'.The logo for Freestate and Son Insurance is shown in a white circle. It includes the text 'FREESTATE and SON' in a bold, sans-serif font, with 'INSURANCE' below it and 'AVON~DIXON AGENCY' at the bottom. A small graphic of a lighthouse is on the right.The logo for Jack Martin & Associates Insurance is in a white circle. It features 'JACK MARTIN & Associates' in a serif font, 'INSURANCE' below, and 'AVON~DIXON AGENCY' at the bottom. A lighthouse graphic is on the right.The logo for Wye Financial & Trust is in a white circle. It shows a tree icon above the text 'WYE FINANCIAL & TRUST' and 'A DIVISION OF CNB' below.The logo for The Talbot Bank is in a white circle. It features a stylized building icon above the text 'THE TALBOT BANK'.The logo for Avon Dixon Insurance Agency is in a white circle. It includes 'AVON DIXON' in a bold font, 'INSURANCE AGENCY' below, and a lighthouse graphic on the right.The logo for Elliott Wilson Insurance is in a white circle. It features 'ELLIOTT WILSON' in a bold font, 'INSURANCE' below, and 'AVON~DIXON AGENCY' at the bottom. A truck graphic is on the right.



Social media sites are **powerful communication** tools that can have a positive impact on a company's reputation and overall **brand experience** for the client.

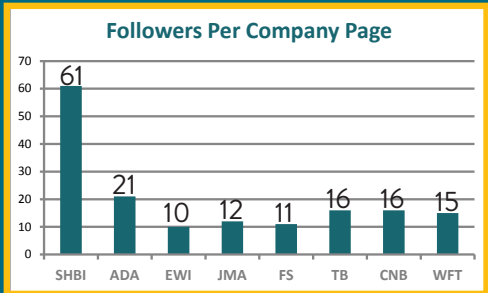


### What are we communicating about?

Service Volunteering  
 Holidays Events  
 Tips **COMMUNITY**  
 Employees  
 Affiliate Connections Products

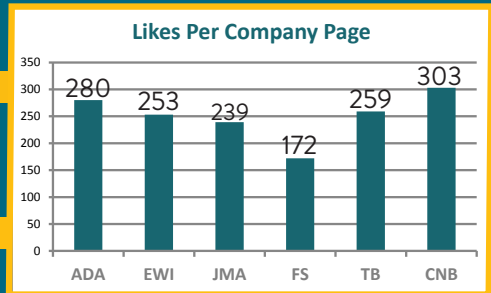
**in** 162 Followers

**f** 1,496 Fans



**15**  
Posts

**2%**  
Engagement Rate



**453**  
Posts

**8.6%**  
Engagement Rate

## BOARD OF DIRECTORS

### SHORE BANCSHARES

Blenda W. Armistead  
Investor

David J. Bates  
Investor

Lloyd L. "Scott" Beatty, Jr.  
President & Chief Executive Officer  
Shore Bancshares, Inc.

James A. Judge  
Certified Public Accountant  
Anthony Judge & Ware, LLC

Frank E. Mason, II  
President & Chief Executive Officer  
JASCO

David W. Moore  
President & Chief Executive Officer  
Milford Housing Development Corporation

Christopher F. Spurry  
Chairman  
Founder/Former Owner of Spurry & Associates, Inc.

W. Moorhead Vermilye  
Senior Business Development Officer  
The Talbot Bank

John H. Wilson  
President, Coastal South of MD, Inc.

#### Officers

Lloyd L. "Scott" Beatty, Jr.  
President & Chief Executive Officer

George S. Rapp  
Vice President & Chief Financial Officer

W. David Morse  
Secretary & Legal Counsel

Donna J. Stevens  
Senior Vice President &  
Chief Operating Officer

Timothy J. Berrigan  
Vice President &  
Chief Information Officer

Pamela J. Dill  
Vice President &  
Chief Human Resources Officer

Debra H. Rich  
Vice President,  
Chief Marketing & Project Officer

### INSURANCE

#### Avon-Dixon Agency, LLC

#### Elliott Wilson Insurance

#### Jack Martin & Associates

Lloyd L. "Scott" Beatty, Jr.  
James "Dick" Deerin, Jr.

Mark M. Freestate  
Diana Johnson

William L. Lane Jr., Chairman  
Edward "Ned" McDonald

Richard C. Trippe, Jr.  
Morgan Wells  
John H. Wilson

#### Officers

Richard C. Trippe, Jr.  
President &  
Chief Executive Officer

W. David Morse  
Secretary

George S. Rapp  
Treasurer

### BANKING

#### The Talbot Bank

Herbert L. Andrew, III  
Chairman

Blenda W. Armistead  
Lloyd L. "Scott" Beatty, Jr.  
Carole Ann Clem

R. Michael Clemmer, Jr.  
John W. Dillon  
David A. Fike

Steve M. Shearer  
Christopher F. Spurry  
David P. Valliant  
W. Moorhead Vermilye

#### Officers

Patrick M. Bilbrough  
President &  
Chief Executive Officer

George S. Rapp  
Chief Financial Officer

Kathleen Kurtz  
Executive Vice President &  
Senior Credit Officer

Michael T. Cavey  
Executive Vice President &  
Senior Lending Officer

W. David Morse  
Vice President & Legal Counsel

#### CNB

Ann B. Collier  
Mark M. Freestate  
Thomas K. Helfenbein  
James A. Judge  
Clyde V. Kelly, III, Chairman  
David W. Moore

Wm. Maurice Sanger  
Jeffrey E. Thompson, Vice Chairman  
Mary Ellen M. Valliant

#### Officers

Edward C. Allen  
President &  
Chief Executive Officer

Charles E. Ruch, Jr.  
Senior Vice President &  
Chief Credit Officer

Lynn Payne  
Vice President &  
Chief Financial Officer

GOOD

THINGS

HAPPEN

*when we're*

United

## BANKING

**The Talbot Bank  
of Easton, Maryland**  
18 E. Dover Street  
Easton, MD 21601  
410.822.1400  
800.673.8258  
talbot-bank.com

**CNB**  
109 N. Commerce Street  
Centreville, MD 21617  
410.758.1600  
877.758.1600  
cnb-bank.com

## INSURANCE

**Avon-Dixon Agency, LLC**  
106 N. Harrison Street  
Easton, MD 21601  
410.822.0506  
800.242.8758  
avondixon.com

**Elliott Wilson Insurance**  
106 N. Harrison Street  
Easton, MD 21601  
410.820.7797  
800.235.9885  
elliottwilsonins.com

**Jack Martin & Associates**  
135 Old Solomons Island Road  
Annapolis, MD 21401  
410.626.1000  
800.497.5804  
jackmartin.com

## INVESTMENTS

**Wye Financial & Trust**  
16 N. Washington Street  
Easton, MD 21601  
410.763.8543  
wyefinancialandtrust.com

## SHORE BANCSHARES, INC.

Headquarters  
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Easton, MD 21601  
410.763.7800



## TRANSFER AGENT

**Broadridge Corporate  
Issuer Solutions**  
P.O. Box 1342  
Brentwood, NY 11717  
866.232.0392  
720.358.3588

Investor Relations Contact:  
Mr. George S. Rapp  
410.822.3855  
George.Rapp@SHBI.com

NASDAQ:SHBI

# SHORE BANCSHARES, INC.

*Good things are happening here.®*

shorebancshares.com    NASDAQ:SHBI

COMMUNITY of COMPANIES

