



# Shore Bancshares



## 2018 | Annual Report

CHESAPEAKE BAY

DELAWARE BAY

DELAWARE

MARYLAND

VIRGINIA

ATLANTIC OCEAN

## SELECTED FINANCIAL DATA

(Dollars in thousands, except per share data)

Years Ended December 31,

	2018	2017
<b>RESULTS OF CONTINUING OPERATIONS:</b>		
Interest income	\$ 55,907	\$ 47,963
Interest expense	<u>5,272</u>	<u>2,273</u>
Net interest income	50,635	45,690
Provision for credit losses	<u>1,674</u>	<u>2,291</u>
Net interest income after provision for credit losses	48,961	43,399
Noninterest income	9,013	8,200
Noninterest expense	<u>36,831</u>	<u>33,640</u>
Income before income taxes	21,143	17,959
Income tax expense	<u>5,380</u>	<u>8,734</u>
Net income	<u>\$ 15,763</u>	<u>\$ 9,225</u>
<b>RESULTS OF DISCONTINUED OPERATIONS:</b>		
Noninterest income	\$ 22,077	\$ 9,388
Noninterest expense	<u>7,920</u>	<u>7,562</u>
Income before income taxes	14,157	1,826
Income tax expense (benefit)	<u>4,923</u>	<u>(211)</u>
Net income	<u>\$ 9,234</u>	<u>\$ 2,037</u>
<b>PER COMMON SHARE DATA:</b>		
Income from continuing operations - basic	\$ 1.24	\$ 0.73
Income from discontinued operations - basic	<u>0.72</u>	<u>0.16</u>
Net income	<u>\$ 1.96</u>	<u>\$ 0.89</u>
Income from continuing operations - diluted	\$ 1.24	\$ 0.73
Income from discontinued operations - diluted	<u>0.72</u>	<u>0.16</u>
Net income	<u>\$ 1.96</u>	<u>\$ 0.89</u>
Dividends paid	0.32	0.22
Book value (at year end)	14.37	12.90
Tangible book value (at year end) <sup>1</sup>	12.77	10.36
<b>FINANCIAL CONDITION (at year end):</b>		
Loans	\$ 1,195,355	\$ 1,093,514
Assets	1,483,076	1,393,860
Deposits	1,212,341	1,202,781
Stockholders' equity	183,185	163,736
<b>PERFORMANCE RATIOS (for the year)<sup>2</sup>:</b>		
Return on average total assets	1.74 %	0.87 %
Return on average stockholders' equity	14.81	7.05
Net interest margin	3.74	3.76
Efficiency ratio <sup>3</sup>	54.76	65.11
Dividend payout ratio	16.33	24.72
Average stockholders' equity to average total assets	11.75	12.40
<b>ASSET QUALITY RATIOS (for the year):</b>		
Nonperforming assets to total assets	1.21 %	0.53 %
Nonperforming assets and accruing TDRs to total assets	1.80	1.49
Allowance for credit losses to loans	0.87	0.89
Allowance for credit losses to nonaccrual loans	62.10	196.76
Allowance for credit losses to nonaccrual loans and TDRs	40.85	53.46

<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>Reflect the results of both continuing and discontinued operations.

<sup>3</sup>Noninterest expense as a percentage of total revenue (net interest income plus total noninterest income). Lower ratios indicate improved productivity.

Dear Shareholders:

2018 was a significant year for the Company, in terms of loan growth, core earnings and the divestiture of our retail insurance agency, Avon-Dixon, LLC (“Avon”). Our total loans increased \$101.8 million or 9.3% and total deposits increased \$9.6 million or less than 1%. The net proceeds from the sale of Avon amounted to \$25.2 million, resulting in a net gain after tax of \$8.2 million.

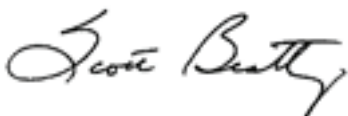
Our decision to sell Avon was not made lightly. Over the last 10 years, insurance premiums stayed relatively constant while the value of insurance agencies increased dramatically. Because of high acquisition costs, we were not in a position to expand into new markets through the purchase of new agencies.

After a great deal of thought and analysis, we concluded the sale of Avon would accomplish two goals. First, it will allow the agency the opportunity to grow, giving them access to many new insurance markets while becoming an anchor agency for a growing national insurance agency. Secondly, it will also allow our bank to grow. The proceeds from the sale of the agency provide a substantial increase in regulatory capital which we can now use to fund loan growth, expand our activities in some of our newer markets and support acquisition opportunities.

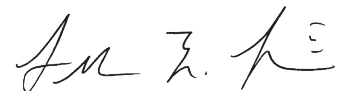
We continue to explore new technology and processes to create efficiencies, enhance the banking experience for our clients, and differentiate ourselves from our competitors. In 2018, much work was completed to prepare for new digital services that we will be offering in 2019.

Outside of expansion and new technologies, our employees continue to maintain the positive character of our company through their commitment to serve. In 2018, our employees volunteered over 7,000 hours to various non-profit organizations and events throughout our markets.

Looking forward, we remain committed to the success of our clients, filling in the gaps of our footprint and providing you with a favorable return. We thank you, our shareholders, for your continued support as well as our board of directors for their guidance as we set sail for a new year.



Lloyd L. “Scott” Beatty, Jr.  
President & CEO, Shore United Bank & Shore Bancshares, Inc.



Frank E. Mason, III  
Board Chairman

# WHAT'S ON THE HORIZON?

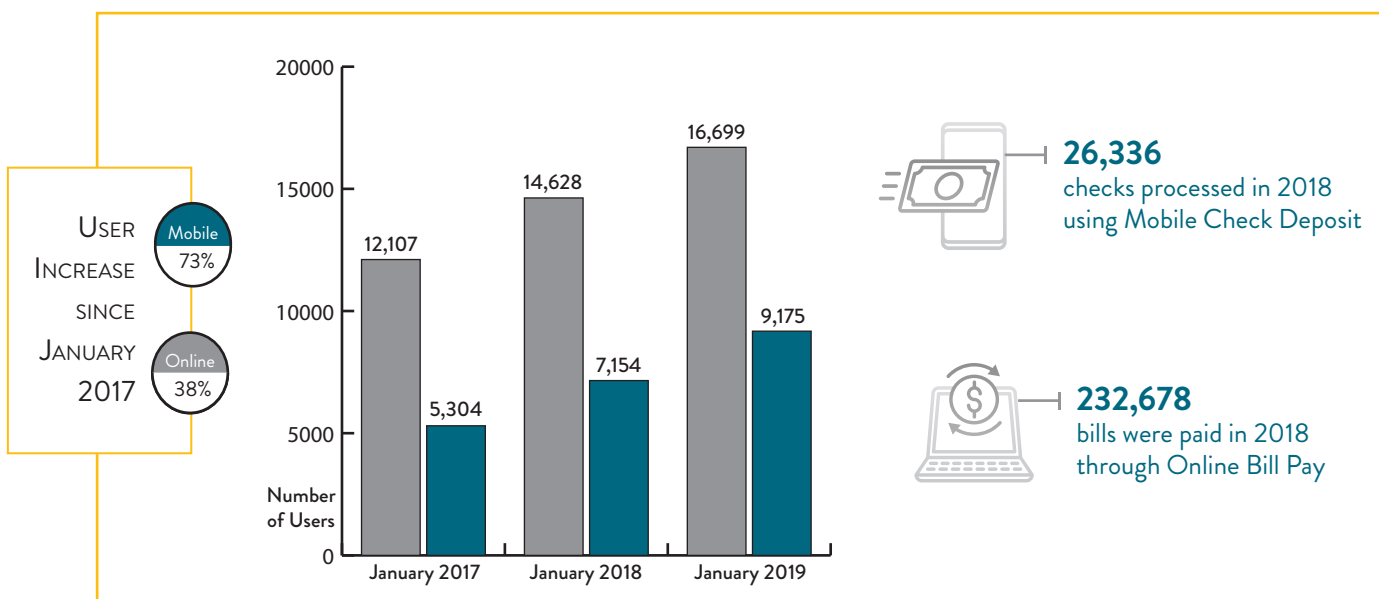
## MOBILE CHANNELS TO HELP MANAGE YOUR LIFE

We strive to meet the financial needs of all demographics in our market areas which we do by offering traditional products while introducing new digital products that benefit customers of all ages. As technology continues to advance, we continuously look for ways to leverage new developments to create efficiencies, improve processes, and make banking more convenient for our customers.

Each year we see a steady increase in the number of customers performing transactions through our online and mobile banking services. Many of our customers are using mobile devices to make deposits, pay bills, transfer money and pay for purchases.



Touch ID, a login method that only requires your fingerprint, became available for both Apple and Android users in 2018. In December of 2018, nearly 30% of our mobile banking customers opted to use the fingerprint method to log into their account over using their password. As more people rely on mobile devices to manage their life, we continue to explore options to enhance our clients' banking experience without compromising account security.





## TAP. TYPE. SEND!

We are seeing a steady increase in the number of customers who prefer cashless transactions like debit cards and mobile wallets to make purchases, and person-to-person payment services that provide a quick and easy way to exchange money between friends.

To keep up with customer expectations and the rapid advances in technology, we are investing in digital services to stand out from our competitors. In the first quarter of 2019, we introduced a new person-to-person payment service, Pay Someone. Users who are enrolled in our mobile or online banking service can send money to friends and family even if the recipient does not have a Shore United Bank account. All you need is an email address or the mobile phone number of the person you want to pay.

According to the [January 30, 2019 Globe Newswire Report](#)<sup>1</sup>, the global mobile wallet market accounted for \$880.2 billion in 2017 and is expected to reach \$9,352.2 billion by 2026. To meet the demand of digital commerce, we will introduce Apple, Samsung and Google Pay in the 2nd quarter of 2019. This new service will allow customers to store credit or debit card numbers in the respective app and pay for purchases through Shore United Bank using their phone or wearable device.



<sup>1</sup>(Jan. 30, 2019). Globe Newswire. Retrieved from: (<https://globenewswire.com/news-release/2019/01/30/1707681/0/en/Global-Mobile-Wallet-Market-Report-2017-2018-2026.html>).

## BUILDING RELATIONSHIPS



Wye Financial & Trust team presents the winning trophy to Stevensville Branch Manager, Kerry Nagle

While our banking services have become increasingly digital, we still strive to build a personal relationship with each customer. Our investment division, Wye Financial & Trust (Wye), has leveraged our internal referral program to match Shore United Bank clients with one of their financial advisors. When branch staff listen to our clients and invest the time to have a deeper conversation, they often learn of additional financial needs that can be best served by Wye. A referral is sent to the investment office with details to contact the customer. Qualified referrals and subsequent sales have steadily increased over the life of the program. Wye recognizes a winning branch each month cumulating with a champion branch of the year. Employees enjoy the friendly competition and our clients benefit from exceptional customer service.

## ACCOUNT OPENING ON THE GO

Consumer preferences are ever-changing. To open an account, they no longer want to make the trip to the bank or wait for a customer service representative. Instead they often prefer fast, easy and secure technology when opening an account.

Later this year, we will introduce a new tablet-based deposit platform that will allow users to open deposit accounts in the branch or on-site at a customer's location. The use of tablets will ease the account opening process for customers and create internal efficiencies.



# FINANCIAL LITERACY BEYOND THE CLASSROOM

*By providing financial literacy to our communities we help individuals:*

In recent years, financial education has come to a halt in most schools. According to the 2018 Survey of the States<sup>1</sup>, more than half of the states do not require high school students to take an economics class and only 17 states require high school students to take a course in personal finance. Studies indicate that students without a financial education are more likely to have financial problems and low credit scores later in life.

Economic growth has made it easier for people of all ages to obtain credit. If financial education is absent during the formative years, consumers and banks may suffer the consequences from a lack of a sound financial foundation.

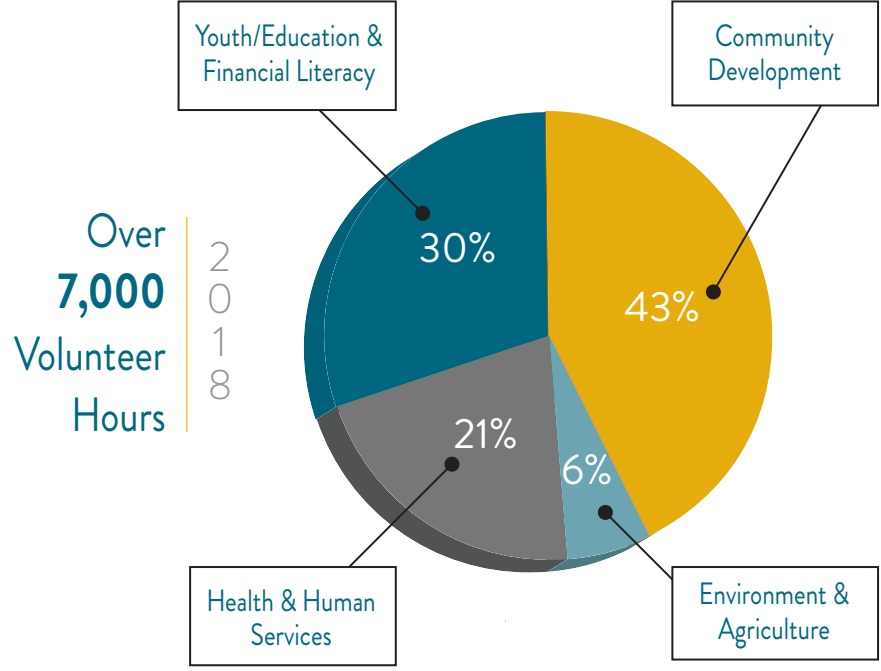
As a community bank, we believe it is important to help our local schools, senior centers and other organizations by providing financial education through on-site programs and presentations. In 2018, our employees provided credit counseling and financial literacy training to numerous students K-12, young adults, seniors and local homeless shelters.



- ▶ Make financial decisions with confidence
- ▶ Understand options when choosing a mortgage, saving or paying down debt
- ▶ Negotiate and establish goals for investments
- ▶ Prevent identity theft and avoid online scams
- ▶ Differentiate between financial dreams and reality and establish a budget
- ▶ Stress less and achieve more, ultimately improving quality of life

<sup>1</sup>(Jan. 30, 2019). Council for Economic Education. Retrieved from: <https://www.councilforeconed.org/policy-and-advocacy/survey-of-the-states-2/>.

*We feel strongly that helping others establish a strong financial foundation is a valuable way to leverage our talents, skills and resources to make a positive impact in the communities we serve.*



## BOARD OF DIRECTORS

### SHORE BANCSHARES & SHORE UNITED BANK

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President & Chief Executive Officer, JASCO

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Shore Bancshares, Inc. & Shore United Bank

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### OFFICERS | SHORE BANCSHARES

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Marie DiDaniels

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#### SENIOR VICE PRESIDENT & CHIEF LENDING OFFICER

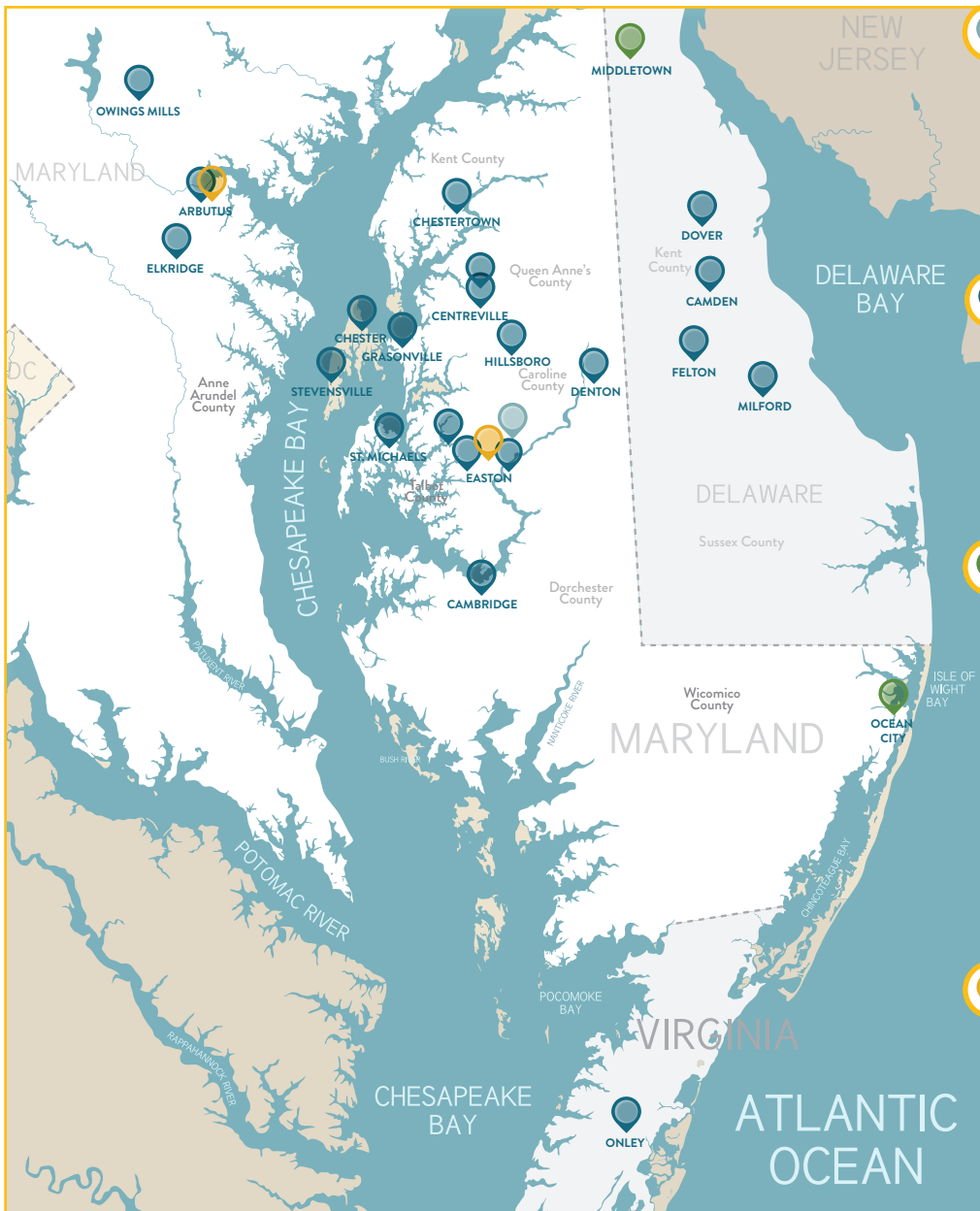
Michael T. Cavey

#### SENIOR VICE PRESIDENT & CHIEF RETAIL BANKING OFFICER

Jennifer Joseph

#### SENIOR VICE PRESIDENT/LEGAL COUNSEL CORPORATE SECRETARY

W. David Morse



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