

2019

ANNUAL REPORT



SELECTED FINANCIAL DATA

(Dollars in thousands, except per share data)

Years Ended December 31,

	2019	2018
RESULTS OF CONTINUING OPERATIONS:		
Interest income	\$ 59,767	\$ 55,907
Interest expense	<u>9,636</u>	<u>5,272</u>
Net interest income	50,131	50,635
Provision for credit losses	<u>700</u>	<u>1,674</u>
Net interest income after provision for credit losses	49,431	48,961
Noninterest income	10,020	9,013
Noninterest expense	<u>37,557</u>	<u>36,831</u>
Income before income taxes	21,894	21,143
Income tax expense	<u>5,610</u>	<u>5,380</u>
Income from continuing operations	<u>\$ 16,284</u>	<u>\$ 15,763</u>
RESULTS OF DISCONTINUED OPERATIONS:		
Noninterest income	\$ 15	\$ 20,077
Noninterest expense	<u>128</u>	<u>7,920</u>
(Loss) income before income taxes	(113)	14,157
Income tax expense (benefit)	<u>(27)</u>	<u>4,923</u>
(Loss) income from discontinued operations	<u>\$ (86)</u>	<u>\$ 9,234</u>
PER COMMON SHARE DATA:		
Income from continuing operations - basic	\$ 1.28	\$ 1.24
Income (loss) from discontinued operations - basic	<u>(0.01)</u>	<u>0.72</u>
Net income	<u>\$ 1.27</u>	<u>\$ 1.96</u>
Income from continuing operations - diluted	\$ 1.28	\$ 1.24
Income (loss) from discontinued operations - diluted	<u>(0.01)</u>	<u>0.72</u>
Net income	<u>\$ 1.27</u>	<u>\$ 1.96</u>
Dividends paid	0.42	0.32
Book value (at year end)	15.42	14.37
Tangible book value (at year end) ¹	13.84	12.77
FINANCIAL CONDITION (at year end):		
Loans	\$ 1,248,654	\$ 1,195,355
Assets	1,559,235	1,483,076
Deposits	1,341,334	1,212,341
Stockholders' equity	192,802	183,185
PERFORMANCE RATIOS (for the year)²:		
Return on average total assets	1.08 %	1.74 %
Return on average stockholders' equity	8.52	14.81
Net interest margin	3.54	3.74
Efficiency ratio ³	62.64	54.76
Dividend payout ratio	33.07	16.33
Average stockholders' equity to average total assets	12.69	11.75
ASSET QUALITY RATIOS (for the year):		
Nonperforming assets to total assets	0.77 %	1.21 %
Nonperforming assets and accruing TDRs to total assets	1.25	1.80
Allowance for credit losses to loans	0.84	0.87
Allowance for credit losses to nonaccrual loans	99.22	62.10
Allowance for credit losses to nonaccrual loans and TDRs	58.08	40.85

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

²Reflect the results of both continuing and discontinued operations.

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

Dear Shareholders:

Shore Bancshares (“the Company’s”) balance sheet experienced significant growth during 2019 allowing us to eclipse the \$1.5 billion asset mark. This was in a large part due to deposit growth, which experienced an increase of \$129.0 million, or 10.6%. Stockholders’ equity also increased in 2019 over 2018 by \$9.6 million or 5.2%. The increase in stockholders’ equity was enhanced by a positive trend in unrealized gains on our security portfolio and current year earnings. In addition, our earnings per share improved in part due to the execution of a stock buyback program initiated in the third quarter of 2019.

The buyback program was authorized by the Board of Directors in April of 2019 permitting 5% of the Company’s common stock to be repurchased with a maximum amount of \$10 million. The first repurchase of the Company’s shares occurred in August and at December 31, 2019, the Company had repurchased 278,700 shares of its common stock. Additionally, the Company also increased its dividend to shareholders by 31.3%.

Although 2019 was a modest year for net income, our profitability was challenged as we experienced a flattening yield curve and three interest rate cuts during the year which negatively impacted our net interest margin. Despite these obstacles, we managed to grow net income by \$521 thousand and increase earnings per share from continuing operations from \$1.24 in 2018 to \$1.28 for 2019.

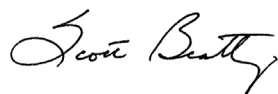
During 2019 our focus was on loan growth, increasing noninterest income, managing our noninterest expenses and significantly decreasing our borrowings. Loan originations remained strong throughout 2019 but was offset by some unexpected large payoffs and one large loan that closed 3 days after year-end. Noninterest income from continuing operations grew by \$1 million year-over-year and our noninterest expense costs only increased by 2%. Our dependency on alternative funding sources, i.e. short-term FHLB borrowings decreased by \$59.6 million. By reducing our borrowings, we helped stabilize our cost of funds and minimize compression to our net interest margin.

In 2020 we continue to be innovative and opportunistic. In March of 2020, we opened a new de-novo branch in West Ocean City, Maryland to complement our Loan Production Office that opened in April of 2017. Our new branch will operate in a much smaller space, with new technology and a sleek new design much different than our existing branches.

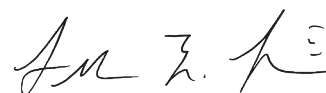
Giving back to the communities we serve continues to be a high priority to our employees and our Company. In 2019, our employees volunteered 6,759 hours to local organizations. In return, the Company invested over \$298 thousand to help support non-profit organizations throughout our footprint.

In closing, we thank our board of directors, shareholders, employees and customers for your support and investment in Shore Bancshares.

Sincerely,



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



Frank E. Mason, III
Board Chairman

WEBSITE VISITS
2019

1,350,792

We strive to keep our website as current, useful and accessible as possible. We are consistently updating information and improving the user experience on our site throughout the year.



MOBILE BANKING
USERS | 10,768

With the ability to do just about anything right from your phone, banking with us is no exception. We spend ample time making sure our mobile services are comparable to those of mega banks. Our mobile banking users grew 23% over 2018 and we anticipate that number to continue to grow.



PAY SOMEONE
TRANSACTIONS |

3,033

This past year we rolled out Pay Someone, a new person-to-person payment system. Our customers have quickly adopted this convenient online and mobile service and have successfully incorporated it into their financial routine.





3,231 | SOCIAL MEDIA AUDIENCE

Facebook page likes grew to 2,622 - a 23% increase over 2018. Instagram followers increased by 475%, to an accumulated 316 followers. Our LinkedIn follower count totaled at 277 and we have received 237 5-star reviews on Google, which equates to an average star rating of 4.7.



18,125 | ONLINE BANKING USERS

Each year, the number of customers who are utilizing our digital services grows and 2019 was no different. Our online banking customers increased by 13% over 2018.



948 | ACCOUNTS USING DIGITAL WALLETS

We began offering digital wallets in April giving our customers the ability to enroll their Shore United Bank debit card(s), which allows them to use their mobile device to make purchases at participating merchants.



30,560 | MOBILE CHECK DEPOSITS

Supporting our initiative to offer innovative digital services, our mobile check deposits increased by 16% over 2018. This allows customers to bank with us anytime no matter where they are!



COMMUNITY COMMITMENT GIVING TUESDAY

SHORE UNITED BANK BRANCH MANAGERS WITH CHECKS IN HAND TO DONATE TO LOCAL NON-PROFIT ORGANIZATIONS

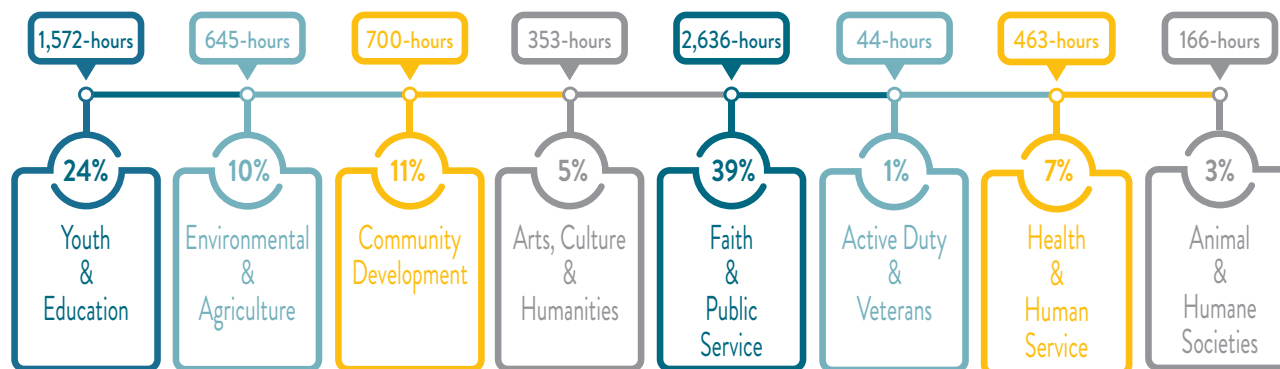
At Shore United Bank, we stand for something beyond our products and services. We invest in organizations that are impactful and help support the communities we serve.

Last year, our employees were actively involved in creating and selling Shore United Bank cookbooks to raise money to donate in honor of GivingTuesday. GivingTuesday is a global giving movement, where companies come together to give back to their local

communities. Collectively, we donated over \$7,000 to 23 different non-profit organizations. Each of our locations chose a non-profit organization to donate their cookbook proceeds to. Non-profit organizations benefiting from this initiative included health and human service organizations, such as homeless shelters and food banks; youth and education organizations, such as schools and youth sports teams; and animal rescue organizations, such as shelters and clinics.

6,579 GIVING BACK

VOLUNTEER HOURS



DOLLARS INVESTED BACK INTO THE COMMUNITY

COMMUNITY \$298,040

333

QUALIFIED REFERRALS

WYE FINANCIAL & TRUST
4% increase over last year



A qualified referral occurs when an employee identifies a customer's need and the customer accepts the invitation to meet with a financial advisor of Wye Financial & Trust.



FINANCIAL LITERACY PROGRAM

MONEY MANAGEMENT 101

We believe it is important to help local schools, senior centers, and other organizations by providing financial education through on-site programs and presentations. Year after year, our employees volunteer countless hours to provide credit counseling and financial literacy training to people of all ages. In 2016, Shore United Bank began a partnership with His Hope Ministries, a local homeless shelter in Denton, Maryland to teach a six-week course on financial literacy.

This partnership, along with our involvement in other organizations, has inspired us to launch Money Management 101. This online program makes the financial information that our employees review with many organizations accessible to everyone - to help us all make wiser financial decisions with less stress and more confidence!



5-STAR RATING FROM BAUERFINANCIAL, INC.

For fourteen consecutive quarters, Shore United Bank has achieved a 5-Star Rating from BauerFinancial, Inc. for financial strength and stability. 5-Star rated financial institutions are considered superior and are listed on BauerFinancial's "recommended" report. BauerFinancial star ratings classify each institution based upon a complex formula factoring in current and historical data. We not only excel in areas of capital adequacy, profitability, asset quality but help our neighbors and local businesses grow our communities with prudent lending and innovative solutions, all without compromising our financial health.



BEST OF EASTERN SHORE

WHAT'S UP? EASTERN SHORE MAGAZINE

Our local lifestyle magazine, What's Up Eastern Shore, sponsors an annual 'Best of Eastern Shore' reader's poll. The 'Best of' title is an annual award recognizing the best businesses and services that Maryland's Eastern Shore has to offer as voted by the magazine's readers. Shore United Bank has won the title of Best Bank for four consecutive years along with titles for Best Customer Service and Best Mortgage Lender. Wye Financial & Trust has also won titles in the Best of Eastern Shore reader's poll for Best Financial Advisor for the past four consecutive years.

NEW INNOVATIVE BRANCH WITH SLEEK DESIGN



For decades, banks have been wrestling with the question - what role will brick and mortar branches have in the future? Will digital banking services take over and customers no longer want or need to come into a branch?

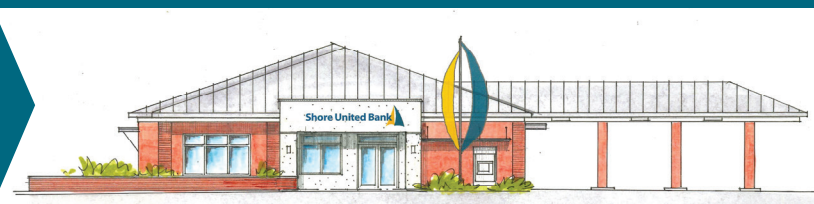
We determined that we need to continue to have a physical presence with less square footage, offering more technological advancements and a modern design. While some banks have opted to turn their branch space into cafes and lounges or eliminate transactions, we chose to create a

welcoming space with technology, simplicity and style to showcase our full-service suite of products and services delivered by a team of experienced professionals.

Our new branch in West Ocean City not only offers a more modern look in comparison to our existing branches, but it also includes technologies to create operational efficiencies. Cash recyclers will be used at this location providing a more secure place to store money and keep accurate accounting of cash.

The new branch was strategically selected to meet the needs of local consumers and businesses and to complement our already established Loan Production office that opened in April of 2017. Ocean City, MD is in Worcester County and is one of the largest vacation spots on the East Coast bringing a large number of tourists and businesses to the area from Washington, D.C., Baltimore, Philadelphia and Delaware. This area of the lower Eastern Shore offers growth and new opportunities for the bank.

Branch Remodel To Begin Q2 2020 - 212 Marlboro Avenue, Easton, Maryland



BOARD OF DIRECTORS

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President & Chief Executive Officer, JASCO

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Edward C. Allen

EXECUTIVE VICE PRESIDENT & CHIEF OPERATING OFFICER

Donna J. Stevens

EXECUTIVE VICE PRESIDENT & GENERAL COUNSEL

W. David Morse

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W. David Morse

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Jennifer Joseph

SENIOR VICE PRESIDENT & CHIEF INFORMATION OFFICER

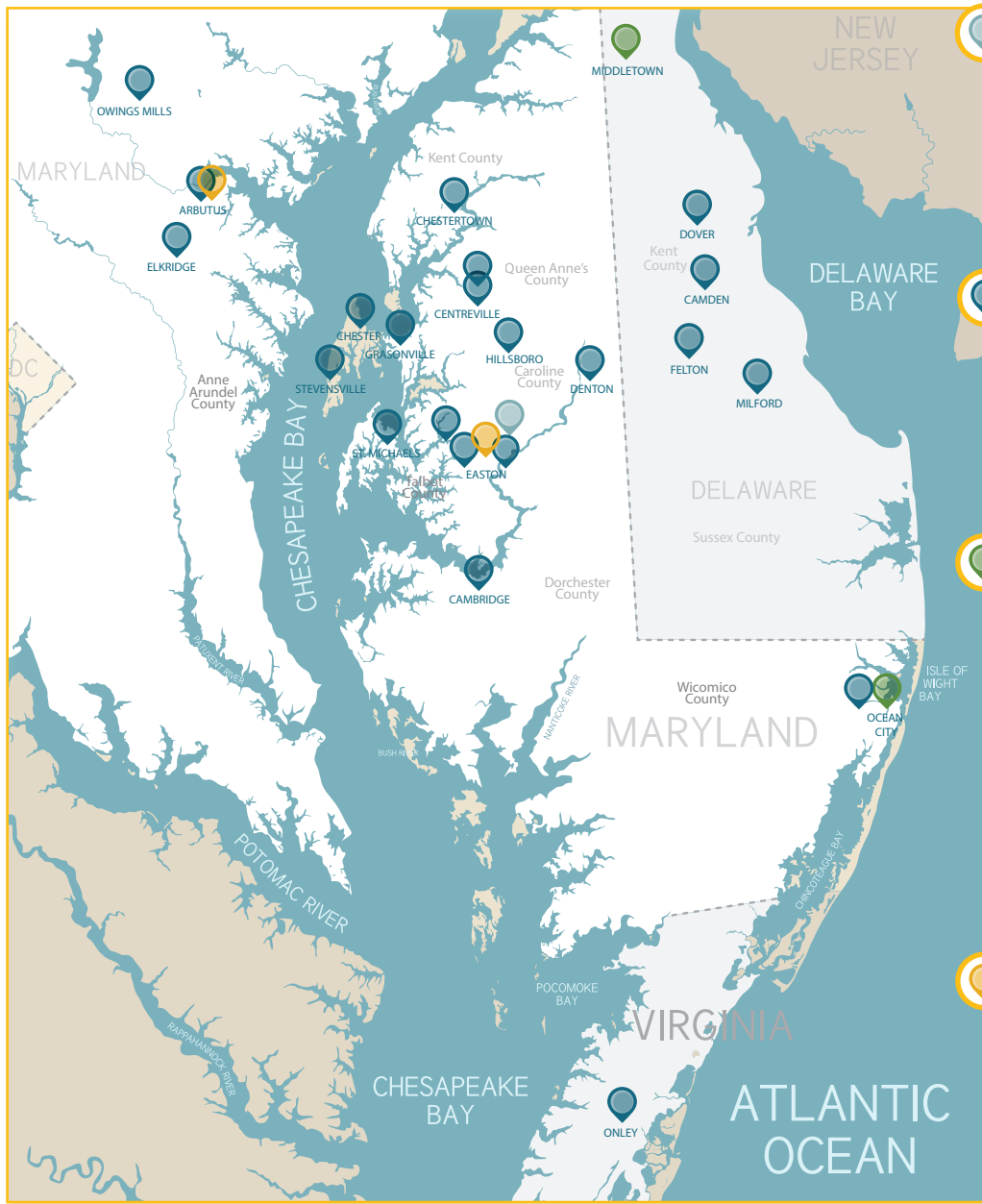
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SENIOR VICE PRESIDENT & CHIEF HUMAN RESOURCES OFFICER

Marie DiDaniels



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NASDAQ: SHBI