

REFINITIV

DELTA REPORT

10-Q

SHBI - SHORE BANCSHARES INC

10-Q - MARCH 31, 2024 COMPARED TO 10-Q - SEPTEMBER 30, 2023

The following comparison report has been automatically generated

TOTAL DELTAS 1698

■ CHANGES	476
■ DELETIONS	607
■ ADDITIONS	615

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

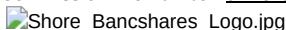
For the Quarterly Period Ended September 30, 2023 March 31, 2024

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: **0-22345**



SHORE BANCSHARES, INC.

(Exact name of registrant as specified in its charter)

Maryland

(State or Other Jurisdiction of Incorporation or Organization)

52-1974638

(I.R.S. Employer Identification No.)

18 E. Dover Street, Easton, Maryland

(Address of Principal Executive Offices)

21601

(Zip Code)

(410) 763-7800

Registrant's Telephone Number, Including Area Code

Not applicable

(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock	SHBI	NASDAQ

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter periods that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The number of shares outstanding of the registrant's common stock as of November 13, 2023 May 3, 2024 was 83,145,695 33,210,522.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

SHORE BANCSHARES, INC. CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)	(In thousands, except share and per share data)	September 30, 2023	December 31, 2022	(In thousands, except share and per share data)	March 31, 2024	December 31, 2023
ASSETS	ASSETS	(Unaudited)		ASSETS		(Unaudited)
Cash and due from banks	Cash and due from banks	\$ 68,097	\$ 37,661			
Interest-bearing deposits with other banks	Interest-bearing deposits with other banks	40,612	17,838			
Cash and cash equivalents	Cash and cash equivalents	108,709	55,499			
Investment securities:				Investment securities:		
Available-for-sale, at fair value (amortized cost of \$93,052 (2023) and \$95,999 (2022))	79,143	83,587				
Held to maturity, net of allowance for credit losses of \$126 (2023) (fair value of \$445,652 (2023) and \$494,627 (2022))	523,051	559,455				

Available-for-sale, at fair value (amortized cost of \$190,583 (2024) and \$120,832 (2023))			
Held to maturity, net of allowance for credit losses of \$116 (2024) and \$94 (2023) (fair value of \$444,258 (2024) and \$457,830 (2023))			
Equity securities, at fair value	Equity securities, at fair value	5,434	1,233
Restricted securities, at cost	Restricted securities, at cost	13,361	11,169
Loans held for sale, at fair value	Loans held for sale, at fair value	14,725	4,248
Loans held for investment (\$9,302 (2023) and \$8,437 (2022), at fair value)		4,617,719	2,556,107
Loans held for investment (\$9,684 (2024) and \$9,944 (2023), at fair value)			
Loans held for investment (\$9,684 (2024) and \$9,944 (2023), at fair value)			
Loans held for investment (\$9,684 (2024) and \$9,944 (2023), at fair value)			
Less: allowance for credit losses	Less: allowance for credit losses	(57,051)	(16,643)
Loans, net	Loans, net	4,560,668	2,539,464
Premises and equipment, net	Premises and equipment, net	81,149	51,488
Premises and equipment, net			
Premises and equipment, net			
Goodwill	Goodwill	63,266	63,266
Core deposit intangible, net		50,685	5,547
Other intangible assets, net			
Other real estate owned, net	Other real estate owned, net	179	197
Repossessed properties			
Mortgage servicing rights, at fair value	Mortgage servicing rights, at fair value	5,890	5,275
Right-of-use assets	Right-of-use assets	12,741	9,629
Cash surrender value on life insurance	Cash surrender value on life insurance	100,950	59,218
Accrued interest receivable	Accrued interest receivable	15,683	9,384
Deferred income taxes	Deferred income taxes	48,699	7,357
Other assets	Other assets	24,392	11,260
TOTAL ASSETS	TOTAL ASSETS	\$5,708,725	\$3,477,276
LIABILITIES	LIABILITIES		
Deposits:	Deposits:		
Deposits:			
Deposits:			

Noninterest-bearing			
Noninterest-bearing			
Noninterest-bearing	Noninterest-bearing	\$1,211,401	\$ 862,015
Interest-bearing	Interest-bearing	3,897,343	2,147,769
Total deposits	Total deposits	5,108,744	3,009,784
Advances from FHLB - short-term		—	40,000
Guaranteed preferred beneficial interest in junior subordinated debentures ("TRUPS")		29,079	18,398
Subordinated debt		42,956	24,674
Guaranteed preferred beneficial interest in junior subordinated debentures ("TRUPS"), net			
Guaranteed preferred beneficial interest in junior subordinated debentures ("TRUPS"), net			
Guaranteed preferred beneficial interest in junior subordinated debentures ("TRUPS"), net			
Subordinated debt, net			
Total borrowings	Total borrowings	72,035	83,072
Lease liabilities	Lease liabilities	13,082	9,908
Other liabilities	Other liabilities	9,933	10,227
TOTAL	TOTAL		
LIABILITIES	LIABILITIES	5,203,794	3,112,991
STOCKHOLDERS' EQUITY			
EQUITY			
Common stock, par value \$.01 per share; shares authorized - 35,000,000; shares issued and outstanding - 33,136,182 (2023) and 19,864,956 (2022)			
		331	199
STOCKHOLDERS' EQUITY			
STOCKHOLDERS' EQUITY			
Common stock, par value \$.01 per share; shares authorized - 50,000,000; shares issued and outstanding - 33,210,522 (2024) and 33,161,532 (2023)			
Common stock, par value \$.01 per share; shares authorized - 50,000,000; shares issued and outstanding - 33,210,522 (2024) and 33,161,532 (2023)			
Common stock, par value \$.01 per share; shares authorized - 50,000,000; shares issued and outstanding - 33,210,522 (2024) and 33,161,532 (2023)			
Additional paid in capital			
Additional paid in capital	Additional paid in capital	355,575	201,494
Retained earnings	Retained earnings	159,134	171,613
Accumulated other comprehensive loss	Accumulated other comprehensive loss	(10,109)	(9,021)
TOTAL	TOTAL		
STOCKHOLDERS' EQUITY	STOCKHOLDERS' EQUITY	504,931	364,285

TOTAL	TOTAL
LIABILITIES AND STOCKHOLDERS' EQUITY	LIABILITIES AND STOCKHOLDERS' EQUITY
	\$5,708,725

See accompanying notes to Consolidated Financial Statements.

SHORE BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF (LOSS)/INCOME (Unaudited)

		For Three Months Ended September 30,		For Nine Months Ended September 30,	
		For Three Months Ended March 31,		For Three Months Ended March 31,	
		For Three Months Ended March 31,		For Three Months Ended March 31,	
(In thousands, except per share data)					
(In thousands, except per share data)					
(In thousands, except per share data)	(In thousands, except per share data)				
INTEREST INCOME	INTEREST INCOME				
INTEREST INCOME					
Interest and fees on loans					
Interest and fees on loans					
Interest and fees on loans	Interest and fees on loans	\$ 64,869	\$ 25,924	\$ 128,424	\$ 71,458
Interest and dividends on taxable investment securities	Interest and dividends on taxable investment securities	5,047	3,186	12,840	7,562
Interest and dividends on taxable investment securities					
Interest and dividends on taxable investment securities					
Interest and dividends on tax-exempt investment securities	Interest and dividends on tax-exempt investment securities	27	—	41	—
Interest on federal funds sold		92	—	92	—
Interest and dividends on tax-exempt investment securities					
Interest and dividends on tax-exempt investment securities					
Interest on deposits with other banks	Interest on deposits with other banks	1,213	1,466	1,546	2,546
Interest on deposits with other banks					
Interest on deposits with other banks					
Total interest income					
Total interest income					
Total interest income	Total interest income	71,248	30,576	142,943	81,566
INTEREST EXPENSE	INTEREST EXPENSE				
INTEREST EXPENSE					
Interest on deposits					
Interest on deposits					
Interest on deposits	Interest on deposits	23,473	2,561	40,668	5,429

Interest on short-term borrowings	Interest on short-term borrowings	692	—	5,501	2
Interest on short-term borrowings					
Interest on short-term borrowings					
Interest on long-term borrowings	Interest on long-term borrowings	1,461	700	2,992	1,776
Interest on long-term borrowings					
Interest on long-term borrowings					
Total interest expense					
Total interest expense	Total interest expense	25,626	3,261	49,161	7,207
NET INTEREST INCOME	NET INTEREST INCOME	45,622	27,315	93,782	74,359
NET INTEREST INCOME					
NET INTEREST INCOME					
Provision for credit losses	Provision for credit losses	28,176	675	30,056	1,475
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	17,446	26,640	63,726	72,884
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES					
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES					
NONINTEREST INCOME					
NONINTEREST INCOME	NONINTEREST INCOME	1,505	1,509	3,981	4,306
Service charges on deposit accounts	Service charges on deposit accounts	1,505	1,509	3,981	4,306
Service charges on deposit accounts					
Service charges on deposit accounts	Service charges on deposit accounts	1,505	1,509	3,981	4,306
Trust and investment fee income	Trust and investment fee income	1,933	421	2,764	1,383
Loss on sales and calls of investment securities	Loss on sales and calls of investment securities	(2,166)	—	(2,166)	—
Trust and investment fee income					
Trust and investment fee income					
Interchange credits					
Interchange credits	Interchange credits	1,557	1,241	4,081	3,532
Mortgage-banking revenue	Mortgage-banking revenue	1,377	680	3,408	3,643
Mortgage-banking revenue					
Mortgage-banking revenue					
Title Company revenue	Title Company revenue	89	397	412	1,146
Bargain purchase gain	Bargain purchase gain	12,169	—	12,169	—
Title Company revenue					
Title Company revenue	Title Company revenue	12,169	—	12,169	—

Other noninterest income	Other noninterest income	1,873	1,096	4,317	3,214
Other noninterest income					
Other noninterest income					
Total noninterest income					
Total noninterest income					
Total noninterest income	Total noninterest income	18,337	5,344	28,966	17,224
NONINTEREST EXPENSE	NONINTEREST EXPENSE				
NONINTEREST EXPENSE					
Salaries and wages					
Salaries and wages					
Salaries and wages	Salaries and wages	14,183	8,562	31,822	27,022
Employee benefits	Employee benefits	3,607	2,191	8,968	7,122
Employee benefits					
Employee benefits					
Occupancy expense					
Occupancy expense					
Occupancy expense	Occupancy expense	2,245	1,496	5,463	4,548
Furniture and equipment expense	Furniture and equipment expense	750	533	1,761	1,370
Furniture and equipment expense					
Furniture and equipment expense					
Data processing					
Data processing					
Data processing	Data processing	2,485	1,759	6,022	5,034
Directors' fees	Directors' fees	295	217	730	617
Amortization of core deposit intangible					
Amortization of core deposit intangible					
Directors' fees	Directors' fees				
Amortization of other intangible assets					
Amortization of other intangible assets					
Amortization of other intangible assets					
FDIC insurance premium expense					
FDIC insurance premium expense					
FDIC insurance premium expense	FDIC insurance premium expense	618	339	1,747	1,111
Other real estate owned expenses, net	Other real estate owned expenses, net	2	1	2	52
Other real estate owned expenses, net					
Other real estate owned expenses, net					
Legal and professional fees	Legal and professional fees	1,217	756	2,926	2,204
Legal and professional fees					
Legal and professional fees					
Fraud losses (1)	Fraud losses (1)				
Fraud losses (1)	Fraud losses (1)				
Fraud losses (1)	Fraud losses (1)				
Merger-related expenses					
Merger-related expenses					

Merger-related expenses	Merger-related expenses	14,866	159	16,754	1,130
Other noninterest expenses	Other noninterest expenses	4,256	2,387	9,956	7,585
Other noninterest expenses					
Total noninterest expense	Total noninterest expense	47,158	18,899	89,661	59,323
(Loss)/income before income taxes		(11,375)	13,085	3,031	30,785
Income tax (benefit) expense		(4,991)	3,427	(1,060)	8,016
NET (LOSS) INCOME		\$ (6,384)	\$ 9,658	\$ 4,091	\$ 22,769
Total noninterest expense					
Total noninterest expense					
Income before income taxes					
Income before income taxes					
Income before income taxes					
Income tax expense					
Income tax expense					
Income tax expense					
NET INCOME					
NET INCOME					
NET INCOME					
Basic and diluted net (loss) income per common share		\$ (0.19)	\$ 0.49	\$ 0.17	\$ 1.15
Basic and diluted net income per common share					
Basic and diluted net income per common share					
Basic and diluted net income per common share					
Dividends paid per common share	Dividends paid per common share	\$ 0.12	\$ 0.12	\$ 0.36	\$ 0.36
Dividends paid per common share					
Dividends paid per common share					

(1) Fraud losses includes \$4.3 million of credit card fraud losses for the quarter ended March 31, 2024.

See accompanying notes to Consolidated Financial Statements.

SHORE BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS)/INCOME (Unaudited)

(In thousands)	For Three Months Ended September 30,		For Nine Months Ended September 30,	
	2023	2022	2023	2022
Net (loss) income	\$ (6,384)	\$ 9,658	\$ 4,091	\$ 22,769
Other comprehensive loss:				
Investment securities:				
Unrealized holding losses on available-for-sale-securities	(2,132)	(4,307)	(1,498)	(13,533)
Tax effect	584	1,177	410	3,696
Total other comprehensive loss	(1,548)	(3,130)	(1,088)	(9,837)
Comprehensive (loss) income	<u><u>\$ (7,932)</u></u>	<u><u>\$ 6,528</u></u>	<u><u>\$ 3,003</u></u>	<u><u>\$ 12,932</u></u>

(In thousands)	For Three Months Ended March 31,	
	2024	2023
Net income	\$ 8,184	\$ 6,457
Other comprehensive income (loss):		
Investment securities:		
Unrealized holding gains (losses) on available-for-sale-securities	(776)	1,183
Tax effect	212	(323)
Total other comprehensive income (loss)	(564)	860
Comprehensive income	\$ 7,620	\$ 7,317

See accompanying notes to Consolidated Financial Statements.

SHORE BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (Unaudited)
For the Three and Nine Months Ended September 30, 2023 March 31, 2024 and 2022 2023

(In thousands)	(In thousands)	Accumulated					Common Stock	Additional Paid in Capital	Retained Earnings	Comprehensive Income	Stockholders' Equity (In thousands)	Common Stock	Additional Paid in Capital	Retained Earnings	Comprehensive Income	Stockholders' Equity	
		Common Stock	Paid in Capital	Retained Earnings	Total	Stockholders' Equity											
Balances, January 1, 2023	\$ 199	\$ 201,494	\$ 171,613	\$ (9,021)	\$ 364,285												
Cumulative effect adjustment due to the adoption of ASC																	
326, net of tax	—	—	(7,818)	—	(7,818)												
Net income	—	—	6,457	—	6,457												
Other comprehensive income	—	—	—	860	860												
Common shares issued for employee stock purchase plan	—	87	—	—	87												
Stock-based compensation	—	155	—	—	155												
Cash dividends declared	—	—	(2,388)	—	(2,388)												
Balances, March 31, 2023	\$ 199	\$ 201,736	\$ 167,864	\$ (8,161)	\$ 361,638												
Balances, January 1, 2024																	
Net income	Net income	\$ —	\$ —	\$ 4,018	\$ —	\$ 4,018											
Other loss	Other loss	—	—	—	(400)	(400)											
Common shares issued for employee stock purchase plan	Common shares issued for employee stock purchase plan	—	102	—	—	102											
Stock-based compensation	Stock-based compensation	—	170	—	—	170											
Cash dividends declared	Cash dividends declared	—	—	(2,388)	—	(2,388)											
Balances, June 30, 2023	\$ 199	\$ 202,008	\$ 169,494	\$ (8,561)	\$ 363,140												
Net loss	\$ —	\$ —	\$ (6,384)	\$ —	\$ (6,384)												
Other comprehensive loss	—	—	—	(1,548)	(1,548)												

TCFC acquisition	132	152,954	—	—	153,086
Common shares issued for employee stock purchase plan	—	84	—	—	84
Stock-based compensation	—	529	—	—	529
Cash dividends declared	—	—	(3,976)	—	(3,976)
Balances, September 30, 2023	\$ 331	\$ 355,575	\$ 159,134	\$ (10,109)	\$ 504,931
Balances, March 31, 2024					

SHORE BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (Unaudited) - Continued

		Accumulated									
		Common	Paid in	Retained	Other	Comprehensive	Stockholders'	(In	Common	Additional	Accumulated
	(In thousands)	Stock	Capital	Earnings	(Loss)	Income	Equity	thousands)	Stock	Paid in	Other
Balances, January 1, 2022	\$ 198	\$ 200,473	\$ 149,966	\$ 56	\$ 350,693						
Balances, January 1, 2023											
Cumulative effect adjustment due to the adoption of ASC 326, net of tax											
Net Income	Net Income	—	—	5,613	—	—	5,613				
Other comprehensive loss	—	—	—	—	(2,228)	—	(2,228)				
Other comprehensive income											
Common shares issued for employee stock purchase plan	Common shares issued for employee stock purchase plan	—	37	—	—	—	37				
Stock-based compensation	Stock-based compensation	—	130	—	—	—	130				
Cash dividends declared	Cash dividends declared	—	—	(2,381)	—	—	(2,381)				
Balances, March 31, 2022	\$ 198	\$ 200,640	\$ 153,198	\$ (2,172)	\$ 351,864						
Net Income	\$ —	\$ —	\$ 7,499	\$ —	\$ 7,499						
Other comprehensive loss	—	—	—	(4,479)	(4,479)						
Common shares issued for employee stock purchase plan	—	102	—	—	102						
Stock-based compensation	—	172	—	—	172						
Cash dividends declared	—	—	(2,381)	—	(2,381)						
Balances, June 30, 2022	\$ 198	\$ 200,914	\$ 158,316	\$ (6,651)	\$ 352,777						
Net Income	\$ —	\$ —	\$ 9,658	\$ —	\$ 9,658						
Other comprehensive loss	—	—	—	(3,130)	(3,130)						

Common shares issued for employee stock purchase plan	1	124	—	—	125
Stock-based compensation	—	175	—	—	175
Cash dividends declared	—	—	(2,384)	—	(2,384)
Balances, September 30, 2022	\$ 199	\$ 201,213	\$ 165,590	\$ (9,781)	\$ 357,221
Balances, March 31, 2023					

See accompanying notes to Consolidated Financial Statements.

SHORE BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

		For Nine Months Ended September 30,		For Three Months Ended March 31,	
(In thousands)	(In thousands)	2023	2022	(In thousands)	2024
CASH FLOWS FROM OPERATING ACTIVITIES:					
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net Income	Net Income	\$ 4,091	\$ 22,769		
Adjustments to reconcile net income to net cash (used in) provided by operating activities:					
Net Income					
Net Income					
Adjustments to reconcile net income to net cash (used in) provided by operating activities:					
Net accretion of acquisition accounting estimates					
Net accretion of acquisition accounting estimates					
Net accretion of acquisition accounting estimates	Net accretion of acquisition accounting estimates	(6,672)	(1,225)		
Provision for credit losses	Provision for credit losses	30,056	1,475		

Depreciation and amortization	Depreciation and amortization	6,847	4,253
Net amortization of securities	Net amortization of securities	724	1,121
Amortization of debt issuance costs	Amortization of debt issuance costs	92	92
Bargain purchase gain	(12,169)	—	
(Gain) on mortgage banking activities	(2,602)	(2,526)	
Gain on mortgage banking activities			
Gain on mortgage banking activities			
Gain on mortgage banking activities			
Proceeds from sale of mortgage loans held for sale			
Proceeds from sale of mortgage loans held for sale			
Proceeds from sale of mortgage loans held for sale	Proceeds from sale of mortgage loans held for sale	80,846	128,595
Originations of loans held for sale	Originations of loans held for sale	(89,485)	(98,020)
Stock-based compensation expense	Stock-based compensation expense	853	477
Deferred income tax (benefit)	(934)	(723)	
Losses on sales and calls of securities	2,166	—	
Loss (Gain) on valuation adjustments on mortgage servicing rights	5	(459)	
Deferred income tax expense (benefit)			
Loss on valuation adjustments on mortgage servicing rights			
Loss on valuation adjustments on mortgage servicing rights			
Loss on valuation adjustments on mortgage servicing rights			
Valuation adjustments on premises transferred to held for sale	Valuation adjustments on premises transferred to held for sale	271	—

(Gain) Loss on sales and valuation adjustments on other real estate owned			
real estate owned	(3)	44	
Gain on sales and valuation adjustments on other real estate owned			
Fair value adjustments on loans held for investments, at fair value	Fair value adjustments on loans held for investments, at fair value	492	—
Fair value adjustment on equity securities	Fair value adjustment on equity securities	177	162
Bank owned life insurance income	Bank owned life insurance income	(1,305)	(702)
Net changes in:	Net changes in:		
Accrued interest receivable	Accrued interest receivable		
Other assets	Other assets	(10,145)	(304)
Accrued interest payable	Accrued interest payable	1,192	(217)
Other liabilities	Other liabilities	(20,663)	(4,030)
Net cash (used in) provided by operating activities	(13,356)	50,061	
Net cash provided by operating activities			
CASH FLOWS	CASH FLOWS		
FROM	FROM		
INVESTING	INVESTING		
ACTIVITIES:	ACTIVITIES:		
CASH FLOWS FROM INVESTING ACTIVITIES:			
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from maturities and principal payments of investment securities available for sale	Proceeds from maturities and principal payments of investment securities available for sale	12,304	16,719

Proceeds from the sale of acquired AFS securities	434,215	—
Proceeds from maturities and principal payments of investment securities available for sale		
Proceeds from maturities and principal payments of investment securities available for sale		
Proceeds from maturities and principal payments of investment securities held to maturity	Proceeds from maturities and principal payments of investment securities held to maturity	35,023 40,603
Proceeds from sale of loans held for investment	8,611	—
Purchases of securities held to maturity	—	(207,466)
Proceeds from maturities and principal payments of investment securities held to maturity		
Proceeds from maturities and principal payments of investment securities held to maturity		
Purchases of investment securities available for sale		
Purchases of investment securities available for sale		
Purchases of investment securities available for sale		
Purchases of equity securities	Purchases of equity securities	(41) (12)
Purchase of restricted securities	Purchase of restricted securities	(26,076) (5,735)
Net change in loans	Net change in loans	(297,999) (280,874)
Purchases of premises and equipment	Purchases of premises and equipment	(3,654) (2,274)
Proceeds from sales of other real estate owned	Proceeds from sales of other real estate owned	21 394
Improvements to other real estate owned	—	(34)
Redemption of restricted securities		

Redemption of restricted securities			
Redemption of restricted securities	Redemption of restricted securities	28,224	—
Purchases of bank owned life insurance	Purchases of bank owned life insurance	(187)	(10,131)
Proceeds from disposal of premises held for sale		721	—
Cash acquired in the acquisition of TCFC, net of cash paid		25,372	—
Net cash provided by (used in) investing activities		216,534	(448,810)

SHORE BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited) - Continued

		For Nine Months Ended September 30,		For Three Months Ended March 31,	
(In thousands)	(In thousands)	2023	2022	(In thousands)	2024
CASH FLOWS					
FROM					
FINANCING					
ACTIVITIES:					
CASH FLOWS FROM FINANCING					
ACTIVITIES:					
Net changes in: Net changes in:					
Net changes in:					
Net changes in:					
Noninterest-bearing deposits					
Noninterest-bearing deposits					
Noninterest-bearing deposits	Noninterest-bearing deposits	(239,293)	(33,689)		
Interest-bearing deposits	Interest-bearing deposits	206,804	23,156		
Short-term borrowings	Short-term borrowings	(109,000)	(4,143)		
Common stock dividends paid	Common stock dividends paid	(8,752)	(7,146)		

Issuance of common stock	Issuance of common stock	<u>273</u>	264
Net cash provided by (used in) financing activities		<u>(149,968)</u>	(21,558)
Net increase (decrease) in cash and cash equivalents		<u>53,210</u>	(420,307)
Net cash (used in) provided by financing activities			
Net decrease in cash and cash equivalents			
Cash and cash equivalents at beginning of period	Cash and cash equivalents at beginning of period	<u>55,499</u>	583,613
Cash and cash equivalents at end of period	Cash and cash equivalents at end of period	<u>\$108,709</u>	\$163,306
Supplemental cash flows information:	Supplemental cash flows information:		
Supplemental cash flows information:			
Supplemental cash flows information:			
Interest paid			
Interest paid	Interest paid	<u>\$ 47,243</u>	\$ 7,705
Income taxes paid	Income taxes paid	<u>\$ 7,894</u>	\$ 7,070
Recognition (remeasurement of) lease liabilities arising from right-of-use assets	Recognition (remeasurement of) lease liabilities arising from right-of-use assets	<u>\$ 45</u>	\$ (616)
Transfers from loans to other real estate owned		<u>\$ —</u>	\$ 69
Unrealized losses on securities available for sale		<u>\$ (1,498)</u>	\$ (13,533)
Transfers from loans to reposessed properties			
Unrealized (losses) gains on securities available for sale			
Unsettled securities transaction			

Transfer of premises to held for sale (included in other assets)	Transfer of premises to held for sale (included in other assets)	\$ 750 \$ —
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See accompanying notes to Consolidated Financial Statements.

Shore Bancshares, Inc.

Notes to Consolidated Financial Statements

For the Three and Nine Months Ended **September 30, 2023** **March 31, 2024** and **2022** **2023**
(Unaudited)

Note 1 – Basis of Presentation

The consolidated financial statements include the accounts of Shore Bancshares, Inc. and its subsidiaries with all significant intercompany transactions eliminated. The consolidated financial statements conform to accounting principles generally accepted in the United States of America ("GAAP") and to prevailing practices within the banking industry. The accompanying interim financial statements are unaudited; however, in the opinion of management all adjustments necessary to present fairly the consolidated financial position at **September 30, 2023** **March 31, 2024**, the consolidated results of income and comprehensive income for the three and nine months ended **September 30, 2023** **March 31, 2024** and **2022**, **2023**, changes in stockholders' equity for the three and nine months ended **September 30, 2023** **March 31, 2024** and **2022** **2023** and cash flows for the nine three months ended **September 30, 2023** **March 31, 2024** and **2022**, **2023**, have been included. All such adjustments were of a normal recurring nature. The amounts as of **December 31, 2022** **December 31, 2023** were derived from the **2022** **2023** audited financial statements. The results of operations for the three and nine months ended **September 30, 2023** **March 31, 2024** are not necessarily indicative of the results to be expected for any other interim period or for the full year. This Quarterly Report on Form 10-Q should be read in conjunction with the Annual Report of Shore Bancshares, Inc. on Form 10-K for the year ended **December 31, 2022** **December 31, 2023** (the "2023 Annual Report"). For purposes of comparability, certain immaterial reclassifications have been made to amounts previously reported to conform with the current period presentation.

When used in these notes, the term "the Company" refers to Shore Bancshares, Inc. and, unless the context requires otherwise, its consolidated subsidiaries, Shore United Bank, N.A. (the "Bank") and Mid-Maryland Title Company, Inc. (the "Title Company").

Pending Recent Accounting Standards Pronouncements

ASU No. 2022-03 – Update 2023-09 – In June 2022, December 2023, the Financial Accounting Standards Board ("FASB") (FASB) issued Accounting Standards Update ("ASU") No. 2022-03, "Fair Value Measurement ASU 2023-09, "Income Taxes (Topic 820) 740: Fair Value Measurement of Equity Securities Subject Improvements to Contractual Sale Restrictions". The amendments in this ASU 2022-03 clarifies require an entity to disclose specific categories in the rate reconciliation and provide additional information for reconciling items that meet a contractual restriction on the sale of an equity security quantitative threshold, which is not considered part greater than five percent of the unit amount computed by multiplying pretax income by the entity's applicable statutory rate, on an annual basis. Additionally, the amendments in this ASU require an entity to disclose the amount of account income taxes paid (net of refunds received) disaggregated by federal, state, and foreign taxes and the equity security amount of income taxes paid (net of refunds received) disaggregated by individual jurisdictions that are equal to or greater than five percent of total income taxes paid (net of refunds received). Lastly, the amendments in this ASU require an entity to disclose income (or loss) from continuing operations before income tax expense (or benefit) disaggregated between domestic and therefore, is not considered in measuring fair value. The foreign and income tax expense (or benefit) from continuing operations disaggregated by federal, state, and foreign. This ASU is effective for fiscal years, including interim annual periods within those fiscal years, beginning after December 15, 2023 December 15, 2024. Early adoption is permitted. The amendments should be applied on a prospective basis; however, retrospective application is permitted. The Company does not expect the adoption of ASU 2022-03 2023-09 to have a material impact on its consolidated financial statements.

Note 2 ASU Update 2023-07 – Adoption of In November 2023, the Financial Accounting Standards

On January 1, 2023, the Company adopted Board (FASB) issued ASU 2016-13 "Financial Instruments – Credit Losses 2023-07, "Segment Reporting (Topic 326) 280: Measurement of Credit Losses on Financial Instruments," ASU 2018-19, "Codification Improvements to Topic 326, Financial Instruments – Credit Losses, Reportable Segment Disclosures." The amendments in this ASU 2019-04, "Codification Improvements are intended to Topic 326, Financial Instruments – Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments," improve reportable segment disclosure requirements primarily through enhanced disclosures about significant segment expenses. This ASU 2019-05, "Financial Instruments – Credit Losses (Topic 326): Targeted Transition Relief," ASU 2019-10, "Financial instruments – Credit losses (Topic 326), Derivatives and hedging (Topic 815), and Leases (Topic 842) – Effective dates," ASU 2019-11, "Codification Improvements to Topic 326, Financial Instruments – Credit Losses," ASU 2020-02, "Financial Instruments – Credit Losses (Topic 326) and Leases (Topic 842)," ASU 2020-03, "Codification Improvements to Financial Instruments" and ASU 2022-02, "Financial Instruments – Credit Losses (Topic 326) – Troubled Debt Restructurings and Vintage Disclosures" (collectively, ASC 326). The requires disclosure of significant impacts of adopting these standards and related updates segment expenses that are regularly provided to the Company's accounting policies are discussed below.

ASC 326 chief operating decision mark (CODM), an amount for other segment items by reportable segment and a description of its composition, all annual disclosures required by FASB ASU Topic 280 in interim periods as well, and the title and position of the CODM and how the CODM uses the reported measures. Additionally, this ASU requires entities to estimate an allowance for credit losses ("ACL") on certain types that at least one of financial instruments measured at amortized cost using a current expected credit losses ("CECL") methodology, replacing the incurred reported segment profit and loss methodology from prior GAAP. It also applies to unfunded commitments to extend credit, including loan commitments, standby letters of credit, and other similar instruments. The impairment model for available-for-sale ("AFS") debt securities was modified and ASC 326 also provided for a simplified accounting model for purchased financial assets measures should be the measure that is most consistent with credit deterioration since their origination. Additionally, the measurement principles used in an entity's consolidated financial statements. Lastly, this ASU requires public business entities with a single reportable segment to provide all disclosures required by these amendments in this ASU and all existing segment disclosures in Topic 280. This ASU is effective for modifications of loans to borrowers experiencing financial difficulty were modified, including how the ACL is measured for such loans.

fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Early adoptions permitted. The amendments of ASC 326, upon adoption, were should be applied on a modified retrospective basis, by recording an increase in the reported balance of loans and the allowance for credit losses on loans, an increase in the liability for credit losses on commitments to extend credit and reducing total equity of both the retrospectively. The Company and the Bank. As a result of adopting ASC 326, the Company recorded a decrease to opening retained earnings, net of taxes, of approximately \$7.8 million.

ASC 326 also replaced the Company's previous accounting policies for purchased credit-impaired ("PCI") loans and troubled-debt restructurings ("TDRs"). With does not expect the adoption of ASC 326, loans previously designated as PCI loans were designated as purchased loans ASU 2023-07 to have a material impact on its consolidated financial statements.

ASU Update 2023-06 – In October 2023, the Financial Accounting Standards Board (FASB) issued ASU 2023-06, "Disclosure Improvements: Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative." This ASU incorporates certain U.S. Securities and Exchange Commission (SEC) disclosure requirements into the FASB Accounting Standards Codification. The amendments in the ASU are expected to clarify or improve disclosure and presentation requirements of a variety of Codification Topics, allow users to more easily compare entities subject to the SEC's existing disclosures with credit deterioration ("PCD loans"). The Company adopted ASC 326 using the prospective transition approach for PCD loans those entities that were not previously identified as PCI and accounted for under ASC 310-30. On January 1, 2023, the Company's PCD loans were adjusted to reflect the addition of expected credit losses subject to the amortized cost basis of requirements, and align the loans and a corresponding increase requirements in the Codification with the SEC's regulations. For entities subject to the ACL. The remaining noncredit discount, which represents the difference between the adjusted amortized cost basis SEC's existing disclosure requirements and the outstanding principal balance on PCD loans, will be accreted into interest income over the estimated remaining lives of the loans using the effective interest rate method. The evaluation of the ACL will include PCD loans together for entities required to file or furnish financial statements with other loans that share similar risk characteristics, rather than using the separate pools that were used under PCI accounting, unless the loans are specifically identified for individual evaluation under our CECL methodology. The adoption of ASC 326 also replaced previous TDR accounting guidance, and the evaluation of the ACL will include loans previously designated as TDRs together with other loans that share similar risk characteristics, unless the loans are specifically identified for individual evaluation under our CECL methodology.

The following table shows the impact of the Company's adoption of ASC 326 on loans, the ACL, and the Company's reserve for unfunded commitments.

(Dollars in thousands)	January 1, 2023		
	As Reported Under ASC 326	Pre-ASC 326 Adoption	Change
Total Loans, gross	\$ 2,556,267	\$ 2,556,107	\$ 160
Allowance for credit losses	(27,434)	(16,643)	(10,791)
Total loans, net	\$ 2,528,833	\$ 2,539,464	\$ (10,631)
Liabilities: Reserve for Unfunded Commitments	\$ 581	\$ 316	\$ 265

As discussed in Note 3, the Company completed the merger with The Community Financial Corporation ("TCFC") on July 1, 2023. Due to inconsistencies with historical loan loss data between the Bank and TCFC, management updated the methodology used to estimate the probability of default and the independent economic variables used to forecast default rates. Due or to the lack SEC in preparation for the sale of uniformity of historical data used for probability default data between the legacy banks, management concluded that the exclusive use of either legacy model was inappropriate in a post-merger environment. As a result, management engaged the model vendor to perform a Loss Driver Analysis ("LDA"), which utilized the legacy Shore United and legacy CBTC's Call Report data to derive gross loan balances and charge-off data on a quarterly basis dating back to 2004. Using this data, the vendor performed regression analyses of a number of independent economic variables to determine the "best fit" of the economic variable to be used as a predictor of expected losses or the periodic default rate ("PDR"). Loss Given Default ("LGD") values were calculated utilizing Frye-Jacobs model using the same historical gross-charge-off data derived from the Call Reports. In conjunction with our change in methodology used to derive the PDR/LGD, management also reassessed our qualitative factor overlay design.

The following table shows the impact of change in methodology.

(Dollars in thousands)	Balance as of June 30, 2023	Balance as of adoption of methodology change		
		Impact of methodology change		change
Construction	\$ 2,386	\$ 33	\$	\$ 2,419
Residential real estate	9,151	4,016		13,167
Commercial real estate	10,267	1,065		11,332
Commercial	1,956	442		2,398
Consumer	5,254	1,791		7,045
Total allowance	\$ 29,014	\$ 7,347	\$	\$ 36,361

The following accounting policies have been updated in connection with the adoption of ASC 326 and apply to periods beginning after December 31, 2022. Accounting policies applying to prior periods are described in the 2022 Annual Report, as discussed above.

Investments in Debt Securities

Investments in debt securities are classified as either held to maturity ("HTM"), AFS, or trading, based on management's intent. Currently, the Company has classified its debt securities within the AFS and HTM classifications. Debt securities purchased with the positive intent and ability to hold to maturity are classified as HTM and are recorded at amortized cost, net of any ACL. Debt securities not classified as HTM are classified as AFS and are carried at estimated fair value with the corresponding unrealized gains and losses recognized in other comprehensive income (loss).

Gains or losses are recognized in net income on the trade date using the amortized cost of the specific security sold. Purchase premiums are recognized in interest income using the effective interest rate method over the period from purchase to maturity or for callable securities, the earliest call date, and purchase discounts are recognized in the same

manner from purchase to maturity.

The Company has elected to exclude accrued interest receivable from the amortized cost basis and fair value purposes of its HTM and AFS debt securities and has included such accrued interest of \$2.0 million at September 30, 2023 within the accrued interest receivable line item of the Consolidated Balance Sheets.

The Company estimates an ACL for held to maturity debt securities on a collective basis by major security type and standard credit rating. Certain securities in our HTM securities portfolio are either explicitly or implicitly guaranteed by the U.S. government, are highly rated by major rating agencies and have a long history of no credit losses. With respect to these securities, we consider the risk of credit loss to be zero and, therefore, we do not record an ACL.

The estimate of an ACL on our HTM issuing securities that are not guaranteed by subject to contractual restrictions on transfer, the U.S. government considers historical credit loss information and severity of loss in the event of default and leverages external data. No ACL is recorded on accrued interest receivable and amounts written-off are reversed by an adjustment to interest income.

An ACL on held to maturity debt securities that do not share common risk characteristics with our collective portfolio are individually measured based on net realizable value, or the difference between the discounted value of the expected future cash flows and the recorded amortized cost basis of the security.

For debt securities AFS, impairment is recognized in its entirety in net income if either (i) we intend to sell the security or (ii) it is more-likely-than-not that we effective date for each amendment will be required to sell the security before recovery of date on which the SEC removes that related disclosure from its amortized cost basis. If, however, rules. For all other entities, the amendments will be effective two years later. However, if by June 30, 2027, the SEC has not removed the related disclosure from its regulations, the amendments will be removed from the Codification and not become effective for any entity. The Company does not intend expect the adoption of ASU 2023-06 to sell have a material impact on its consolidated financial statements.

ASU Update 2023-05 – In August 2023, the security Financial Accounting Standards Board (FASB) issued ASU 2023-05, “Business Combinations – Joint Venture Formations (Subtopic 805-60): Recognition and it is not more-likely-than-not Initial Measurement.” This ASU applies to the formation of entities that meet the Company will be required definition of a joint venture (or a corporate joint venture) as defined in the FASB Accounting Standards Codification Master Glossary. While joint ventures are defined in the Master Glossary, there has been no specific guidance in the Codification that applies to sell the security before recovery, formation accounting by a joint venture in its separate financial statements. The amendments in the Company evaluates unrealized losses to determine whether ASU require that a decline in joint venture apply a new basis of accounting upon formation. As a result, a newly formed joint venture, upon formation, would initially measure its assets and liabilities at fair value below amortized cost basis is a result of a credit loss, which occurs when the amortized cost basis of the security exceeds the present value of the cash flows expected (with exceptions to be collected from the security, or other factors such as changes in market interest rates. If a credit loss exists, an ACL is recorded that reflects the amount of the impairment related to credit losses, limited by the amount by which the specific security's amortized cost basis exceeds its fair value. Changes in the ACL are recorded in net income in the period of change and are included in provision for credit losses. Changes in the fair value measurement that are consistent with the business combinations guidance). This ASU is effective on a prospective basis for all joint ventures with a formation date on or after January 1, 2025. Early adoption of debt securities AFS ASU No. 2023-05 is permitted in any interim or annual period in which financial statements have not resulting from credit losses are recorded in other comprehensive income (loss) yet been issued (or made available for issuance). A joint venture that elects to early adopt may apply ASU No. 2023-05 either prospectively or retrospectively. The Company regularly reviews unrealized losses in does not expect the adoption of ASU 2023-05 to have a material impact on its investments in securities consolidated financial statements.

ASU Update 2023-03 – In July 2023, the Financial Accounting Standards Board (FASB) issued ASU 2023-03, “Presentation of Financial Statements (Topic 205), Income Statement—Reporting Comprehensive Income (Topic 220), Distinguishing Liabilities from Equity (Topic 480), Equity (Topic 505), and cash flows expected Compensation—Stock Compensation (Topic 718).” This ASU amends the FASB Accounting Standards Codification for SEC paragraphs pursuant to be collected from impaired securities based on criteria including the extent to which market value is below amortized cost, the financial health of and specific prospects for the issuer, the Company's intention with regard to holding the security to maturity and the likelihood that the Company would be required to sell the security before recovery.

Loans Held for Investment

The Company's recorded investment in loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally is reported SEC Staff Accounting Bulletin No. 120, SEC Staff Announcement at the unpaid principal balances adjusted for charges-offs, unearned discounts, any deferred fees March 24, 2022 EITF Meeting, and Staff Accounting Bulletin Topic 6.B, Accounting Series Release 280—General Revision of Regulation S-X: Income or costs on originated loans, and Loss Applicable to Common Stock. ASU 2023-03 is effective upon addition to the ACL FASB Codification. The Company has elected does not expect the adoption of ASU 2023-03 to exclude accrued interest receivable from the amortized cost basis of have a material impact on its loans held for investment and has included such accrued interest of \$13.6 million at September 30, 2023 within the accrued interest receivable line item of the Consolidated Balance Sheets. Interest on loans is recorded to interest income based on the contractual rates and the amount of outstanding principal of the loans. Loan fees and origination costs are deferred and the net amount is amortized as an adjustment of the related loan's yield using the level-yield method.

Loans acquired in a business combination are recorded at estimated fair value on the date of acquisition. In the case of loans that have experienced more than insignificant deterioration in credit quality since origination as of the acquisition date, the loan's amortized cost basis is increased above estimated fair value by the amount of expected credit losses as of the acquisition date, and a corresponding ACL is also recorded.

A loan's past due status is based on the contractual due date of the most delinquent payment due. Loans are generally placed on nonaccrual status when the collection of principal or interest is 90 days or more past due, or earlier, if collection is uncertain. Any accrued interest receivable on loans placed on nonaccrual status is reversed by an adjustment to interest income. Loans greater than 90 days past due may remain on accrual status if management determines it has adequate collateral to cover the principal and interest. Interest payments received on nonaccrual loans are applied as a reduction of the loan principal balance unless collectability of the principal amount is reasonably assured, in which case interest is recognized on a cash basis. A loan may be returned to accrual status if the borrower has demonstrated a sustained period of repayment performance in accordance with the contractual terms of the loan and there is reasonable assurance the borrower will continue to make payments as agreed.

In the ordinary course of business, the Company has entered into commitments to extend credit and standby letters of credit. Such consolidated financial instruments are recorded in the Consolidated Balance Sheets when they are funded.

In the normal course of banking business, risks related to specific loan categories are as follows:

Construction loans – Construction loans are offered primarily to builders and individuals to finance the construction of single-family dwellings. In addition, the Bank periodically finances the construction of commercial projects. Credit risk factors include the borrower's ability to successfully complete the construction on time and within budget, changing market conditions which could affect the value and marketability of projects, changes in the borrower's ability or willingness to repay the loan and potentially rising interest rates which can impact both the borrower's ability to repay and the collateral value.

Residential real estate – Residential real estate loans are typically made to consumers and are secured by residential real estate. Credit risk arises from the borrower's continuing financial stability, which can be adversely impacted by job loss, divorce, illness, or personal bankruptcy, among other factors. Also impacting credit risk would be a shortfall in the value of the residential real estate in relation to the outstanding loan balance in the event of a default or subsequent liquidation of the real estate collateral.

Commercial real estate – Commercial real estate loans consist of both loans secured by owner occupied properties and non-owner occupied properties where an established banking relationship exists and involves investment properties for warehouse, retail, and office space with a history of occupancy and cash flow. These loans are subject to adverse changes in the local economy and commercial real estate markets. Credit risk associated with owner occupied properties arises from the borrower's financial stability and the ability of the borrower and the business to repay the loan. Non-owner occupied properties carry the risk of a tenant's deteriorating credit strength, lease expirations in soft markets and sustained vacancies which can adversely impact cash flow.

Commercial – Commercial loans are secured or unsecured loans for business purposes. Loans are typically secured by accounts receivable, inventory, equipment and/or other assets of the business. Credit risk arises from the successful operation of the business which may be affected by competition, rising interest rates, regulatory changes and adverse conditions in the local and regional economy.

Consumer – Consumer loans include installment loans and personal lines of credit. Credit risk is similar to residential real estate loans above as it is subject to the borrower's continuing financial stability and the value of the collateral securing the loan.

ACL on Loans Held for Investment

An ACL is estimated on loans held for investment, excluding loans carried at fair value. The ACL on loans is established through charges to earnings in the form of a provision for credit losses. Loan losses are charged against the ACL for the difference between the carrying value of the loan and the estimated net realizable value or fair value of the collateral, if collateral dependent, when management believes that the collectability of the principal is unlikely. Subsequent recoveries, if any, are credited to the allowance.

The allowance represents management's current estimate of expected credit losses over the contractual term of loans held for investment, and is recorded at an amount that, in management's judgment, reduces the recorded investment in loans to the net amount expected to be collected. No ACL is recorded on accrued interest receivable and amounts written-off are reversed by an adjustment to interest income. Management's judgment in determining the level of the allowance is based on evaluations of historical loan losses, current conditions and reasonable and supportable forecasts relevant to the collectability of loans. The methodology for estimating the amount reported in the ACL is the sum of two main components, an allowance assessed on a collective basis for pools of loans that share similar risk characteristics and an allowance assessed on individual loans that do not share similar risk characteristics with other loans. Loans that share common risk characteristics are evaluated collectively using a cash flow approach. The discounted cash flow approach used by the Company utilizes loan-level cash flow projections and pool-level assumptions. For loans that do not share risk characteristics with other loans, the ACL is measured based on the net realizable value, that is, the difference between the discounted value of the expected future cash flows and the amortized cost basis of the loan. When a loan is collateral-dependent and the repayment is expected to be provided substantially through the operation or sale of the collateral, the ACL is measured as the difference between the amortized cost basis of the loan and the fair value of the collateral.

Cash flow projections and estimated expected losses on loans which share common risk characteristics are based in part on forecasts economic independent variables, namely the national unemployment rate, 10 year Treasury rate and changes in GDP that are reasonable and supportable over a twelve month period and incorporated into the estimate of expected credit losses using a statistical regression analysis. For periods beyond those for which reasonable and supportable forecasts are available, projections are based on a reversion of the corresponding economic independent variable from the last forecast to a historical average level over the following twelve months.

Management's estimate of the ACL on loans that are collectively evaluated also includes a qualitative assessment of available information relevant to assessing collectability that is not captured in the quantitative loss estimation process. Factors considered by management include changes in general market, economic and business conditions; the nature and volume of the loan portfolio; the volume and severity of delinquencies and adversely classified loan balances and the value of underlying collateral; and other factors as deemed necessary and appropriate. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available.

Reserve for Unfunded Commitments

The Company records a reserve, reported in other liabilities, for expected credit losses on commitments to extend credit that are not unconditionally cancellable by the Company. The reserve for unfunded commitments is measured based on the principles utilized in estimating the ACL on loans and an estimate of the amount of unfunded commitments expected to be advanced. Changes in the reserve for unfunded commitments are recorded through the provision for credit losses. During the three and nine months ended September 30, 2023, the Company recorded a \$241,000 and \$308,000, respectively, provision for credit losses associated with its unfunded commitments. statements.

Note 32 – Business Combinations

On July 1, 2023 (the "Acquisition Date"), the Company completed the acquisition of TCFC, a Maryland charted commercial bank, corporation, in accordance with the definitive agreement that was entered into on December 14, 2022, by and among the Company and TCFC. The primary reasons for the merger included: expansion of the branch network and commanding market share positions in attractive Maryland markets and a growing presence in Virginia and Delaware; attractive low-cost funding base; strong cultural alignment and a deep commitment to shareholders, stockholders, customers, employees, and communities served by Shore the Company and TCFC, meaningful value creation to shareholders; and increased trading liquidity for both companies and increased dividends for TCFC shareholders. In connection with the completion of the merger, former TCFC shareholders received 2.3287 shares of the Company's common stock. The value of the total transaction consideration was approximately \$153.6 million, \$153.6 million. The consideration included the issuance of 13,201,693 shares of the Company's common stock, which had a value of \$11.56 per share, which was the closing price of the Company's common stock on June 30, 2023, the last trading day prior to the consummation of the acquisition. Also included in the total consideration were cash in lieu of any fractional shares, converted share-based payment awards, and debt of TCFC that was effectively settled upon closing.

The acquisition of TCFC was accounted for as a business combination using the acquisition method of accounting and, accordingly, assets acquired, liabilities assumed, and consideration paid are recorded at estimated fair values on the Acquisition Date. The provisional amount of bargain purchase gain as of the Acquisition Date was approximately **\$12.2** **\$8.8** million. The exchange ratio was determined at the time of announcement of the merger between the Company and TCFC in December of 2022 when the stock price of the Company was much higher than at the legal merger date. The decline in the Company's stock price was the primary driver in recording a bargain purchase gain on this transaction. The decline in stock price for the Company was comparable to other financial institutions similar to the Company leading up to the merger due to bank failures in the first quarter of 2023 and increases to overnight borrowing rates by the Fed which resulted in continued pressure on net interest margins. The Company will continue to keep the measurement of bargain purchase gain open for any additional adjustments to the fair value of certain accounts, for example loans, that may arise during the Company's final review procedures of any updated information. If considered necessary, any subsequent adjustments to the fair value of assets acquired and liabilities assumed, identifiable intangible assets, or other purchase accounting adjustments will result in adjustments to bargain purchase gain within the first 12 months following the Acquisition Date. The bargain purchase gain is not expected to be included as taxable income for tax purposes.

As a result of the integration of operations of TCFC, it is not practicable to determine revenue or net income included in the Company's consolidated operating results relating to TCFC since the Acquisition Date, as TCFC's results cannot be separately identified. Comparative pro-forma financial statements for the prior year period were not presented, as adjustments to those statements would not be indicative of what would have occurred had the acquisition taken place on January 1, 2022. In particular, adjustments that would have been necessary to be made to record the loans at fair value, the provision of credit losses or the core deposit intangible would not be practical to estimate.

(Dollars in thousands)

Purchase Price Consideration:

Fair value of common shares issued (13,201,693 shares) based on Shore Bancshares, Inc. common stock paid at closing share price of \$11.56 as of June 30, 2023	\$ 152,612
Effective settlement of pre-existing debt ⁽¹⁾	500
Cash consideration (cash in lieu for fractional shares)	5
Fair value of converted restricted stock units ⁽²⁾	475
Total purchase price	\$ 153,592

Identifiable assets:

Cash and cash equivalents	\$ 25,377
Total securities	454,468
Loans, net	1,765,255
Premises and equipment, net	29,277
Core deposit intangible, net	48,648
Other assets	93,161 89,808
Total identifiable assets	\$ 2,416,186 2,412,833

Identifiable Liabilities

Deposits	\$ 2,131,141
Total debt	97,545
Other liabilities	21,739
Total identifiable liabilities	\$ 2,250,425

Provisional fair value of net assets acquired	\$ 165,761 162,408
Provisional bargain purchase gain	\$ (12,169) (8,816)

(1) SHBI The Company held \$500,000 in subordinated debt of TCFC. The debt was effectively settled.

(2) Represents the number of TCFC restricted stock units outstanding and the equity exchange ratio, further multiplied by the price per share of SHBI the Company's common stock of \$11.56 and the estimated ratio of the completed service period relative to the total service period of the underlying awards.

The acquired assets and assumed liabilities of TCFC were measured at fair value as of the Acquisition Date. Management made significant estimates and exercised significant judgement in accounting for the acquisition of TCFC. The following is a brief description of the valuation methodologies used to estimate the fair values of major categories of assets acquired and liabilities assumed. The Company utilized a valuation specialist to assist with the determination of fair values for certain acquired assets and assumed liabilities.

The Company recorded all loans acquired at the estimated fair value on the acquisition date Acquisition Date with no carryover of the related allowance for loan credit losses.

The Company determined the net discounted value of cash flows on gross loans totaling \$1.9 billion, including 3,858 of Non-PCD loans and 323 PCD loans. The valuation took into consideration the loans' underlying characteristics, including account types, remaining terms, annual interest rates, interest types, past delinquencies, timing of principal and interest payments, current market rates loan-to-loan value ratios, loss exposures, and remaining balances. These Non-PCD loans were segregated into pools based on loan Valuations also considered default rates, loss severity estimates, and payment type. estimates related to expected prepayments over the contractual lives of the loans. The effect of the valuation process was a total net discount \$120.9 million at the Acquisition Date.

The core deposit intangible was valued using an income approach focused on cost savings, which recognizes the cost savings represented by the expense of maintaining the core deposit base versus the cost of an alternative funding source. The valuation incorporates assumptions related to account retention, discount rates, deposit interest rates, deposit maintenance costs and alternative funding rates.

The fair value of premises acquired was based on recent third-party appraised values of the properties, with fair value adjustments made to both the buildings and any associated parcels of land. Acquired equipment was based on the remaining net book value of TCFC, which approximated fair value.

The fair value of noninterest bearing demand deposits, interest checking, money market and savings deposit accounts from TCFC were assumed to approximate the carrying value as these accounts have no stated maturity and are payable on demand. Certificates of deposit were valued at the present value of the certificates' expected contractual payments discounted at market rates for certificates with similar terms.

The estimated fair value of the acquired portfolio of debt securities was based on quoted market prices and dealer quotes. Substantially all the acquired portfolio was sold following the acquisition.

The estimated fair value of short-term borrowings was determined to approximate their stated value. Subordinated debt and trust preferred debt were valued using a discounted cash flow approach incorporating a discount rate that considered market terms, maturities, and credit ratings.

Note 43 – Investment Securities

On January 1, 2023, the Company adopted ASC 326, which made changes to accounting for AFS debt securities whereby credit losses should be presented as an allowance, rather than as a write-down when management does not intend to sell and does not believe that it is more likely than not they will be required to sell prior to maturity. In addition, ASC 326 requires an ACL to be recorded on HTM debt securities measured at amortized cost. All securities information presented as of September 30, 2023 is March 31, 2024 and as of December 31, 2023 are in accordance with ASC 326. All securities information presented as of December 31, 2022 or a prior date is presented in accordance with previously applicable GAAP. For further discussion on the Corporation's accounting policies and policy elections related to the accounting standard update refer to Note 2.

The following table summarizes the activity in the ACL on HTM securities.

(Dollars in thousands)	(Dollars in thousands)	Three Months Ended September 30, 2023	Nine Months Ended September 30, 2023
(Dollars in thousands)			
(Dollars in thousands)			
Balance, beginning of period			
Balance, beginning of period			
Balance, beginning of period	Balance, beginning of period	\$ 163	\$ —
Other debt securities, provision for credit losses	Other debt securities, provision for credit losses	(37)	126
Other debt securities, provision for credit losses			
Other debt securities, provision for credit losses			
Balance, end of period	Balance, end of period	\$ 126	\$ 126
Balance, end of period			
Balance, end of period			

The ACL for HTM securities was initially determined to be immaterial as of the date of adoption of ASC 326. Upon re-estimation in the third quarter of 2023, an ACL recovery of \$37,000 was recorded based on the results of our evaluation at September 30, 2023. The A provision for credit losses of \$126,000 \$22,000 and \$0.2 million was recorded for the nine three months ended September 30, 2023. March 31, 2024 and March 31, 2023, respectively.

The following tables provide information on the amortized cost and estimated fair values of debt securities.

(Dollars in thousands)	(Dollars in thousands)	Gross Cost	Gross Gains	Gross Losses	Gross Fair Value	(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale securities: securities:	Available-for-sale securities: securities:									
September 30, 2023										
U.S. Government agencies		\$ 23,622	\$ 4	\$ 3,995	\$ 19,631					
March 31, 2024										
March 31, 2024										
March 31, 2024										
U.S. Treasury and government agencies										

U.S. Treasury and
government agencies
U.S. Treasury and
government agencies

Mortgage- backed- residential	Mortgage- backed- residential	63,371	—	9,798	53,573
Other debt securities	Other debt securities	6,059	26	146	5,939
Total	Total	\$ 93,052	\$ 30	\$ 13,939	\$ 79,143

December 31, 2022

U.S. Government
agencies

December 31, 2023	December 31, 2023	December 31, 2023	U.S. Treasury and government agencies	U.S. Treasury and government agencies	U.S. Treasury and government agencies
Mortgage- backed- residential	Mortgage- backed- residential	72,183	2	8,666	63,519
Other debt securities	Other debt securities	2,018	—	128	1,890
Total	Total	\$ 95,999	\$ 7	\$ 12,419	\$ 83,587

No AFS securities were sold from the Company's legacy securities' portfolios during the three and nine months ended September 30, 2023 March 31, 2024 and 2022. The Company sold virtually all of the AFS securities portfolio acquired from TCFC immediately after the legal merger with the proceeds of \$430.0 million, and recognized gross losses of \$2.2 million from the sale of securities. 2023.

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Allowance for Credit Losses
Held-to-maturity securities:					
March 31, 2024					
U.S. Treasury and government agencies					
	\$ 143,215	\$ —	\$ 11,172	\$ 132,043	\$ —
Mortgage-backed-residential	348,754	—	47,343	301,411	—
States and political subdivisions	1,469	44	24	1,489	—
Other debt securities	10,500	—	1,185	9,315	116
Total	\$ 503,938	\$ 44	\$ 59,724	\$ 444,258	\$ 116
December 31, 2023					
U.S. Treasury and government agencies					
	\$ 143,442	\$ —	\$ 10,377	\$ 133,065	\$ —
Mortgage-backed-residential	357,870	—	43,864	314,006	—
States and political subdivisions	1,470	57	19	1,508	—
Other debt securities	10,500	—	1,249	9,251	94
Total	\$ 513,282	\$ 57	\$ 55,509	\$ 457,830	\$ 94

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Allowance for Credit Losses
Held-to-maturity securities:					
September 30, 2023					
U.S. Government agencies	\$ 143,494	\$ —	\$ 14,873	\$ 128,621	\$ —
Mortgage-backed-residential	367,712	—	61,177	306,535	—
States and political subdivisions	1,471	2	68	1,405	—
Other debt securities	10,500	—	1,409	9,091	126
Total	\$ 523,177	\$ 2	\$ 77,527	\$ 445,652	\$ 126
December 31, 2022					
U.S. Government agencies	148,097	\$ —	13,601	134,496	\$ —
Mortgage-backed-residential	398,884	—	50,464	348,420	—
States and political subdivisions	1,474	35	28	1,481	—
Other debt securities	11,000	—	770	10,230	—
Total	\$ 559,455	\$ 35	\$ 64,863	\$ 494,627	\$ —

Equity securities with an aggregate fair value of **\$5.4 million** \$5.7 million at **September 30, 2023** March 31, 2024 and **\$1.2 million** \$5.7 million at **December 31, 2022** December 31, 2023 are presented separately on the balance sheet. The fair value adjustment recorded through earnings totaled **\$0.3 million** gain of \$61,000 for the **nine three** months ended **September 30, 2023** March 31, 2024 and **\$0.1 million** loss of \$17,000 for the **nine three** months ended **September 30, 2022** March 31, 2023, respectively.

Credit Quality Information

The Company monitors the credit quality of HTM securities through credit ratings provided by Standard & Poor's Rating Services and Moody's Investor Services. Credit ratings express opinions about the credit quality of a security, and are updated at each quarter end. Investment grade securities are rated BBB- or higher by S&P and Baa3 or higher by Moody's and are generally considered by the rating agencies and market participants to be of low credit risk. Conversely, securities rated below investment grade, which are labeled as speculative grade by the rating agencies, are considered to have distinctively higher credit risk than investment grade securities. There were no speculative grade HTM securities at **September 30, 2023** March 31, 2024 or **December 31, 2022** December 31, 2023. HTM securities that are not rated are agency mortgage-backed securities sponsored by U.S. government agencies, as well as direct obligations of the agencies, with the remainder being sub-debt of other banks.

The following table shows the amortized cost of HTM securities based on their lowest publicly available credit rating as of **September 30, 2023** March 31, 2024.

September 30, 2023									
Investment Grade									
March 31, 2024									
March 31, 2024									
Investment Grade									
(Dollars in thousands)	(Dollars in thousands)	Aaa	Aa1	A3	Baa1	Baa2	NR	Total	(Dollars in thousands)
U.S. Government agencies		\$ 143,494	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 143,494	Aaa
U.S. Treasury and government agencies									Aa1
Mortgage-backed-residential	Mortgage-backed-residential	367,712	—	—	—	—	—	367,712	A3
States and political subdivisions	States and political subdivisions	—	1,471	—	—	—	—	1,471	Baa1
Other debt securities	Other debt securities	—	—	4,000	4,000	500	2,000	10,500	Baa2
Total Held-to Maturity Securities		\$ 511,206	\$ 1,471	\$ 4,000	\$ 4,000	\$ 500	\$ 2,000	\$ 523,177	NR
									Total

Total held-to-maturity securities

The following table shows the amortized cost of HTM securities based on their lowest publicly available credit rating as of December 31, 2023.

(Dollars in thousands)	December 31, 2023							
	Investment Grade							
	Aaa	Aa1	A3	Baa1	Baa2	NR	Total	
U.S. Treasury and government agencies	\$ 140,761	\$ —	\$ —	\$ —	\$ —	\$ 2,681	\$ 143,442	
Mortgage-backed securities	357,870	—	—	—	—	—	—	357,870
Obligations of states and political subdivisions	—	1,470	—	—	—	—	—	1,470
Other debt securities	—	—	4,000	4,000	500	2,000	10,500	
Total held-to-maturity securities	\$ 498,631	\$ 1,470	\$ 4,000	\$ 4,000	\$ 500	\$ 4,681	\$ 513,282	

The following tables provide information about gross unrealized losses and fair value by length of time that the individual securities have been in a continuous unrealized loss position at **September 30, 2023** **March 31, 2024** and **December 31, 2022** **December 31, 2023**.

	Less than 12 Months	More than 12 Months	Total													
	Less than 12 Months						Less than 12 Months						More than 12 Months			Total
	Less than 12 Months		More than 12 Months		Less than 12 Months		More than 12 Months		Less than 12 Months		More than 12 Months		Less than 12 Months		More than 12 Months	
(Dollars in thousands)	(Dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	(Dollars in thousands)	Fair Value	Unrealized Losses						

December 31, 2022							
December 31, 2023							
Available-for-sale securities: securities:							
U.S. Government agencies							
	\$ 1,165	\$ 4	\$ 16,585	\$ 3,621	\$ 17,750	\$ 3,625	
Available-for-sale securities:							
Available-for-sale securities:							
U.S. Treasury and government agencies							
U.S. Treasury and government agencies							
U.S. Treasury and government agencies							
Mortgage-backed-residential							
	29,125	2,409	34,167	6,257	63,292	8,666	
Other debt securities							
	1,890	128	—	—	1,890	128	
Total	Total	\$ 32,180	\$ 2,541	\$ 50,752	\$ 9,878	\$ 82,932	\$ 12,419
Held-to-maturity securities:							
U.S. Government agencies							
	\$ 67,332	\$ 2,786	\$ 67,163	\$ 10,815	\$ 134,495	\$ 13,601	
Mortgage-backed-residential							
	148,771	9,402	199,649	41,062	348,420	50,464	
States and political subdivisions							
	780	28	—	—	780	28	
Other debt securities							
	8,091	409	2,139	361	10,230	770	
Total	\$ 224,974	\$ 12,625	\$ 268,951	\$ 52,238	\$ 493,925	\$ 64,863	

There were **116,115** AFS debt securities with a fair value below the amortized cost basis, totaling **\$13.9 million** **\$11.4 million** of aggregate fair value as of **September 30, 2023** **March 31, 2024**. The Company concluded that a credit loss does not exist in its AFS securities portfolio as of **September 30, 2023** **March 31, 2024**, and no impairment loss has been recognized based on the fact that (1) changes in fair value were caused primarily by fluctuations in interest rates, (2) securities with unrealized losses had generally high credit quality, (3) the Company intends to hold these investments in debt securities to maturity and it is more-likely-than-not the Company will not be required to sell these investments before a recovery of its investment, and (4) issuers have continued to make timely payments of principal and interest. Additionally, the Company's mortgage-back securities are issued by either U.S. government agencies or U.S. government sponsored enterprises. Collectively, these entities provide a guarantee, which is either explicitly or implicitly supported by the full faith and credit of the U.S. government, that investors in such mortgage-backed securities will receive timely principal and interest payments.

All HTM and AFS securities were current with no securities past due or on nonaccrual as of September 30, 2023 March 31, 2024.

The Company has securities which have been pledged as collateral for obligations to federal, state, and local government agencies, and other purpose as required or permitted by law, or sold under agreements to repurchase. At **September 30, 2023** **March 31, 2024**, the carrying value of pledged AFS securities was **\$53.3 million** **\$53.1 million** and **\$180.7 million** **\$195.8 million** of pledged HTM securities. The comparable amounts for **December 31, 2022** **December 31, 2023** were **\$72.1 million** **\$54.5 million** and **\$19.2 million** **\$185.9 million**, respectively.

There were no obligations of states or political subdivisions with carrying values, as to any issuer, exceeding 10% of stockholders' equity at March 31, 2024 or December 31, 2023.

The following table provides information on the amortized cost and estimated fair values of investment securities by maturity date at **September 30, 2023** **March 31, 2024**.

Available for sale		Held to maturity					
Available for sale							
(Dollars in thousands)	(Dollars in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value	(Dollars in thousands)	

Due in one year or less	\$ 2,478	\$ 2,479	\$ 7,000	\$ 6,873
Due after one year through five years	16,520	15,113	119,922	110,186
Due after five years through ten years	31,108	27,144	52,517	45,947
Due after ten years	42,946	34,407	343,738	282,646
Total	Total	\$ 93,052	\$ 79,143	\$ 523,177
		<u>\$ 93,052</u>	<u>\$ 79,143</u>	<u>\$ 445,652</u>

The maturity dates for debt securities are determined using contractual maturity dates.

Note 54 – Loans and Allowance for Credit Losses

On January 1, 2023, the Company adopted ASC 326. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables. For further discussion on the most significant accounting policies that the Company follows see Note 21 – Adoption Summary of Significant Accounting Standards and Note 1 Policies of the Company's 2022 Annual Report on Form 10-K. All loan information presented as of September 30, 2023 is in accordance with ASC 326. All loan information presented as of December 31, 2022, or a prior date is presented in accordance with previously applicable GAAP Report.

The Company makes residential mortgage, commercial, and consumer loans to customers primarily in Anne Arundel County, Baltimore County, Charles County, Calvert County, St. Mary's County, Howard County, Kent County, Queen Anne's County, Caroline County, Talbot County, Dorchester County and Worcester County in Maryland, Kent and Sussex County, Delaware and in Accomack County, and Stafford County, Spotsylvania County and Fredericksburg City in Virginia. The following table provides information about the principal classes of the loan portfolio at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023.

(Dollars in thousands)	% of September 30, 2023		% of December 31, 2022		(Dollars in thousands)	March 31, 2024	% of Total Loans	December 31, 2023	% of Total Loans
	Dollars in thousands	Total Loans	Dollars in thousands	Total Loans					
Construction	\$ 328,750	7.12 %	\$ 246,319	9.64 %	Construction	\$ 299,133	6.43	\$ 299,000	6.44
Residential real estate	1,439,464	31.17 %	810,497	31.71 %	Residential real estate	1,515,134	32.59	1,490,438	32.11
Commercial real estate									
Commercial real estate									
Commercial real estate	2,283,521	49.45 %	1,065,409	41.68 %		2,272,867	48.90	2,286,154	49.27
Commercial	229,474	4.97 %	147,856	5.78 %	Commercial	229,594	4.94	229,939	4.95
Consumer	330,411	7.16 %	286,026	11.19 %	Consumer	325,076	6.99	328,896	7.09
Credit Cards	6,099	0.13 %	—	— %	Credit Cards	6,921	0.15	6,583	0.14
Total loans	4,617,719	100.00 %	2,556,107	100.00 %	Total loans	4,648,725	100.00	4,641,010	100.00
Allowance for credit losses on loans	(57,051)		(16,643)						
Total loans, net	\$ 4,560,668		\$ 2,539,464						
Total loans, net									
Total loans, net									

Loans are stated at their principal amount outstanding net of any purchase premiums/discounts, deferred fees and costs. Included in loans were deferred costs, net of fees, of \$2.0 million \$2.4 million and \$1.4 million \$2.2 million at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023. At September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023 included in total loans were \$1.6 billion and \$1.6 billion in loans acquired as part of the acquisition of TCFC, effective July 1, 2023. These balances were presented net of the related discount which totaled \$104.2 million and \$108.4 million at March 31, 2024 and December 31, 2023, respectively. At March 31, 2024 and December 31, 2023, included in total loans were \$307.8 million \$289.0 million and \$372.2 million \$297.9 million in loans, acquired as part of the acquisition of Severn Bancorp, Inc. ("Severn"), effective October 31, 2021. These balances were presented net of the related discount which totaled \$4.9 million \$4.4 million and \$6.7 million \$4.7 million at September

30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, respectively. At September 30, 2023 included in total loans were \$1.7 billion acquired as part of the acquisition of TCFC, effective July 1, 2023. These balances were presented net of the related discount which totaled \$109.8 million at September 30, 2023.

The following purchased credit deteriorated loans were acquired in connection with the merger on the Acquisition Date.

(Dollars in Thousands)	Par Value	Purchase Discount	Allowance	Purchase Price
Construction	\$ 177	\$ (11)	\$ (3)	\$ 163
Residential real estate	8,379	(1,157)	(215)	7,007
Commercial real estate	55,779	(6,864)	(985)	47,930
Commercial	2,137	(59)	(278)	1,800
Consumer	519	(35)	(14)	470
Credit Card	999	(144)	(18)	837
Total	\$ 67,990	\$ (8,270)	\$ (1,513)	\$ 58,207

At September 30, 2023 March 31, 2024, the Bank was servicing \$361.8 million \$371.1 million in loans for the Federal National Mortgage Association and \$100.8 million \$117.8 million in loans for Freddie Mac.

The following table provides information on nonaccrual loans by loan class as of September 30, 2023 March 31, 2024 and December 31, 2023.

(Dollars in thousands)	Non- accrual for credit loss	Non- accrual for credit loss	Total Non- accruals	(Dollars in thousands)	Non-accrual with no allowance for credit loss	Non-accrual with an allowance for credit loss	Total Non- accruals
September 30, 2023							
March 31, 2024							
Nonaccrual loans:	Nonaccrual loans:						
Nonaccrual loans:							
Nonaccrual loans:							
Construction	Construction	\$ 147	\$ —	\$ 147			
Construction	Construction	\$ 147	\$ —	\$ 147			
Residential real estate	Residential real estate	3,603	299	3,902			
Commercial real estate	Commercial real estate	3,866	—	3,866			
Commercial	Commercial	174	671	845			
Consumer	Consumer	203	19	222			
Total	Total	\$ 7,993	\$ 989	\$ 8,982			
Total							
Total							
Interest income	Interest income	\$ —	\$ —	\$ —			
Interest income							
Interest income							
(Dollars in thousands)							
September 30, 2023							
Nonaccrual loans:							

Construction	\$ 147	\$ 147
Residential real estate	2,258	1,644
Commercial real estate	749	3,117
Commercial	1	844
Consumer	221	1
Total	\$ 3,376	\$ 5,606
		\$ 8,982

(Dollars in thousands)	Non-accrual with no allowance for credit loss		Non-accrual with an allowance for credit loss		Total Non-accruals
December 31, 2023					
Nonaccrual loans:					
Construction	\$ 626	\$ 626	—	—	626
Residential real estate	5,865	480	—	—	6,345
Commercial real estate	4,364	—	—	—	4,364
Commercial	176	368	—	—	544
Consumer	216	689	—	—	905
Total	\$ 11,247	\$ 1,537	\$ 12,784		
Interest income	\$ 399	\$ 53	—	—	452

(Dollars in thousands)	Non-accrual Delinquent Loans		Non-accrual Current Loans		Total Non-accruals
March 31, 2024					
Nonaccrual loans:					
Construction	\$ 210	\$ 266	—	—	476
Residential real estate	3,718	2,665	—	—	6,383
Commercial real estate	940	2,703	—	—	3,643
Commercial	51	1,305	—	—	1,356
Consumer	918	—	—	—	918
Total	\$ 5,837	\$ 6,939	\$ 12,776		

(Dollars in thousands)	Non-accrual Delinquent Loans		Non-accrual Current Loans		Total Non-accruals
December 31, 2023					
Nonaccrual loans:					
Construction	\$ 221	\$ 405	—	—	626
Residential real estate	4,137	2,208	—	—	6,345
Commercial real estate	1,215	3,149	—	—	4,364
Commercial	28	516	—	—	544
Consumer	903	2	—	—	905
Total	\$ 6,504	\$ 6,280	\$ 12,784		

The overall quality of the Bank's loan portfolio is primarily assessed using the Bank's risk-grading scale. This review process is assisted by frequent internal reporting of loan production, loan quality, concentrations of credit, loan delinquencies and nonperforming and potential problem loans. Credit quality indicators are adjusted based on management's judgment during the quarterly review process.

Consumer credit cards are monitored based on a borrower payment history. Credit card loans are classified as performing and are typically charged off no later than 180 days past due when, in the opinion of management, the collection of principal or interest is considered doubtful.

Loans subject to risk ratings are graded on a scale of one to ten.

Ratings 1 thru 6 – Pass - Ratings 1 thru 6 have asset risks ranging from excellent-low to adequate. The specific rating assigned considers customer history of earnings, cash flows, liquidity, leverage, capitalization, consistency of debt service coverage, the nature and extent of customer relationship and other relevant specific business factors such as the stability of the industry or market area, changes to management, litigation or unexpected events that could have an impact on risks.

Rating 7 – Special Mention - These credits have potential weaknesses due to economic conditions, less than adequate earnings performance or other factors which require the lending officer to direct more than normal attention to the credit. Financing alternatives may be limited and/or command higher risk interest rates. Special mention loan relationships are reviewed at least quarterly.

Rating 8 – Substandard - Substandard assets are assets that are inadequately protected by the sound worth or paying capacity of the borrower or of the collateral pledged. Substandard loans are the first adversely classified loans on the Bank's watchlist. These assets have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the possibility that the Bank

will sustain some loss if the deficiencies are not corrected. Loss potential, while existing in the aggregate amount of substandard assets, does not have to exist in individual assets classified substandard. The loans may have a delinquent history or combination of weak collateral, weak guarantor or operating losses. When a loan is assigned to this category the Bank may estimate a specific reserve in the loan loss allowance analysis and/or place the loan on nonaccrual. These assets listed may include assets with histories of repossessions or some that are non-performing bankruptcies. These relationships will be reviewed at least quarterly.

Rating 9 – Doubtful - Doubtful assets have many of the same characteristics of substandard with the exception that the Bank has determined that loss is not only possible but is probable. The amount of loss is not discernible due to factors such as merger, acquisition, or liquidation; a capital injection; a pledge of additional collateral; the sale of assets; or alternative refinancing plans. Credits receiving a doubtful classification are required to be on nonaccrual. These relationships will be reviewed at least quarterly.

Rating 10 – Loss – Loss assets are uncollectible or of little value.

The following table provides information on loan risk ratings as of **September 30, 2023** **March 31, 2024** and gross write-offs during the **nine** **three** months ended **September 30, 2023** **March 31, 2024**.

(Dollars in thousands)	(Dollars in thousands)	Term Loans by Origination Year						Revolving			Term Loans by Origination Year			Revolving Loans	Revolving Converted to Term Loans	Total										
								Converted																		
								Revolving	to Term	Loans	Total	Year														
Term Loans by Origination Year																										
September 30, 2023																										
March 31, 2024																										
March 31, 2024																										
March 31, 2024																										
Construction																										
Construction																										
Construction																										
Pass		Pass	\$ 27,243	\$ 14,732	\$ 29,531	\$ 40,493	\$ 135,418	\$ 72,852	\$ 8,331	\$ —	\$ 328,600															
Substandard		Substandard	138	—	—	12	—	—	—	—	150															
Total		Total	\$ 27,381	\$ 14,732	\$ 29,531	\$ 40,505	\$ 135,418	\$ 72,852	\$ 8,331	\$ —	\$ 328,750															
Gross		Gross																								
Charge-offs		Charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —															
Residential real estate																										
Residential real estate																										
Residential real estate																										
Pass		Pass	\$ 330,183	\$ 55,088	\$ 107,259	\$ 248,445	\$ 355,912	\$ 218,563	\$ 116,868	\$ 876	\$ 1,433,194															
Special Mention		Special Mention	41	259	—	—	—	—	192	—	492															
Substandard		Substandard	5,320	—	—	—	—	—	458	—	5,778															
Total		Total	\$ 335,544	\$ 55,347	\$ 107,259	\$ 248,445	\$ 355,912	\$ 218,563	\$ 117,518	\$ 876	\$ 1,439,464															
Gross		Gross																								
Charge-offs		Charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —															
Commercial real estate																										
Commercial real estate																										
Commercial real estate																										
Pass		Pass	\$ 683,984	\$ 192,789	\$ 302,597	\$ 430,908	\$ 430,214	\$ 195,260	\$ 16,420	\$ 2,202	\$ 2,254,374															

Term Loans by Origination Year							Revolving	Term Loans by Origination Year			
							Converted				
							Revolving	to Term	Term Loans by Origination Year		
Term Loans by Origination Year							Loans	Loans	Total	Year	
(Dollars in thousands)	(Dollars in thousands)	Prior	2019	2020	2021	2022	2023	Revolving	Converted	Revolving	Revolving Converted to Term
September 30, 2023							Revolving	to Term	Loans	Total	
March 31, 2024							Loans	Loans	Total		
March 31, 2024											
March 31, 2024											
Credit Cards											

The following tables provides information on loan risk ratings as of December 31, 2023 and gross write-offs during twelve months ended December 31, 2023.

(Dollars in thousands)	Term Loans by Origination Year						Revolving loans	Revolving converted to term loans	Total			
	Prior	2019	2020	2021	2022	2023						
December 31, 2023												
Construction												
Pass	\$ 23,450	\$ 15,721	\$ 14,773	\$ 34,325	\$ 101,426	\$ 100,620	\$ 8,056	\$ —	\$ 298,371			
Substandard	199	—	—	12	418	—	—	—	629			
Total	\$ 23,649	\$ 15,721	\$ 14,773	\$ 34,337	\$ 101,844	\$ 100,620	\$ 8,056	\$ —	\$ 299,000			
Gross Charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —			
Residential real estate												
Pass	\$ 317,528	\$ 54,387	\$ 105,269	\$ 251,269	\$ 392,378	\$ 239,914	\$ 119,777	\$ 874	\$ 1,481,396			
Special Mention	154	256	564	503	—	—	192	—	1,669			
Substandard	6,000	—	—	—	—	—	1,373	—	7,373			
Total	\$ 323,682	\$ 54,643	\$ 105,833	\$ 251,772	\$ 392,378	\$ 239,914	\$ 121,342	\$ 874	\$ 1,490,438			
Gross Charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ (119)	\$ —	\$ (119)			
Commercial real estate												
Pass	\$ 670,042	\$ 190,753	\$ 311,980	\$ 426,750	\$ 428,240	\$ 210,915	\$ 14,873	\$ 2,138	\$ 2,255,691			
Special Mention	14,986	331	—	5,501	4,446	—	100	409	25,773			
Substandard	2,119	2,029	—	542	—	—	—	—	4,690			
Total	\$ 687,147	\$ 193,113	\$ 311,980	\$ 432,793	\$ 432,686	\$ 210,915	\$ 14,973	\$ 2,547	\$ 2,286,154			

Gross Charge-offs	\$	(512)	\$	—	\$	(814)	\$	—	\$	—	\$	—	\$	—	\$	—	\$	—	\$	(1,326)
Commercial																				
Pass	\$	23,771	\$	12,946	\$	14,464	\$	41,621	\$	35,897	\$	27,901	\$	49,160	\$	22,284	\$	228,044		
Special Mention		143		—		—		425		—		—		251		—		819		
Substandard		160		69		—		—		487		—		314		46		1,076		
Total	\$	24,074	\$	13,015	\$	14,464	\$	42,046	\$	36,384	\$	27,901	\$	49,725	\$	22,330	\$	229,939		
Gross Charge-offs	\$	(1)	\$	—	\$	—	\$	—	\$	—	\$	—	\$	—	\$	(242)	\$	(243)		
Consumer																				
Pass	\$	621	\$	961	\$	14,158	\$	76,629	\$	143,507	\$	91,415	\$	699	\$	—	\$	327,990		
Special Mention		—		—		—		—		—		—		2		—		2		
Substandard		—		38		5		80		780		—		1		—		904		
Total	\$	621	\$	999	\$	14,163	\$	76,709	\$	144,287	\$	91,415	\$	702	\$	—	\$	328,896		
Gross Charge-offs	\$	(522)	\$	—	\$	(16)	\$	(17)	\$	(8)	\$	(4)	\$	(7)	\$	—	\$	(574)		

Total																			
Pass	\$	1,035,412	\$	274,768	\$	460,644	\$	830,594	\$	1,101,448	\$	670,765	\$	192,565	\$	25,296	\$	4,591,492	
Special Mention		15,283	\$	587	\$	564	\$	6,429	\$	4,446	\$	—	\$	545	\$	409		28,263	
Substandard		8,478		2,136		5		634		1,685		—		1,688		46		14,672	
Total loans by risk category	\$	1,059,173	\$	277,491	\$	461,213	\$	837,657	\$	1,107,579	\$	670,765	\$	194,798	\$	25,751	\$	4,634,427	
Total gross charge-offs	\$	(1,035)	\$	—	\$	(830)	\$	(17)	\$	(8)	\$	(4)	\$	(126)	\$	(242)	\$	(2,262)	
Credit Cards																			
Performing	\$	—	\$	—	\$	—	\$	—	\$	—	\$	—	\$	6,583	\$	—	\$	6,583	
Total	\$	—	\$	—	\$	—	\$	—	\$	—	\$	—	\$	6,583	\$	—	\$	6,583	
Gross Charge-offs	\$	—	\$	—	\$	—	\$	—	\$	—	\$	—	\$	(111)	\$	—	\$	(111)	
Total loans evaluated by performing status	\$	—	\$	—	\$	—	\$	—	\$	—	\$	—	\$	6,583	\$	—	\$	6,583	
Total gross charge-offs	\$	—	\$	—	\$	—	\$	—	\$	—	\$	—	\$	(111)	\$	—	\$	(111)	
Total Recorded Investment	\$	1,059,173	\$	277,491	\$	461,213	\$	837,657	\$	1,107,579	\$	670,765	\$	201,381	\$	25,751	\$	4,641,010	

The following tables provide information on the aging of the loan portfolio as of **September 30, 2023** **March 31, 2024** and **December 31, 2022** **December 31, 2023**.

Accruing											
(Dollars in thousands)	30-59 days past due		60-89 days past due		90 days past due and still accruing		90 days past due and not accruing		Current Total	Non-Accrual Loans (1)	Current Total
	(Dollars in thousands)	(Dollars in thousands)	(Dollars in thousands)	(Dollars in thousands)	(Dollars in thousands)	(Dollars in thousands)					
September 30, 2023											
(Dollars in thousands)											

											90 days											
											past	Current										
											30-59 days	60-89 days	30-89 days	90 days past due	due and still not	Total	Current	Non Accrual	Accrual	Loans (1)	Loans	Total
(Dollars in thousands)																						
March 31,																						
2024																						
Construction																						
Construction	Construction	\$ 1,035	\$ —	\$ 65	\$ 147	\$ 1,247	\$ —	\$ 327,503	\$ 328,750													
Residential real estate	Residential real estate	3,036	250	871	1,669	5,826	1,644	1,431,994	1,439,464													
Commercial real estate	Commercial real estate																					
Commercial	Commercial	785	445	—	749	1,979	3,117	2,278,425	2,283,521													
Commercial	Commercial	103	—	—	—	103	844	228,527	229,474													
Consumer	Consumer	593	2,744	1,160	214	4,711	1	325,699	330,411													
Credit Cards	Credit Cards	61	41	53	—	155	—	5,944	6,099													
Total	Total	\$5,613	\$3,480	\$2,149	\$2,779	\$14,021	\$5,606	\$4,598,092	\$4,617,719													
Percent of total loans	Percent of total loans	0.1 %	0.1 %	— %	— %	0.3 %	0.1 %	99.6 %	100.0 %													
Percent of total loans	Percent of total loans									0.17 %	0.01 %	0.02 %	0.03 %	0.11 %	0.34 %	99.51 %	0.15 %	100.0 %				

(1) Includes loans measured at fair value of \$9.3 million \$9.7 million at September 30, 2023 March 31, 2024.

											Accruing						
											Accruing						
(Dollars in thousands)	(Dollars in thousands)	Current (1)	30-59 days past due	60-89 days past due	90 days or more past due	Total	Non-accrual	PCI	Total	30-59 days past due	60-89 days past due	30-89 days and not due	90 days and still not due	90 days and not due	Current	Current	
December 31, 2022																	
(Dollars in thousands)																	
(Dollars in thousands)																	
December 31, 2023																	
Construction	Construction	\$ 239,990	\$ 4,343	\$ 1,015	\$ 24	\$ 5,382	\$ 297	\$ 650	\$ 246,319								
Residential real estate	Residential real estate	787,070	6,214	891	1,107	8,212	1,259	13,956	810,497								
Commercial real estate	Commercial real estate	1,052,314	369	—	710	1,079	150	11,866	1,065,409								
Commercial real estate	Commercial real estate																
Commercial	Commercial	147,511	15	—	—	15	174	156	147,856								
Consumer	Consumer	285,750	223	11	—	234	28	14	286,026								
Credit cards	Credit cards																
Total	Total	\$2,512,635	\$11,164	\$1,917	\$1,841	\$14,922	\$1,908	\$26,642	\$2,556,107								
Percent of total loans	Percent of total loans	98.3 %	0.4 %	0.1 %	0.1 %	0.6 %	0.1 %	1.0 %	100.0 %								

Percent of total loans	0.17 %	0.04 %	0.03 %	0.02 %	0.11 %	0.37 %	99.50 %	0.13 %	100.00 %
Percent of total loans									

(1) Includes loans measured at fair value of \$8.4 million \$9.9 million at December 31, 2022 December 31, 2023.

The following tables provide a summary of the activity in the ACL allocated by loan class for the three and nine months ended September 30, 2023 March 31, 2024 and September 30, 2022 March 31, 2023. Allocation of a portion of the allowance to one loan class does not preclude its availability to absorb losses in other loan classes.

(Dollars in thousands)	(Dollars in thousands)	Merger		Net (charge-offs)			Ending Balance		
		Beginning Balance	Adjustments (2)	Charge-offs	Recoveries	Recoveries			
For three months ended September 30, 2023									
(Dollars in thousands)									
(Dollars in thousands)									
For three months ended March 31, 2024									
Construction	Construction	\$ 2,386	\$ 3	—	\$ 3	\$ 3	\$ 1,439	\$ 3,831	
Residential real estate	Residential real estate	9,151	215	—	3	3	9,806	19,175	
Commercial real estate	Commercial real estate								
Commercial real estate	Commercial real estate								
Commercial real estate	Commercial real estate	10,267	985	(1,327)	—	(1,327)	12,875	22,800	
Commercial	Commercial	1,956	278	—	2	2	2,101	4,337	
Consumer (1)	Consumer (1)	5,254	14	(115)	45	(70)	1,658	6,856	
Credit Card	Credit Card	—	18	(60)	—	(60)	94	52	
Total	Total	\$ 29,014	\$ 1,513	\$ (1,502)	\$ 53	\$ (1,449)	\$ 27,973	\$ 57,051	

(1) Gross charge-offs of consumer loans for the three months ended September 30, 2023 March 31, 2024 included \$95,000 \$0.2 million of demand deposit overdrafts.

(2) Merger adjustments consist of gross-up for acquired PCD loans in the TCFC merger.

(Dollars in thousands)	Beginning Balance	Charge-offs	Net (charge-offs)			Provisions	Ending Balance
			Recoveries	recoveries	Provisions		
For three months ended September 30, 2022							
Construction	\$ 3,345	\$ —	2	\$ 2	\$ (315)	\$ 3,032	
Residential real estate	2,778	—	12	12	218	3,008	
Commercial real estate	4,441	—	243	243	325	5,009	
Commercial	1,681	(202)	60	(142)	368	1,907	
Consumer	3,238	—	4	4	79	3,321	
Total	\$ 15,483	\$ (202)	321	\$ 119	\$ 675	\$ 16,277	
Impact of							
(Dollars in thousands)	Beginning Balance	ASC326 Adoption (2)	Merger Adjustments			Net (charge-offs)	
			Charge-offs	Recoveries	recoveries	Provisions	Ending Balance
For nine months ended September 30, 2023							
Construction	\$ 2,973	\$ 1,222	\$ 3	\$ —	\$ 10	\$ (377)	\$ 3,831
Residential real estate	2,622	4,974	215	—	37	37	11,327
Commercial real estate	4,899	3,742	985	(1,327)	—	(1,327)	14,501
							22,800

Commercial	1,652	401	278	—	10	10	1,996	4,337
Consumer ⁽¹⁾	4,497	452	14	(399)	210	(189)	2,082	6,856
Credit Card	—	—	18	(60)	—	(60)	94	52
Total	\$ 16,643	\$ 10,791	\$ 1,513	\$ (1,786)	\$ 267	\$ (1,519)	\$ 29,623	\$ 57,051

(1) Gross charge-offs of consumer loans for the nine months ended September 30, 2023 included \$0.4 million of demand deposit overdrafts.

(2) Merger adjustments consist of gross-up for acquired PCD loans in the TCFC merger.

(Dollars in thousands)	Beginning Balance	Charge-offs	Recoveries	Net (charge-offs) recoveries	Provisions	Ending Balance
For nine months ended September 30, 2022						
Construction	\$ 2,454	\$ —	\$ 9	\$ 9	\$ 569	\$ 3,032
Residential real estate	2,858	(4)	131	127	23	3,008
Commercial real estate	4,598	(6)	948	942	(531)	5,009
Commercial	2,070	(416)	200	(216)	53	1,907
Consumer	1,964	(31)	27	(4)	1,361	3,321
Total	\$ 13,944	\$ (457)	\$ 1,315	\$ 858	\$ 1,475	\$ 16,277

There were no modifications to loans for borrowers experiencing financial difficulty ("BEFD") during the three and nine months ended September 30, 2023.

(Dollars in thousands)	Beginning Balance	Impact of ASC326 Adoption	Charge-offs	Recoveries	Net (charge-offs) recoveries	Provisions	Ending Balance
For Three Months Ended March 31, 2023							
Construction	\$ 2,973	\$ 1,222	\$ —	\$ 3	\$ 3	\$ (1,509)	\$ 2,689
Residential real estate	2,622	4,974	—	31	31	1,120	8,747
Commercial real estate	4,899	3,742	—	—	—	1,217	9,858
Commercial	1,652	401	(107)	53	(54)	(139)	1,860
Consumer	4,497	452	—	—	—	361	5,310
Total	\$ 16,643	\$ 10,791	\$ (107)	\$ 87	\$ (20)	\$ 1,050	\$ 28,464

The following table presents the amortized cost basis of collateral-dependent loans by loan portfolio segment.

September 30, 2023					March 31, 2024			March 31, 2024		
(Dollars in thousands)	(Dollars in thousands)	Real Estate Collateral	Other Collateral	Total	(Dollars in thousands)	Real Estate Collateral	Other Collateral	Total		
Construction	Construction	\$ 250	\$ —	\$ 250						
Residential real estate	Residential real estate	7,620	—	7,620						
Commercial real estate	Commercial real estate	5,411	—	5,411						
Commercial real estate										
Commercial real estate										
Commercial	Commercial	—	1,100	1,100						
Consumer	Consumer	—	1,381	1,381						
Total	Total	\$ 13,281	\$ 2,481	\$ 15,762						
December 31, 2023										
(Dollars in thousands)		Real Estate Collateral	Other Collateral	Total						
Construction		\$ 662	\$ —	\$ 662						
Residential real estate		8,047	—	8,047						

Commercial real estate	6,134	—	6,134
Commercial	—	1,106	1,106
Consumer	—	904	904
Total	\$ 14,843	\$ 2,010	\$ 16,853

The Company did not identify any significant changes in the extent to which collateral secures its collateral dependent loans, whether in the form of general deterioration or from other factors during the period ended **September 30, 2023** **March 31, 2024**.

Loan Modifications to Borrowers Experiencing Financial Difficulty

Modifications to borrowers experiencing financial difficulty may include interest rate reduction, principal or interest forgiveness, forbearance, term extensions, and other actions intended to minimize economic loss and to avoid foreclosure or repossession of collateral. The following illustrates the most common loan modifications by loan classes offered by the Company that are required to be disclosed pursuant to the requirements of ASU 2022-02:

Loan Classes	Modification Types
Commercial Real Estate	Term extension greater than three months.
Commercial	Term extension greater than three months.

The following table presents the amortized cost basis of loan modifications made to borrowers experiencing financial difficulty during three months ended March 31, 2024, and there were no modifications to loans for borrowers experiencing financial difficulty during the three months ended March 31, 2023.

(dollars in thousands)	Term Extension	Term Extension and						% of Total Portfolio Segment
		Interest Rate Reduction	Payment Delay and Term Extension	Interest Rate Reduction	Payment Delay	Total		
March 31, 2024								
Construction	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	—	— %
Residential real estate	—	—	—	—	—	—	—	— %
Residential rentals	—	—	—	—	—	—	—	— %
Commercial real estate	117	—	—	—	—	117	0.01 %	
Commercial	232	—	—	—	—	232	0.10 %	
Consumer	—	—	—	—	—	—	—	— %
Credit Cards	—	—	—	—	—	—	—	— %
Total	\$ 349	\$ —	\$ —	\$ —	\$ —	\$ 349	0.01 %	

The following table presents the financial effect of loan modifications made to borrowers experiencing financial difficulty during the three months ended March 31, 2024, and there were no modifications to loans for borrowers experiencing financial difficulty during the three months ended March 31, 2023.

(dollars in thousands)	Weighted-Average Months of Term Extension	
	Commercial real estate	12 months
Commercial	12 months	

During the three months ended March 31, 2024 and March 31, 2023, there were no defaults on loan modifications made to borrowers experiencing financial difficulty.

The following table present the aging analysis of loan modifications made to borrowers experiencing financial difficulty as of March 31, 2024, and there were no loan modifications made to borrowers experiencing financial difficulty at March 31, 2023.

(Dollars in thousands)	Accruing								Total Recorded Investment	
	30-59 days past due	60-89 days past due	90 days past due and still accruing	90 days past due and not accruing	Total past due	Current Accrual	Current Non-Accrual			
March 31, 2024										

Construction	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Residential real estate	—	—	—	—	—	—	—	—	—	—	—
Commercial real estate	—	—	—	—	—	—	—	—	117	117	117
Commercial	—	—	—	—	—	—	—	—	232	232	232
Consumer	—	—	—	—	—	—	—	—	—	—	—
Credit Cards	—	—	—	—	—	—	—	—	—	—	—
Total	\$ —	\$ 349	\$ 349	\$ 349							

Foreclosure Proceedings

There were **\$0.7 million** **\$0.2 million** of consumer mortgage loans collateralized by residential real estate property that were in the process of foreclosure as of **September 30, 2023** **March 31, 2024** and **\$0.3 million** **\$0.2 million** as of **December 31, 2022** **December 31, 2023**, respectively. There were no residential real estate properties included in the balance of other real estate owned ("OREO") at **September 30, 2023** **March 31, 2024** and one residential real estate property totaling **\$18,000** at **December 31, 2022** **December 31, 2023**.

Prior to the adoption of ASC 326

The following table provides information about all loans acquired from Severn as of December 31, 2022.

(Dollars in thousands)	December 31, 2022		
	Acquired Loans - Purchased Credit		Acquired Loans - Total
	Impaired	Performing	
Outstanding principal balance	\$ 29,620	\$ 349,262	\$ 378,882
Carrying amount			
Construction	\$ 650	\$ 18,761	\$ 19,411
Residential real estate	13,956	116,118	130,074
Commercial real estate	11,866	174,278	186,144
Commercial	156	35,687	35,843
Consumer	14	697	711
Total loans	\$ 26,642	\$ 345,541	\$ 372,183

The following table presents a summary of the change in the accretable yield on PCI loans acquired from Severn.

(Dollars in thousands)	Nine Months Ended September 30, 2022	
Accretable yield, beginning of period	\$	5,367
Accretion		(1,195)
Reclassification of nonaccrable difference due to improvement in expected cash flows		399
Other changes, net		287
Accretable yield, end of period	\$	4,858

The following tables include impairment information relating to loans and the ACL on loans as of December 31, 2022.

(Dollars in thousands)	Ending balance: Individually evaluated for impairment	Ending balance: Collectively evaluated for impairment	Acquired Loans- PCI	Total ⁽¹⁾
December 31, 2022				
Loan Receivables:				
Construction	\$ 331	\$ 236,901	\$ 650	\$ 237,882
Residential real estate	5,081	791,460	13,956	810,497
Commercial real estate	2,540	1,051,003	11,866	1,065,409
Commercial	174	147,526	156	147,856
Consumer	28	285,984	14	286,026
Total	\$ 8,154	\$ 2,512,874	\$ 26,642	\$ 2,547,670

Allowance for credit losses on loans:	Allocated to loans individually evaluated for impairment		Allocated to loans collectively evaluated for impairment		Total
	\$	—	\$	—	
Construction	\$	—	\$	2,973	\$ 2,973
Residential real estate		127		2,495	2,622
Commercial real estate		—		4,899	4,899
Commercial		—		1,652	1,652
Consumer		—		4,497	4,497
Total	\$	127	\$	16,516	\$ 16,643

(1) Excludes loans measured at fair value of \$8.4 million at December 31, 2022.

The following tables provide information on impaired loans and any related allowance by loan class as of December 31, 2022. The difference between the unpaid principal balance and the recorded investment is the amount of partial charge-offs that have been taken and interest paid on nonaccrual loans that has been applied to principal.

(Dollars in thousands)	Unpaid principal balance	Recorded investment with no allowance	Recorded investment with an allowance	Related allowance	September 30, 2022						
					Quarter-to-date average recorded investment	Year-to-date average recorded investment	Interest income recognized				
December 31, 2022											
Impaired nonaccrual loans:											
Construction	\$ 297	\$ 297	\$ —	\$ —	\$ 297	\$ 314	\$ —				
Residential real estate	1,363	1,259	—	—	1,639	1,534	—				
Commercial real estate	159	150	—	—	466	704	—				
Commercial	359	174	—	—	197	242	—				
Consumer	29	28	—	—	40	48	—				
Total	\$ 2,207	\$ 1,908	\$ —	\$ —	\$ 2,639	\$ 2,842	\$ —				
Impaired accruing TDRs:											
Construction	\$ 10	\$ 10	\$ —	\$ —	\$ 14	\$ 18	\$ 1				
Residential real estate	2,849	1,176	1,539	127	2,750	3,064	83				
Commercial real estate	1,680	1,680	—	—	1,830	2,231	48				
Commercial	—	—	—	—	—	—	—				
Consumer	—	—	—	—	—	6	—				
Total	\$ 4,539	\$ 2,866	\$ 1,539	\$ 127	\$ 4,594	\$ 5,319	\$ 132				
Other impaired accruing loans:											
Construction	\$ 24	\$ 24	\$ —	\$ —	\$ 304	\$ 190	\$ 6				
Residential real estate	1,107	1,107	—	—	745	259	3				
Commercial real estate	710	710	—	—	537	493	7				
Commercial	—	—	—	—	13	7	1				
Consumer	—	—	—	—	—	13	—				
Total	\$ 1,841	\$ 1,841	\$ —	\$ —	\$ 1,599	\$ 962	\$ 17				
Total impaired loans:											
Construction	\$ 331	\$ 331	\$ —	\$ —	\$ 615	\$ 522	\$ 7				
Residential real estate	5,319	3,542	1,539	127	5,134	4,857	86				
Commercial real estate	2,549	2,540	—	—	2,833	3,428	55				
Commercial	359	174	—	—	210	249	1				
Consumer	29	28	—	—	40	67	—				

Total \$ 8,587 \$ 6,615 \$ 1,539 \$ 127 \$ 8,832 \$ 9,123 \$ 149

There were no loans modified and considered to be TDRs during the three and nine months ended September 30, 2022. All accruing TDRs were in compliance with their modified terms. Both performing and non-performing TDRs had no further commitments associated with them as of December 31, 2022.

There were no TDRs which subsequently defaulted within 12 months of modification for the three and nine months ended September 30, 2022. Generally, a loan is considered in default when principal or interest is past due 90 days or more, the loan is placed on nonaccrual, the loan is charged off, or there is a transfer to other real estate owned (OREO) or repossessed assets.

The following tables provide information on loan risk ratings as of December 31, 2022.

(Dollars in thousands)	Pass/Performing ⁽¹⁾		Pass		Special Mention		Substandard		Doubtful		PCI		Total	
December 31, 2022														
Construction	\$	231,160	\$	14,212	\$	—	\$	297	\$	—	\$	650	\$	246,319
Residential real estate		761,405		32,467		1,239		1,430		—		13,956		810,497
Commercial real estate		929,501		121,711		1,814		517		—		11,866		1,065,409
Commercial		131,084		15,958		484		174		—		156		147,856
Consumer		285,786		196		2		28		—		14		286,026
Total	\$	2,338,936	\$	184,544	\$	3,539	\$	2,446	\$	—	\$	26,642	\$	2,556,107

(1) Includes loans measured at fair value of \$8.4 million at December 31, 2022.

Note 65 – Goodwill and Other Intangibles

The following table provides information on the significant components of goodwill and other acquired intangible assets at **September 30, 2023**, **March 31, 2024** and **December 31, 2022**.

Total other intangible assets		December 31, 2022						December 31, 2023						
		December 31, 2023						December 31, 2023						
		Gross (Dollars in thousands)	Measurement Carrying Amount	Period Adjustments	Accumulated Impairment Charges	Net Accumulated Amortization	Remaining Life (in years)	Weighted Average	Gross Carrying Amount	Accumulated Impairment Charges	Accumulated Amortization	Net Carrying Amount	Remaining Life (in years)	Weighted Average
Goodwill	Goodwill	\$65,631	\$ (155)	\$ (1,543)	\$ (667)	\$63,266	n/a		\$65,476	\$ —	\$ (1,543)	\$ (667)	\$63,266	0.0 years
Goodwill	Goodwill													
Other intangible assets	Other intangible assets													
Other intangible assets	Other intangible assets													
Other intangible assets	Other intangible assets													
Amortizable	Amortizable													
Core deposit intangible	Core deposit intangible	\$10,504	\$ —	\$ —	\$ (4,957)	\$ 5,547	2.6							
Total core deposit intangible		\$10,504	\$ —	\$ —	\$ (4,957)	\$ 5,547								
Core deposit intangible	Core deposit intangible													
Total other intangible assets									\$10,503	48,648	\$ —	\$ (11,061)	\$48,090	3.7 years

The aggregate amortization expense was \$3.5 million \$2.6 million for the nine three months ended September 30, 2023 March 31, 2024 and \$1.5 million \$0.4 million for the nine three months ended September 30, 2022 March 31, 2023.

At September 30, 2023 March 31, 2024, estimated future remaining amortization for amortizing core deposit intangible intangibles within the years ending December 31, is as follows:

(Dollars in thousands)	(Dollars in thousands)	Amortization Expense	(Dollars in thousands)	Amortization Expense
2023	\$ 2,595			
2024	2024	9,779		
2025	2025	8,589		
2026	2026	7,399		
2027	2027	6,208		
2028				
Thereafter	Thereafter	16,115		
Total amortizing core deposit intangible		\$ 50,685		
Total amortizing intangible assets				

Note 76 – Leases

Lease liabilities represent the Company's obligation to make lease payments and are presented at each reporting date as the net present value of the remaining contractual cash flows. Cash flows are discounted at the Company's incremental borrowing rate in effect at the commencement date of the lease. Right-of-use assets represent the Company's right to use the underlying asset for the lease term and are calculated as the sum of the lease liability and if applicable, prepaid rent, initial direct costs and any incentives received from the lessor.

The Company's long-term lease agreements are classified as operating leases. Certain leases offer the option to extend the lease term and the Company has included such extensions in its calculation of the lease liabilities to the extent the options are reasonably certain of being exercised. The lease agreements do not provide for residual value guarantees and have no restrictions or covenants that would impact dividends or require incurring additional financial obligations.

During the third quarter of 2023, the Company acquired long-term branch leases and equipment leases due to the acquisition of TCFC. These leases were reassessed by management as of the Acquisition Date, which included updating the incremental borrowing rates and remaining lease terms.

The following tables present information about the Company's leases.

(Dollars in thousands)	(Dollars in thousands)	September 30, 2023	December 31, 2022	(Dollars in thousands)	March 31, 2024	December 31, 2023
Lease liabilities	Lease liabilities	\$ 13,082	\$ 9,908			
Right-of-use assets	Right-of-use assets	\$ 12,741	\$ 9,629			
Weighted average remaining lease term		11.07	12.55	Weighted average remaining lease term	10.72 years	10.88 years
Weighted average discount rate		3.18 %	2.50 %	Weighted average discount rate	3.24 %	3.24 %
Remaining lease term - min	Remaining lease term - min	0.64 years	0.16 years	Remaining lease term - min	0.14 years	0.39 years
Remaining lease term - max	Remaining lease term - max	17.93	18.68	Remaining lease term - max	17.43 years	17.68 years
Three Months Ended September 30,				Nine Months Ended September 30,		
Three Months Ended March 31,						
Three Months Ended March 31,						
Lease cost (in thousands)	Lease cost (in thousands)			2023	2023	2022
Lease cost (in thousands)						
Operating lease cost						
Operating lease cost	Operating lease cost	\$ 485	\$ 340	\$ 1,153	\$ 1,007	
Total lease cost	Total lease cost	\$ 485	\$ 340	\$ 1,153	\$ 1,007	
Total lease cost						
Cash paid for amounts included in the measurement of lease liabilities	Cash paid for amounts included in the measurement of lease liabilities	\$ 459	\$ 318	\$ 1,090	\$ 939	
Cash paid for amounts included in the measurement of lease liabilities						

Cash paid for amounts included in the measurement of lease liabilities

A maturity analysis of operating lease liabilities and reconciliation of the undiscounted cash flows to the total of operating lease liabilities is as follows:

Lease payments (in thousands)	Lease payments (in thousands)	As of September 30, 2023	Lease payments due (in thousands)	As of March 31, 2024
Three months ending December 31, 2023		\$ 460		
2024		1,768		
Nine months ending December 31, 2024				
2025	2025	1,544		
2026	2026	1,554		
2027	2027	1,454		
2028				
Thereafter	Thereafter	8,669		
Total undiscounted cash flows	Total undiscounted cash flows	\$ 15,449		
Discount	Discount	2,367		
Lease liabilities	Lease liabilities	\$ 13,082		

Total gross rental income was \$0.3 million and \$0.2 million \$0.4 million for the three months ended September 30, 2023 March 31, 2024 and 2022, 2023, respectively. Total gross rental income was \$0.9 million and \$0.7 million for the nine months ended September 30, 2023, and 2022, respectively.

The following table presents our minimum future annual rental income on such leases as of September 30, 2023 March 31, 2024.

(in thousands)	(in thousands)	As of September 30, 2023	(in thousands)	As of March 31, 2024
Three months ending December 31, 2023		\$ 206		
2024		701		
Nine months ending December 31, 2024				
2025	2025	719		
2026	2026	737		
2027	2027	418		
2028				
Thereafter	Thereafter	1,554		
Total	Total	\$ 4,335		

Note 87 - Deposits

Deposits consist of the following categories as of the dates indicated:

(dollars in thousands)	(dollars in thousands)	September 30, 2023		December 31, 2022		(dollars in thousands)	March 31, 2024			December 31, 2023		
		Balance	%	Balance	%		Balance	%	Balance	%	Balance	%
Noninterest-bearing demand	Noninterest-bearing demand	\$1,211,401	23.70 %	\$ 862,015	28.60 %	Noninterest-bearing demand	\$1,200,680	23.15	23.15 %	\$ 1,258,037	21.64	
Interest-bearing:	Interest-bearing:											
Demand	Demand	1,210,051	23.70 %	694,101	23.10 %		1,101,954	21.26	21.26	1,165,546	21.64	
Money market deposits	Money market deposits	1,179,049	23.10 %	709,132	23.60 %	Money market deposits	1,358,205	26.20	26.20 %	1,430,603		
Savings	Savings	371,755	7.30 %	320,188	10.60 %	Savings	354,098	6.83	6.83 %	347,324		
Certificates of deposit	Certificates of deposit	1,136,488	22.20 %	424,348	14.10 %	Certificates of deposit	1,169,342	22.56	22.56 %	1,184,610		
Total interest-bearing	Total interest-bearing	3,897,343	76.30 %	2,147,769	71.40 %	Total interest-bearing	3,983,599	76.85	76.85 %	4,128,083		
Total Deposits	Total Deposits	\$5,108,744	100.00 %	\$3,009,784	100.00 %		\$5,184,279		100.00 %	\$ 5,386,120		
Total Deposits												

At **September 30, 2023** **March 31, 2024**, the scheduled contractual maturities of certificates of deposit are as follows:

(dollars in thousands)	September 30, 2023	March 31, 2024
Within one year		\$ 894,384 1,023,551
Year 2		162,135 111,651
Year 3		48,171 16,812
Year 4		15,530 11,048
Year 5		15,816 6,276
Thereafter		4524
	\$ 1,136,488	1,169,342

The aggregate amount of certificates of deposit that met or exceeded the FDIC insurance limit of \$250,000 at **September 30, 2023** **March 31, 2024** and **December 31, 2022** **December 31, 2023** was **\$311.3 million** **\$371.0 million** and **\$77.7 million** **\$354.6 million**, respectively.

Note 98 - Borrowings

Long-term debt consisted of the following:

(dollars in thousands)	(dollars in thousands)	September 30,				(dollars in thousands)	March 31, 2024	December 31, 2023	Issue Date	Stated Maturity Date	Earliest Call Date
		2023	2022	Issue Date	Stated Maturity Date	Call Date	Interest Rate				
September 2030 Subordinated Debentures											
September 2030 Subordinated Debentures											

September 2030	September 2030	Subordinated Debentures	Subordinated Debentures	5.375% through September 2025, 3-month SOFR + 5.265% thereafter	\$25,000	\$25,000	\$25,000	2020	2020	2030	2025
October 2030	October 2030	Subordinated Debentures	Subordinated Debentures	4.75% through October 2025, 3-month SOFR + 4.58% thereafter	19,500	19,500	19,500	2020	2020	2030	2025
Total subordinated debentures	Total subordinated debentures	44,500	25,000								
Severn Capital Trust I	Severn Capital Trust I	20,619	20,619	2004 2035	3-month SOFR + 2.00%						
Severn Capital Trust I	Severn Capital Trust I					20,619	20,619	2004	2004	2035	
Tri-County Capital Trust I	Tri-County Capital Trust I	7,000	—	2004 2034	90-day SOFR + 2.60%	7,000	7,000	7,000	2004	2004	2034
Tri-County Capital Trust II	Tri-County Capital Trust II	5,000	—	2005 2035	90-day SOFR + 1.70%	5,000	5,000	5,000	2005	2005	2035
Total trust preferred securities	Total trust preferred securities	32,619	20,619								
Less net discount and unamortized issuance costs	Less net discount and unamortized issuance costs	(5,084)	(2,547)								
Less net discount and unamortized issuance costs	Less net discount and unamortized issuance costs										
Total long-term debt	Total long-term debt	\$72,035	\$43,072								
Total long-term debt	Total long-term debt										

At **September 30, 2023** **March 31, 2024**, subordinated notes consisted of \$25.0 million of long-term debt issued by the Company in August 2020, and \$19.5 million of long-term debt assumed as a result of the merger with TCFC. The recorded balance of subordinated debt issued in **2020** **2021** and the assumed subordinated debt from TCFC, net of unamortized issuance costs and fair value discounts, respectively, were \$24.8 million and **\$18.2 million** **\$18.6 million**, respectively.

The Company also assumed trust preferred securities in the aggregate of \$32.6 million as a result of the merger with TCFC in **the third quarter of 2023** and the acquisition of Severn in **2021**, **the fourth quarter of 2022**. Trust preferred securities consisted of \$20.6 million issued to Severn Capital Trust I, \$7.0 million issued by Tri-County Capital Trust I and \$5.0 million issued by Tri-County Capital Trust II. The recorded balance of the debt acquired from Severn at **September 30, 2023** **March 31, 2024** was **\$18.5 million** **\$18.6 million**, net of the unamortized fair value adjustment of **\$2.1 million** **\$2.0 million**. At **September 30, 2023** **March 31, 2024**, the junior subordinated debt securities of Tri-County Capital Trust I and Tri-County Capital Trust II had a recorded balance of \$6.4 million and \$4.2 million, which are presented as net of the unamortized fair value adjustment of \$0.6 million and \$0.8 million, respectively.

The Company may periodically borrow from a correspondent federal funds line of credit arrangement, under a secured reverse repurchase agreement, or from the **FHLB Federal Home Loan Bank** ("FHLB") to meet short-term liquidity needs. **Short-term** There were no outstanding borrowings from the Federal Home Loan Bank ("FHLB") at **September 30,**

2023 March 31, 2024 and December 31, 2022 were zero and \$40.0 million, respectively. December 31, 2023. Further information on these obligations is provided in the Company's 2022 2023 Annual Report on Form 10-K. Report.

Note 109 - Stock-Based Compensation

At the 2016 annual meeting, stockholders approved the Shore Bancshares, Inc. 2016 Stock and Incentive Plan ("2016 Equity Plan"), replacing the Shore Bancshares, Inc. 2006 Stock and Incentive Plan ("2006 Equity Plan"), which expired on that date. The Company may issue shares of common stock or grant other equity-based awards pursuant to the 2016 Equity Plan. Stock-based awards granted to date generally are time-based, vest in equal installments on each anniversary of the grant date and range over a one- to five-year period of time, and, in the case of stock options, expire 10 years from the grant date. As part of the 2016 Equity Plan, a performance equity incentive award program, known as the "Long-term incentive plan" allows participating officers of the Company to earn incentive awards of performance share/restricted stock units if certain pre-determined targets are achieved at the end of a three-year performance cycle. Stock-based compensation expense based on the grant date fair value is recognized ratably over the requisite service period for all awards and reflects forfeitures as they occur. The 2016 Equity Plan originally reserved 750,000 shares of common stock for grant, and **472,320** **401,868** shares remained available for grant at **September 30, 2023** **March 31, 2024**.

The Company assumed 3,977 shares of restricted stock and 90,783 of restricted stock units at a fair market value of \$11.56 per share as a result of the merger with TCFC. The vesting period for the outstanding restricted stock grants is between three and five years. Restricted stock units and performance stock units vesting period is between one to three years. The recipients of the restricted stock units and performance stock units do not have any stockholder rights, including voting, dividend, or liquidation rights, with respect to the shares underlying awarded restricted stock units until the recipient becomes the record holder of those shares.

The following table summarizes restricted stock award and restricted stock unit activity for the Company under the 2016 Equity Plan for the **nine** **three** months ended **September 30, 2023** **March 31, 2024**.

	Restricted Stock		Restricted Stock		Restricted Stock Units		Performance Stock Units	
	Number of Shares		Number of Shares	Weighted Average Grant Date Fair Value	Number of Shares	Weighted Average Grant Date Fair Value	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested at beginning of period								
	Restricted Stock		Units					
	Restricted Stock		Units					
	Weighted Average Grant		Weighted Average Grant					
	Number of Shares		Date Fair Value		Number of Shares		Date Fair Value	
Nonvested at beginning of period	36,860	\$ 20.15	—	\$ —				
Replacement awards issued in acquisition of TCFC	3,977	11.56	90,783	11.56				
Granted								
Granted	Granted	53,655	14.73	91,047	11.56			
Vested	Vested	(40,525)	17.65	(11,459)	11.56			
Forfeited	Forfeited	(1,671)	17.49	(1,202)	11.56			
Nonvested at end of period	Nonvested at end of period	52,296	\$ 15.95	169,169	\$ 11.56			

The fair value of restricted stock awards that vested during the first nine months of 2024 and 2023 and 2022 was \$0.6 million \$0.3 million and \$0.5 million, respectively. The fair value of restricted stock units vested during the first nine months of 2024 and 2023 was \$0.1 million. \$0.4 million and zero.

Note 11 10 – Derivatives

The Company maintains and accounts for derivatives, in the form of interest rate lock commitments ("IRLCs") and mandatory forward contracts, in accordance with the FASB guidance on accounting for derivative instruments and hedging activities. We recognize gains and losses through mortgage-banking revenue in the Consolidated Statements of Income.

IRLCs on mortgage loans that we intend to sell in the secondary market are considered derivatives. We are exposed to price risk from the time a mortgage loan is locked in until the time the loan is sold. The period of time between issuance of a loan commitment and closing and sale of the loan generally ranges from 14 days to 120 days, however, this period may be longer for construction to permanent loans that are originated with the intent of selling in the secondary market upon permanent financing. For these IRLCs and our closed inventory in loans held for sale, ("LHFS"), we attempt to protect the Bank from changes in interest rates through the use of to be announced ("TBA") securities, which are forward contracts, as well as, to a significantly lesser degree, loan level commitments in the form of best efforts and mandatory forward contracts. These assets and liabilities are included in the Consolidated Balance Sheets in other assets and accrued expenses and other liabilities, respectively.

The following table provides information pertaining to the carrying amounts of our derivative financial instruments at **September 30, 2023** **March 31, 2024** and **December 31, 2022** **December 31, 2023**.

		December 31,						
		September 30, 2023		2022				
		March 31, 2024						
(Dollars in thousands)	(Dollars in thousands)	Notional Amount	Estimated Fair Value	Notional Amount	Estimated Fair Value	(Dollars in thousands)	Notional Amount	Estimated Fair Value
Asset - IRLCs	Asset - IRLCs	\$ 10,969	\$ 89	\$ 4,166	\$ 35			
Asset - TBA securities	Asset - TBA securities	22,900	359	8,750	41			
Liability - IRLCs	Liability - IRLCs	8,354	50	1,150	7			
Liability - TBA securities	Liability - TBA securities	500	—	1,000	6			

Note 12.11 – Accumulated Other Comprehensive Income (Loss)

The Company records unrealized holding gains (losses), net of tax, on investment securities AFS as accumulated other comprehensive income (loss), a separate component of stockholders' equity. The following table provides information on the changes in the component of accumulated other comprehensive income (loss) for the three and nine months ended **September 30, 2023** **March 31, 2024** and **2022** **2023**.

		Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
Three Months Ended March 31, 2024					
Three Months Ended March 31, 2024					
Three Months Ended March 31, 2024					
(Dollars in thousands)	(Dollars in thousands)				
(Dollars in thousands)	(Dollars in thousands)				
(Dollars in thousands)	(Dollars in thousands)	Net Unrealized Gains And (Losses)	Net Unrealized Gains And (Losses)	Net Unrealized Gains And (Losses)	Net Unrealized Gains And (Losses)
Beginning of period	Beginning of period	\$ (8,561)	\$ (6,651)	\$ (9,021)	\$ 56
Other comprehensive losses, net of tax before reclassifications		(1,548)	(3,130)	(1,088)	(9,837)
Beginning of period					
Beginning of period					
Other comprehensive (loss) income, net of tax					
Other comprehensive (loss) income, net of tax					

Other comprehensive (loss) income, net of tax						
End of period	End of period	\$ (10,109)	\$ (9,781)	\$ (10,109)	\$ (9,781)	
End of period						
End of period						

Note 13.12 – Regulatory Capital

Banks and bank holding companies are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory - and possibly additional discretionary - actions by regulators that, if undertaken, could have a direct material effect on the financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Banks' assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Banks' capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and Bank to maintain amounts and ratios (set forth in the table below) of Common Equity Tier 1, Tier 1 and total capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (leverage ratio). As of **September 30, 2023** **March 31, 2024** and **December 31, 2022** **December 31, 2023**, management believes that the Company and the Bank met all capital adequacy requirements to which they were subject.

As of **December 31, 2022** **December 31, 2023**, the most recent notification from our primary regulator categorized the Bank, as well capitalized under the regulatory framework for prompt corrective action. At **September 30, 2023** **March 31, 2024**, there were no conditions or events since that notification that management believes would change the Bank's classification. To be categorized as well capitalized, the Bank must maintain minimum common equity Tier 1, Tier 1 risk-based and total risk-based capital ratios, and Tier 1 leverage ratios, which are described below.

The minimum ratios for capital adequacy purposes are 7.00%, 8.50%, 10.50% and 4.00% for the common equity Tier 1, Tier 1 risk-based capital, total risk-based capital and leverage ratios, respectively which include a capital conservation buffer of 2.50% respectively. To be categorized as well capitalized, a bank must maintain minimum ratios of 6.50%, 8.00%, 10.00% and 5.00% for its common equity Tier 1, Tier 1 risk-based capital, total risk-based capital and leverage ratios, respectively.

Regulatory Capital and Ratios	Regulatory Capital and Ratios	The Company				Regulatory Capital and Ratios	The Company		
		Regulatory Minimum	Ratio + CCB (1)	September 30, 2023	December 31, 2022		September 30, 2023	December 31, 2022 (dollars in thousands)	
(dollars in thousands)	(dollars in thousands)								
Common equity	Common equity	\$ 504,931		\$ 364,285		\$ 566,129		\$ 395,594	
Goodwill		(63,266)		(63,266)		(63,266)		(63,266)	
Goodwill ⁽⁴⁾									
Core deposit intangible ⁽³⁾	Core deposit intangible ⁽³⁾								
DTAs that arise from net operating loss and tax credit carry forwards	DTAs that arise from net operating loss and tax credit carry forwards	(37,507)		(5,547)		(37,507)		(5,547)	
AOCI (gains) losses		(9,158)		—		(6,765)		—	
AOCI losses		10,109		9,021		10,109		9,021	
Common Equity Tier 1 Capital	Common Equity Tier 1 Capital	405,109		304,493		468,700		335,802	
TRUPs	TRUPs	29,079		18,398		—		—	
Tier 1 Capital	Tier 1 Capital	434,188		322,891		468,700		335,802	

Allowable reserve for credit losses and other	Allowable reserve for credit losses and other						
Tier 2 adjustments	Tier 2 adjustments	58,190	16,855	58,190	16,855		
Subordinated notes	Subordinated notes	42,956	24,674	—	—		
Tier 2 Capital	Tier 2 Capital	\$ 535,334	\$ 364,420	\$ 526,890	\$ 352,657		
Risk-Weighted Assets ("RWA")	Risk-Weighted Assets ("RWA")	\$4,707,597	\$2,619,400	\$4,703,362	\$2,618,939		
Risk-Weighted Assets ("RWA")							
Average Assets ("AA")	Average Assets ("AA")	\$5,674,370	\$3,390,516	\$5,661,864	\$3,386,771		
Common Tier 1 Capital to RWA							
Common Tier 1 Capital to RWA	Common Tier 1 Capital to RWA	7.00%	8.61 %	11.62 %	9.97 %	12.82 %	7.00%
Tier 1 Capital to RWA	Tier 1 Capital to RWA	8.50%	9.22 %	12.33 %	9.97 %	12.82 %	8.50%
Tier 2 Capital to RWA	Tier 2 Capital to RWA	10.50%	11.37 %	13.91 %	11.20 %	13.47 %	10.50%
Tier 1 Capital to AA (Leverage) (2)	Tier 1 Capital to AA (Leverage) (2)	n/a	7.65 %	9.52 %	8.28 %	9.92 % (2)	n/a
Tier 1 Capital to AA (Leverage)							
Tier 2 Capital to AA (Leverage)							

(1) The regulatory minimum capital ratio ("Min. Ratio") + the capital conservation buffer ("CCB").

(2) Tier 1 Capital to AA (Leverage) has no capital conservation buffer defined. The PCA well capitalized is defined as 5.00%.

(3) Core deposit intangible at September 30, 2023 is net of deferred tax liability.

(4) Goodwill is net of deferred tax liability as of March 31, 2024.

Bank and holding company regulations impose certain restrictions on dividend payments by the Bank, as well as restricting extensions of credit and transfers of assets between the Bank and the Company.

At September 30, 2023 March 31, 2024, the Bank could pay dividends to the Company to the extent of its earnings so long as it maintained required capital ratios.

Note 14.13 – Fair Value Measurements

Accounting guidance under GAAP defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. This accounting guidance also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities on a recurring basis and to determine fair value disclosures. Additionally, from time to time, the Company may be required to record at fair value other assets on a nonrecurring basis. These nonrecurring fair value adjustments typically involve

application of lower of cost or market accounting or write-downs of individual assets.

Under fair value accounting guidance, assets and liabilities are grouped at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine their fair values. These hierarchy levels are:

Level 1 inputs – Unadjusted quoted prices in active markets for identical assets or liabilities that the entity has the ability to access at the measurement date.

Level 2 inputs – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs – Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

Below is a discussion on the Company's assets measured at fair value on a recurring basis.

Investment Securities Available for Sale

Fair value measurement for investment securities AFS is based on quoted prices from an independent pricing service. The fair value measurements consider observable data that may include present value of future cash flows, prepayment assumptions, credit loss assumptions and other factors. The Company classifies its investments in U.S. Treasury securities, if any, as Level 1 in the fair value hierarchy, and it classifies its investments in U.S. Government agencies securities and mortgage-backed securities issued or guaranteed by U.S. Government sponsored entities as Level 2.

Equity Securities

Fair value measurement for equity securities is based on quoted market prices retrieved by the Company via on-line resources. Although these securities have readily available fair market values, the Company determined that they should be classified as level 2 investments in the fair value hierarchy due to not being considered traded in a highly active market.

LHFS Loans Held for Sale

LHFS Loans held for sale are carried at fair value, which is determined based on Mark to Trade for allocated/committed loans or Mark to Market analysis for unallocated/uncommitted loans based on third-party pricing models (Level 2).

Mortgage Servicing Rights

The fair value of mortgage servicing rights ("MSRs") is determined using a valuation model administered by a third party that calculates the present value of estimated future net servicing income (Level 3). The model incorporates assumptions that market participants use in estimating future net servicing income, including estimates of prepayment speeds, discount rate, default rates, cost to service (including delinquency and foreclosure costs), escrow account earnings, contractual servicing fee income, and other ancillary income such as late fees. Management reviews all significant assumptions on a quarterly basis. Mortgage loan prepayment speed, a key assumption in the model, is the annual rate at which borrowers are forecasted to repay their mortgage loan principal. The discount rate used to determine the present value of estimated future net servicing income, another key assumption in the model, is an estimate of the required rate of return investors in the market would require for an asset with similar risk. Both assumptions can, and generally will, change as market conditions and interest rates change.

The significant unobservable inputs used in the fair value measurement of the reporting entity's residential MSRs are prepayment speeds, probability of default, rate of return, and cost of servicing. Significant increases/decreases in any of those inputs in isolation would have resulted in a significantly lower/higher fair value measurement. Generally, a change in the assumption used for prepayment speeds would have been accompanied by a directionally similar change in the markets, i.e. the 10-Year Treasury, and in the probability of default.

IRLCs

We utilize a third-party specialist model to estimate the fair value of our IRLCs, which are valued based upon mortgage securities (TBA) prices less estimated costs to process and settle the loan. Fair value is adjusted for the estimated probability of the loan closing with the borrower (Level 3).

(Dollars in thousands)	(Dollars in thousands)	Fair Value	Valuation Technique	Unobservable Input	Range
September 30, 2023					
March 31, 2024					
MSRs (1)					
MSRs (1)		Weighted average			
MSRs (1)	MSRs (1)	\$ 5,890	Market approach	prepayment speed (PSA) (2)	108
IRLCs - net asset	IRLCs - net asset	\$ 39	Market approach	Range of pull through rate	84% - 100%
				Average pull through rate	98%
				Weighted average prepayment speed (PSA) (2)	147

IRLCs - net asset								Market Approach	Range of pull through rate	79% - 100%	
IRLCs - net asset								\$232	Market Approach	Range of pull through rate	79% - 100%
Average pull through rate								Average pull through rate			96%
(Dollars in thousands)	(Dollars in thousands)	Fair Value	Valuation Technique	Unobservable Input	Unobservable Range	(Dollars in thousands)	Fair Value	Valuation Technique	Unobservable Input	Range	
December 31, 2022											
December 31, 2023											
MSRs (1)											
MSRs (1)											
	Weighted average										
MSRs (1)	MSRs (1)	\$ 5,275	Market Approach	prepayment speed (PSA) (2)	121	\$ 5,926	Market Approach	Market Approach	Weighted average prepayment speed (PSA) (2)	129	
IRLCs - net asset	IRLCs - net asset	\$ 28	Market Approach	Range of pull through rate	78% - 100%						
	Average pull through rate								92%		
IRLCs - net asset								Market Approach	Range of pull through rate	78% - 100%	
IRLCs - net asset											
	Average pull through rate								Average pull through rate	98%	

(1) The weighted average was calculated with reference to the principal balance of the underlying mortgages.

(2) PSA = Public Securities Association Standard Prepayment Model

The following table presents activity in MSRs for the three and nine months ended September 30, 2023 March 31, 2024.

(Dollars in thousands)	Three Months Ended September 30, 2023	Nine Months Ended September 30, 2023
Beginning balance	\$ 5,466	\$ 5,275
Servicing rights resulting from sales of loans	390	620
Valuation adjustment	34	(5)
Ending balance	\$ 5,890	\$ 5,890
(Dollars in thousands)	Three Months Ended March 31, 2024	
Beginning balance	\$ 5,926	
Servicing rights resulting from sales of loans		118
Valuation adjustment		(223)
Ending balance	\$ 5,821	

The following table presents activity in the IRLCs - net asset for the three and nine months ended September 30, 2023 March 31, 2024.

(Dollars in thousands)	Three Months Ended September 30, 2023	Nine Months Ended September 30, 2023
Beginning balance	\$ 32	\$ 28
Valuation adjustment	7	11
Ending balance	\$ 39	\$ 39

(Dollars in thousands)	Three Months Ended March 31, 2024	
Beginning balance	\$	110
Valuation adjustment		122
Ending balance	\$	232

Forward Contracts

To avoid interest rate risk, we hedge the open locked/closed position with TBA forward trades. On a regular basis, we allocate disbursed loans to mandatory commitments with government-sponsored enterprises ("GSE") and private investors delivering the loans within 120 days of origination to maximize interest earnings. For a small percentage of our business, we enter into best efforts forward sales commitments with investors at the time we make an IRLC to a borrower. Once a loan has been closed and funded, the best efforts commitments convert to mandatory forward sales commitments. The mandatory commitments are derivatives, and we measure and report them at fair value. Fair value is based on the gain or loss that would occur if we were to pair-off the transaction with the investor at the measurement date. This is a **Level 2** input. We have elected to measure and report best efforts commitments at fair value, when outstanding, using a valuation methodology similar to that used for mandatory commitments.

Market assumptions utilized in the fair value measurement of the reporting entity's residential mortgage derivatives, inclusive of IRLCs, Closed Loan Inventory, TBA derivative trades, and Mandatory Forwards may be subject to investor overlays that may result in a significantly lower fair value measurement. Generally such overlays are announced with advanced notice in order to include the risk adjuster, however there are times when announcements are mandated resulting in a lower fair value measurement. Additionally market assumptions such as spec pool payups may result in a significantly higher fair value measurement at time of loan allocation to specific trades.

The following tables present the recorded amount of assets measured at fair value on a recurring basis at **September 30, 2023** **March 31, 2024** and **December 31, 2022** **December 31, 2023**. No assets were transferred from one hierarchy level to another during the first **nine** three months of **2023** **2024** or **2022** **2023**.

(Dollars in thousands)	(Dollars in thousands)	Significant			(Dollars in thousands)	Fair Value	Quoted Prices (Level 1)	Significant Inputs (Level 2)	Other Observable	Significant Inputs (Level 3)								
		Quoted Prices	Other Observable	Significant Unobservable														
		Fair Value	(Level 1)	Inputs (Level 2)														
September 30, 2023																		
March 31, 2024																		
Assets:																		
Assets:																		
Assets:	Assets:																	
Securities available for sale:	Securities available for sale:																	
U.S. Government agencies	U.S. Government agencies																	
U.S. Government agencies	U.S. Government agencies																	
U.S. Government agencies	U.S. Government agencies	\$ 19,631	\$ —	\$ 19,631	\$ —													
Mortgage-backed	Mortgage-backed	53,573	—	53,573	—													
Other debt securities	Other debt securities	5,939	—	5,939	—													
		79,143	—	79,143	—													
		179,496																
Equity securities	Equity securities	5,434	—	5,434	—													
Equity securities	Equity securities																	
TBA forward trades	TBA forward trades																	
TBA forward trades	TBA forward trades																	

TBA forward trades	TBA forward trades	359	—	359	—
Loans Held for Sale	Loans Held for Sale	14,725	—	14,725	—
Loans Held for Investment, at fair value	Loans Held for Investment, at fair value	9,302	—	9,302	—
MSRs	MSRs	5,890	—	—	5,890
IRLCs	IRLCs	89	—	—	89
Total assets at fair value	Total assets at fair value	\$114,942	\$ —	\$ 108,963	\$ 5,979
Liabilities:	Liabilities:				
IRLCs	IRLCs	\$ 50	\$ —	\$ —	\$ 50
TBA securities	TBA securities	—	—	—	—
Total liabilities at fair value	Total liabilities at fair value	\$ 50	\$ —	\$ —	\$ 50
(Dollars in thousands)	(Dollars in thousands)	Fair Value	Quoted Prices (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2022					
December 31, 2023					
Assets:	Assets:				
Assets:	Assets:				
Securities available for sale:	Securities available for sale:				
U.S. Government agencies	U.S. Government agencies				
U.S. Government agencies	U.S. Government agencies	\$ 18,178	\$ —	\$ 18,178	\$ —
Mortgage-backed	Mortgage-backed	63,519	—	63,519	—
Other debt securities	Other debt securities	1,890	—	1,890	—
		83,587	—	83,587	—
		110,521			
Equity securities	Equity securities	1,233	—	1,233	—
Equity securities	Equity securities				

TBA forward trades					
TBA forward trades					
TBA forward trades	TBA forward trades	41	—	41	—
Loans Held for Sale	Loans Held for Sale	4,248	—	4,248	—
Loans Held for Investment, at fair value	Loans Held for Investment, at fair value	8,437	—	8,437	—
MSRs	MSRs	5,275	—	—	5,275
IRLCs	IRLCs	35	—	—	35
Total assets at fair value	Total assets at fair value	\$102,856	\$ —	\$ 97,546	\$ 5,310
Liabilities: IRLCs	Liabilities: IRLCs	\$ 7	\$ —	\$ —	\$ 7
Liabilities:	Liabilities:				
TBA securities	TBA securities				
TBA securities	TBA securities				
TBA securities	TBA securities	6	—	6	—
Total liabilities at fair value	Total liabilities at fair value	\$ 13	\$ —	\$ 6	\$ 7

Below is a discussion on the Company's assets measured at fair value on a nonrecurring basis.

Individually Evaluated Collateral-Dependent Loans

Loans for which repayment is substantially expected to be provided through the operation or sale of collateral are considered collateral dependent, and are valued based on the estimated fair value of the collateral, less estimated costs to sell at the reporting date, where applicable. Accordingly, collateral dependent loans are classified within Level 3 of the fair value hierarchy.

Other Real Estate Owned (Foreclosed Assets)

Foreclosed assets are adjusted for fair value upon transfer of loans to foreclosed assets establishing a new cost basis. Subsequently, foreclosed assets are carried at the lower of carrying value or fair value. The estimated fair value for foreclosed assets included in Level 3 are determined by independent market based appraisals and other available market information, less costs to sell, that may be reduced further based on market expectations or an executed sales agreement. If the fair value of the collateral deteriorates subsequent to the initial recognition, the Company records the foreclosed asset as a non-recurring Level 3 adjustment. Valuation techniques are consistent with those techniques applied in prior periods.

Repossessed Properties

The Company records repossessed assets at fair value on a nonrecurring basis. All repossessed properties are recorded at lower of the estimated fair value of the properties, less expected selling costs, or the carrying amount of the defaulted loans. From time to time, nonrecurring fair value adjustments are recorded to reflect partial write-downs based on current appraised value of property. The Company considers any valuation inputs related to repossessed properties to be Level 3 inputs.

The following tables set forth the Company's financial and nonfinancial assets subject to fair value adjustments (impairment) on a nonrecurring basis at **September 30, 2023** **March 31, 2024** and **December 31, 2022** **December 31, 2023**. Assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

Quantitative Information about Level 3 Fair Value Measurements						Quantitative Information about Level 3 Fair Value Measurements					
Quantitative Information about Level 3 Fair Value Measurements						Quantitative Information about Level 3 Fair Value Measurements					
(Dollars in thousands)	(Dollars in thousands)	Fair Value	Valuation Technique	Unobservable Input	Weighted Average Range (1)	(Dollars in thousands)	Fair Value	Valuation Technique	Unobservable Input	Range (1)	Weighted Average (1)
September 30, 2023											

March 31, 2024																	
Nonrecurring measurements:		Nonrecurring measurements:															
Nonrecurring measurements:																	
Nonrecurring measurements:																	
Individually evaluated collateral dependent loans																	
Individually evaluated collateral dependent loans																	
Individually evaluated collateral dependent loans	Individually evaluated collateral dependent loans	Appraisal of collateral	Liquidation expense	10%	10%	\$17	Appraisal of collateral ⁽¹⁾	Appraisal of collateral ⁽¹⁾	Appraisal adjustment ⁽²⁾								
Other real estate owned	Other real estate owned	Appraisal of collateral	Appraisal adjustments	(0%) - (20%)	(0%)	\$179	Appraisal of collateral ⁽¹⁾	Appraisal adjustment ⁽²⁾	99% 10%								
Other real estate owned																	
Other real estate owned																	
\$ 179																	
Appraisal of collateral ⁽¹⁾																	
Appraisal adjustment ⁽²⁾																	
(0%) - (20%)																	
0%																	
Repossessed properties																	
Repossessed properties																	
Repossessed properties																	
\$ 1,845																	
Appraisal of collateral ⁽¹⁾																	
Appraisal adjustment ⁽²⁾																	
12% - 13%																	
13%																	
Quantitative Information about Level 3 Fair Value Measurements																	
Value Measurements																	
(Dollars in thousands)		(Dollars in thousands)	Fair Value	Valuation Technique	Unobservable Input	Range			Weighted Average								
December 31, 2023																	
Nonrecurring measurements:																	
Nonrecurring measurements:																	
Nonrecurring measurements:																	
Individually evaluated collateral dependent loan																	
Individually evaluated collateral dependent loan																	
Individually evaluated collateral dependent loan																	
\$ 633		Appraisal of collateral ⁽¹⁾	Appraisal adjustment ⁽²⁾	Appraisal Liquidation expense ⁽²⁾													
51%																	
10%																	
Quantitative Information about Level 3 Fair Value Measurements																	
Weighted Average																	
(Dollars in thousands)	Fair Value	Valuation Technique	Unobservable Input	Range	(1)												
December 31, 2022																	
Nonrecurring measurements:																	

Other real estate owned	Other real estate owned	Appraisal of collateral	Appraisal adjustments	(0%) - 20%	(2%)
Other real estate owned	Other real estate owned			\$ 179	Appraisal of collateral ⁽¹⁾
Other real estate owned	Other real estate owned				Appraisal adjustment ⁽²⁾ 0% - 20%

(1) Unobservable inputs were weighted by the relative fair value of the instruments.

(2) Appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated liquidation expenses. The range of liquidation expenses and other appraisal adjustments are presented as a percent of the appraisal.

Note 15 14 – Fair Value of Financial Instruments

Financial instruments require disclosure of fair value information, whether or not recognized in the consolidated balance sheets, when it is practical to estimate the fair value. A financial instrument is defined as cash, evidence of an ownership interest in an entity or a contractual obligation which requires the exchange of cash. Certain items are specifically excluded from the financial instrument fair value disclosure requirements, including the Company's common stock, OREO, premises and equipment and other assets and liabilities.

The carrying amounts and estimated fair values of the Company's financial instruments are presented in the following table. Fair values for September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023 were estimated using an exit price notion.

September 30, 2023			Fair Value Measurements									
March 31, 2024		Carrying Amount	Fair Value	March 31, 2024			Fair Value Measurements					
Description of Asset	Description of Asset						Description of Asset (dollars in thousands)	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
		Carrying Amount	Fair Value	Level 1	Level 2	Level 3						
Assets	Assets											
Cash and cash equivalents	Cash and cash equivalents	\$ 108,709	\$ 108,709	\$ 108,709	—	—	\$ —					
Investment securities - AFS	Investment securities - AFS	79,143	79,143	—	79,143	—						
Investment securities - HTM, net	Investment securities - HTM, net	523,051	445,652	—	445,652	—						
Equity securities	Equity securities	5,434	5,434	—	5,434	—						
Restricted securities	Restricted securities	13,361	13,361	—	13,361	—						
Loans held for sale	Loans held for sale	14,725	14,725	—	14,725	—						
TBA derivatives trades	TBA derivatives trades	359	359	—	359	—						
Cash surrender value on life insurance	Cash surrender value on life insurance	100,950	100,950	—	100,950	—						
Loans, at fair value	Loans, at fair value	9,302	9,302	—	9,302	—						

Loans, net	Loans, net	4,551,366	4,425,585	—	—	4,425,585
MSRs	MSRs	5,890	5,890	—	—	5,890
IRLCs	IRLCs	89	89	—	—	89
Liabilities	Liabilities					
Liabilities						
Deposits:	Deposits:					
Deposits:						
Deposits:						
Noninterest-bearing demand						
Noninterest-bearing demand						
Noninterest-bearing demand	Noninterest-bearing demand	\$1,211,401	\$1,211,401	\$—	\$1,211,401	\$—
Checking plus interest	Checking plus interest	1,210,052	1,210,052	—	1,210,052	—
Money Market	Money Market	1,179,049	1,179,049	—	1,179,049	—
Savings	Savings	370,049	370,049	—	370,049	—
Club	Club	1,706	1,706	—	1,706	—
Certificates of Deposit	Certificates of Deposit	1,136,488	1,124,904	—	1,124,904	—
Subordinated debt		42,956	41,503	—	41,503	—
TRUPS		29,079	27,364	—	27,364	—
Subordinated debt, net						
Subordinated debt, net						
Subordinated debt, net						
TRUPS, net						
TBA Securities						
IRLCs	IRLCs	50	50	—	—	50

See the Company's methodologies disclosed in Note 21 of the Company's 2022 Annual Report for the fair value methodologies used as of December 31, 2022:

December 31, 2022		Fair Value Measurements									
December 31, 2023	Carrying Amount	Fair Value	December 31, 2023			Fair Value Measurements					
Description of Asset (dollars in thousands)	Description of Asset (dollars in thousands)					Description of Asset (dollars in thousands)	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Assets	Assets	Amount	Fair Value	Level 1	Level 2	Level 3					
Cash and cash equivalents	Cash and cash equivalents	\$ 55,499	\$ 55,499	\$55,499	\$—	\$—					
Cash and cash equivalents	Cash and cash equivalents	\$ 55,499	\$ 55,499	\$55,499	\$—	\$—					
Investment securities - AFS	Investment securities - AFS	83,587	83,587	—	83,587	—					

Investment securities - HTM	Investment securities - HTM	559,455	494,626	—	494,626	—
Equity securities	Equity securities	1,233	1,233	—	1,233	—
Restricted securities	Restricted securities	11,169	11,169	—	11,169	—
Loans held for sale	Loans held for sale	4,248	4,248	—	4,248	—
TBA securities	TBA securities	41	41	—	41	—
Cash surrender value on life insurance	Cash surrender value on life insurance	59,218	59,218	—	59,218	—
Loans, at fair value	Loans, at fair value	8,437	8,437	—	8,437	—
Loans, net	Loans, net	2,531,027	2,431,808	—	—	2,431,808
MSRs	MSRs	5,275	5,275	—	—	5,275
IRLCs	IRLCs	35	35	—	—	35
Liabilities	Liabilities					
Liabilities						
Liabilities						
Deposits:	Deposits:					
Deposits:						
Deposits:						
Noninterest-bearing demand						
Noninterest-bearing demand						
Noninterest-bearing demand	Noninterest-bearing demand	\$ 862,015	\$ 862,015	\$ —	\$ 862,015	\$ —
Checking plus interest	Checking plus interest	694,101	694,101	—	694,101	—
Money Market	Money Market	709,132	709,132	—	709,132	—
Savings	Savings	319,814	319,814	—	319,814	—
Club		374	374	—	374	—
Certificates of Deposit	Certificates of Deposit	424,348	410,455	—	410,455	—
Advances from FHLB - short term		40,000	40,002	—	40,002	—
Subordinated debt		43,072	41,193	—	41,193	—
Subordinated debt, net						
TRUPS, net						
TBA Securities	TBA Securities	6	6	—	6	—
IRLCs		7	7	—	—	7

Note 16.15 – Commitments and Contingencies

In the normal course of business, to meet the financial needs of its customers, the Bank is a party to financial instruments with off-balance sheet risk. These financial instruments include commitments to extend credit and standby letters of credit. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Letters of credit

and other commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Because many of the letters of credit and commitments are expected to expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements.

The following table provides information on commitments outstanding at **September 30, 2023** **March 31, 2024** and **December 31, 2022** **December 31, 2023**.

(Dollars in thousands)	(Dollars in thousands)	September 30, 2023	December 31, 2022	(Dollars in thousands)	March 31, 2024		December 31, 2023
Commitments to extend credit	Commitments to extend credit	\$ 618,628	\$ 406,353				
Letters of credit	Letters of credit	28,896	8,009				
Total	Total	\$ 647,524	\$ 414,362				

The Company provides banking services to customers who do business in the cannabis industry. Prior to the second quarter of 2022, the Company restricted these businesses to include only those in the medical-use cannabis industry in the state of Maryland. During the second quarter of 2022, the Company expanded its cannabis banking program to include both medical and adult-use licensees in other states, with an initial offering to the Company's existing Maryland customers with multi-state operations. While the Company is providing banking services to customers that are engaged in the growing, processing, and sales of cannabis in a manner that complies with applicable state law, such customers engaged in those activities currently violate Federal laws. The Company may be deemed to be aiding and abetting illegal activities through the services that it provides to these customers. While we are not aware of any instance of a federally-insured financial institution being subject to such aiding and abetting liability, the strict enforcement of Federal laws regarding cannabis would likely result in the Company's inability to continue to provide banking services to these customers and the Company could have legal action taken against it by the Federal government, including imprisonment and fines. There is an uncertainty of the potential impact to the

Company's Consolidated Financial Statements if the Federal government takes actions against the Company. As of **September 30, 2023** **March 31, 2024**, the Company had not accrued an amount for the potential impact of any such actions.

Following is a summary of the level of business activities with our cannabis industry customers:

- Deposit and loan balances at **September 30, 2023** **March 31, 2024** were approximately **\$175.5 million** **\$227.6 million**, or **3.4%** **4.4%** of total deposits, and **\$76.2 million** **\$73.7 million**, or **1.7%** **1.6%** of total gross loans, respectively.
- Interest and noninterest income for the **nine** **three** months ended **September 30, 2023** **March 31, 2024**, were approximately **\$7.2 million** **\$1.0 million** and **\$0.8 million** **\$0.3 million**, respectively.

In the normal course of business, the Company may become involved in litigation arising from banking, financial, and other activities. Management, after consultation with legal counsel, does not anticipate that the future liability, if any, arising out of current proceedings will have a material effect on the Company's financial condition, operating results, or liquidity.

Note 17 16 – Earnings Per Share

Basic earnings per common share is calculated by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings per common share is calculated by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period, adjusted for the dilutive effect of potential common stock equivalents (stock-based awards). The following table provides information relating to the calculation of earnings per common share.

	Three Months Ended September 30,			Nine Months Ended September 30,		
	Three Months Ended March 31,	Three Months Ended March 31,	Three Months Ended March 31,			
(In thousands, except per share data)						
(In thousands, except per share data)						
(In thousands, except per share data)	(In thousands, except per share data)	2023	2022	2023	2022	
Net (Loss)/Income	\$ (6,384)	\$ 9,658	\$ 4,091	\$ 22,769		
Net Income						
Net Income						
Net Income						

Average number of common shares outstanding								
Average number of common shares outstanding								
Average number of common shares outstanding	Average number of common shares outstanding	33,129		19,852		24,354		19,842
Dilutive effect of common stock equivalents	Dilutive effect of common stock equivalents	—		—		—		—
Dilutive effect of common stock equivalents								
Dilutive effect of common stock equivalents								
Average number of shares used to calculate diluted EPS								
Average number of shares used to calculate diluted EPS								
Average number of shares used to calculate diluted EPS	Average number of shares used to calculate diluted EPS	33,129		19,852		24,354		19,842
Anti-dilutive shares	Anti-dilutive shares	219		—		219		—
Anti-dilutive shares								
Anti-dilutive shares								
Earnings per common share								
Earnings per common share								
Earnings per common share	Earnings per common share							
Basic	Basic	\$ (0.19)		\$ 0.49		\$ 0.17		\$ 1.15
Basic								
Basic								
Diluted	Diluted	\$ (0.19)		\$ 0.49		\$ 0.17		\$ 1.15
Diluted								
Diluted								

As of March 31, 2024 there were no potentially dilutive shares outstanding during 1,000 and as of March 31, 2023 there were zero unvested common stock equivalents excluded from the three and nine months ended September 30, 2022. calculation of diluted earnings per share as their effect would be anti-dilutive.

Note 18.17 – Revenue Recognition

Topic 606 does not apply to revenue associated with financial instruments, including revenue from loans and securities. Topic 606 is applicable to noninterest revenue streams such as trust and asset management income, deposit related fees, interchange fees and merchant income. Noninterest revenue streams in-scope of Topic 606 are discussed below.

Service Charges on Deposit Accounts

Service charges on deposit accounts consist of account analysis fees (i.e., net fees earned on analyzed business and public checking accounts), monthly service fees, check orders, and other deposit account related fees. The Company's performance obligation for account analysis fees and monthly service fees is generally satisfied, and the related revenue recognized, over the period in which the service is provided.

Check orders and other deposit account related fees are largely transactional based, and therefore, the Company's performance obligation is satisfied, and related revenue recognized, at a point in time. Payment for service charges on deposit accounts is primarily received immediately or at the end of the month through a direct charge to customers' accounts.

Trust and Investment Fee Income

Trust and investment fee income primarily comprise fees earned from the management and administration of trusts and other customer assets. The Company's performance obligation is generally satisfied over time and the resulting fees are recognized monthly, based upon the month-end market value of the assets under management and the applicable fee rate. Payment is generally received a few days after month end through a direct charge to customers' accounts. The Company does not earn performance-based incentives.

Optional services such as real estate sales and tax return preparation services are also available to existing trust and asset management customers. The Company's performance obligation for these transactional-based services is generally satisfied, and related revenue recognized, at a point in time (i.e., as incurred). Payment is received shortly after services are rendered.

Title Company Revenue

Title Company revenue consists of revenue earned on performing title work for real estate transactions. The revenue is earned when the title work is performed. Payment for such performance obligations generally occurs at the time of the settlement of a real estate transaction. As such settlement is generally within 90 days of the performance of the title work, we recognize the revenue at the time of the settlement.

All contract issuance costs are expensed as incurred. We had no contract assets or liabilities at **September 30, 2023** **March 31, 2024**.

Other Noninterest Income

Other noninterest income consists of: fees, exchange, other service charges, safety deposit box rental fees, and other miscellaneous revenue streams. Fees and other service charges are primarily comprised of debit and credit card income, ATM fees, merchant services income, and other service charges. Debit and credit card income is primarily comprised of interchange fees earned whenever the Company's debit and credit cards are processed through card payment networks such as Mastercard and VISA. ATM fees are primarily generated when a Company cardholder uses a non-Company ATM or a non-Company cardholder uses a Company ATM. Merchant services income mainly represents fees charged to merchants to process their debit and credit card transactions, in addition to account management fees. Other service charges include revenue from processing wire transfers, bill pay service, cashier's checks, and other services. The Company's performance obligation for fees, exchange, and other service charges are largely satisfied, and related revenue recognized, when the services are rendered or upon completion. Payment is typically received immediately or in the following month. Safe deposit box rental fees are charged to the customer on an annual basis and recognized upon receipt of payment. The Company determined that rentals and renewals of safe deposit boxes will be recognized on a monthly basis consistent with the duration of the performance obligation.

The following presents noninterest income, segregated by revenue streams in-scope and out-of-scope of Topic 606, for the three and nine months ended **September 30, 2023** **March 31, 2024** and **2022**.

		Three Months Ended September 30,		Nine Months Ended September 30,	
		Three Months Ended March 31,	Three Months Ended March 31,	Three Months Ended March 31,	
(Dollars in thousands)					
(Dollars in thousands)	(Dollars in thousands)	2023	2022	2023	2022
Noninterest Income	Noninterest Income				
Noninterest Income					
Noninterest Income					
<i>In-scope of Topic 606:</i>					
<i>In-scope of Topic 606:</i>					
<i>In-scope of Topic 606:</i>	<i>In-scope of Topic 606:</i>				
Service charges on deposit accounts	Service charges on deposit accounts	\$ 1,505	\$ 1,509	\$ 3,981	\$ 4,306
Service charges on deposit accounts					
Service charges on deposit accounts					
Trust and investment fee income	Trust and investment fee income	1,933	421	2,764	1,383
Interchange income	Interchange income	1,557	1,241	4,081	3,532
Interchange income					
Interchange income					
Title Company revenue					
Title Company revenue					

Title Company revenue	Title Company revenue	89	397	412	1,146
Other noninterest income	Other noninterest income	1,266	494	2,212	1,495
Other noninterest income					
Other noninterest income					
Noninterest Income (in-scope of Topic 606)					
Noninterest Income (in-scope of Topic 606)					
Noninterest Income (in-scope of Topic 606)	Noninterest Income (in-scope of Topic 606)	6,350	4,062	13,450	11,862
Noninterest Income (out-of-scope of Topic 606)	Noninterest Income (out-of-scope of Topic 606)	11,987	1,282	15,516	5,362
Noninterest Income (out-of-scope of Topic 606)					
Noninterest Income (out-of-scope of Topic 606)					
Total Noninterest Income	Total Noninterest Income	\$ 18,337	\$ 5,344	\$ 28,966	\$ 17,224
Total Noninterest Income					
Total Noninterest Income					

Note 18 – Subsequent Events

On April 12, 2024 the Board of Directors determined that it is in the best interest of the Company to close two branches. Management is directed to close the Onley branch located in Onley, VA on or about July 17, 2024 and to close the Westgate branch located in Annapolis, MD on or about September 30, 2024.

Item 2 – Management's Discussion and Analysis ("MD&A") of Financial Condition and Results of Operations.

Unless the context clearly suggests otherwise, references to "the Company", "we", "our", and "us" in the remainder of this Quarterly Report on Form 10Q are to Shore Bancshares, Inc. and its consolidated subsidiaries.

Forward-Looking Information

This Quarterly Report on Form 10-Q contains forward-looking statements. These forward-looking statements reflect our current views with respect to, among other things, future events and our financial performance. These statements are often, but not always, made through the use of words or phrases such as "may," "should," "could," "predict," "potential," "believe," "will likely result," "expect," "continue," "will," "anticipate," "seek," "estimate," "intend," "plan," "project," "projection," "forecast," "goal," "target," "would," "aim" and "outlook," or the negative version of those words or other comparable words or phrases of a future or forward-looking nature. These forward-looking statements contained herein that are not historical facts are forward-looking statements (as defined by the Private Securities Litigation Reform Act of 1995) based on management's current expectations estimates and projections about our industry beliefs concerning future developments and management's beliefs their potential effects on the Company. Such statements involve inherent risks and certain assumptions made by management, uncertainties, many of which are difficult to predict and are generally beyond the control of the Company. There can be no assurance that future developments affecting the Company will be the same as those anticipated by their nature, management. These statements are inherently uncertain evidenced by terms such as "anticipate," "estimate," "should," "expect," "believe," "intend," and beyond our control. The inclusion of similar expressions. Although these forward-looking statements should not be regarded as a representation by us or any other person that such expectations, estimates reflect management's good faith beliefs and projections, will be achieved. Accordingly, we caution you that any such forward-looking statements they are not guarantees of future performance and are subject to risks, assumptions they may not prove true. These projections involve risk and uncertainties that are difficult could cause actual results to predict. New risks and uncertainties may emerge differ materially from time to time, and it those addressed in the forward-looking statements. While there is not possible for us to predict their occurrence. In addition, we cannot assess the impact of each risk and uncertainty on our business or the extent to which no assurance that any risk or uncertainty, or combination list of risks and uncertainties may or risk factors is complete, below are certain factors which could cause actual results to differ materially from those contained or implied in any the forward-looking statements. statements:

- If one general economic conditions, (including the interest rate environment, government economic and monetary policies, the strength of global financial markets and inflation/deflation and supply chain issues), whether national or more regional, and conditions in the lending markets in which we participate that may have an adverse effect on the demand for our loans and other products, our credit quality and related levels of nonperforming assets and loan losses, and the value and salability of the factors affecting real estate that we own or that is the collateral for our forward-looking information loans;
- recent adverse developments in the banking industry highlighted by high-profile bank failures and statements proves incorrect, then the potential impact of such developments on customer confidence, liquidity, and regulatory responses to these developments;
- the Company's ability to remediate the material weaknesses identified in the Company's internal control over financial reporting;
- the effectiveness of the Company's internal control over financial reporting and disclosure controls and procedures;
- cybersecurity threats and the cost of defending against them;

- results of examinations of us by our regulators, including the possibility that our regulators may, among other things, require us to increase our reserve for loan losses or achievements to write-down assets;
- changing bank regulatory conditions, policies or programs, whether arising as new legislation or regulatory initiatives, which could differ materially from those expressed lead to restrictions on activities of banks generally, or our subsidiary bank in particular, more restrictive regulatory capital requirements, increased costs, including deposit insurance premiums, regulation or implied by, forward-looking information and statements contained prohibition of certain income producing activities or changes in this Quarterly Report on Form 10-Q the secondary market for loans and other reports products;
- changes in market rates and registration statements filed prices may adversely impact the value of securities, loans, deposits and other financial instruments and the interest rate sensitivity of our balance sheet;
- our liquidity requirements could be adversely affected by us with changes in our assets and liabilities;
- our ability to prudently manage our growth and execute our strategy;
- impairment of our goodwill and intangible assets;
- competitive factors among financial services organizations, including product and pricing pressures and our ability to attract, develop and retain qualified banking professionals;
- the expected cost savings, synergies and other financial benefits from the acquisition of The Community Financial Corporation ("TCFC") or any other acquisition the Company has made or may make might not be realized within the expected time frames or at all;
- the growth and profitability of non-interest or fee income being less than expected;
- the effect of legislative or regulatory developments, including changes in laws concerning taxes, banking, securities, insurance and other aspects of the financial services industry;
- the effect of any change in federal government enforcement of federal laws affecting the cannabis industry;
- the effect of changes in accounting policies and practices, as may be adopted by the Financial Accounting Standards Board (the "FASB"), the Securities and Exchange Commission ("SEC" (the "SEC"). For information on the Public Company Accounting Oversight Board and other regulatory agencies;
- potential changes in federal policy and at regulatory agencies as a result of the upcoming 2024 presidential election;
- a deterioration of the credit rating for U.S. long-term sovereign debt, actions that the U.S. government may take to avoid exceeding the debt ceiling, and uncertainties surrounding the debt ceiling and the federal budget;
- the impact of recent or future changes in Federal Deposit Insurance Corporation (the "FDIC") insurance assessment rate or the rules and regulations related to the calculation of the FDIC insurance assessment amount, including any special assessments;
- the effect of fiscal and governmental policies of the U.S. federal government;
- climate change, including the enhanced regulatory, compliance, credit and reputational risks and costs; and
- geopolitical conditions, including acts or threats of terrorism, actions taken by the United States or other governments in response to acts of terrorism, and/or military conflicts, including the war between Russia and Ukraine and the conflict in the Middle East, which could impact business and economic conditions in the United States and abroad.

Additional factors that could cause actual results to differ materially from the expectations stated those expressed in the forward- looking forward-looking statements see "Risk Factors" under Part I, Item 1A of our 2022 Form 10-K, Part II, Item IA of our Quarterly are discussed in the Company's Annual Report on Form 10-Q 10-K for the quarter year ended March 31, 2023, December 31, 2023 (the "2023 Annual Report") filed with SEC and other reports filed by us with available at the SEC SEC's Internet site (<http://www.sec.gov>).

Any forward-looking statement speaks only as of the date of this Quarterly Report on Form 10-Q, and we do not undertake The Company specifically disclaims any obligation to update any factors or to publicly update announce the result of revisions to any of the forward-looking statements included herein to reflect future events or review any forward-looking statement, whether because of new information, future developments or otherwise, except as required by law, developments.

Critical Accounting Policies

The Company's consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") and follow general practices within the industries in which it operates. Application of these principles requires management to make estimates, assumptions, and judgments that affect the amounts reported in the financial statements and accompanying notes. These estimates, assumptions, and judgments are based on information available as of the date of the financial statements; accordingly, as this information changes, the financial statements could reflect different estimates, assumptions, and judgments. Certain policies inherently have a greater reliance on the use of estimates, assumptions, and judgments and as such have a greater possibility of producing results that could be materially different than originally reported.

The most significant accounting policies that the Company follows are presented in Note 1 of to the 2022 Notes to Consolidated Financial Statement included in the 2023 Annual Report along with Note 2 of the current period interim financial information, Report. These policies, along with the disclosures presented in the notes to the financial statements and in this MD&A, provide information on how significant assets and liabilities are valued in the financial statements and how those values are determined. Based on the valuation techniques used and the sensitivity of financial statement amounts to the methods, assumptions, and estimates underlying those amounts, management has determined that the accounting policies for the ACL allowance for credit losses ("ACL") on loans, goodwill and goodwill bargain purchase gain, loans acquired in a business combination and income taxes are critical accounting policies. These policies are considered critical because they relate to accounting areas that require the most subjective or complex judgments, and, as such, could be most subject to revision as new information becomes available.

Allowance for Credit Losses on Loans

The Company adopted ASU No. 2026-13, 2016-13, "Financial Instruments – Credit Losses (Topic 326)", as amended, on January 1, 2023 and in accordance with ASC 326, has recorded an ACL on loans carried at amortized cost. The ACL represents management's best estimate of expected lifetime credit losses within the Company's loan portfolio as of the balance sheet date. The ACL is established through a provision for credit losses and is increased by recoveries of loans previously charged off. Loan losses are charged against the allowance when management's assessments confirm that the Company will not collect the full amortized cost basis of a loan. The calculation of expected credit losses is determined using cash flow methodology, and includes considerations of historical experience, current conditions, and reasonable and supportable economic forecasts that may affect collection of the recorded balances. The Company assesses an ACL to groups of loans which share similar risk characteristics or on an individual basis, as deemed appropriate. Changes in the ACL on loans, and as a result, the related provision for credit losses, can materially affect financial results. Although the overall balance is determined based on specific portfolio segments and individually assessed assets, the entire balance is available to absorb credit losses for loans in the portfolio.

The determination of the appropriate level of ACL on loans inherently involves a high degree of subjectivity and requires the Company to make significant judgments concerning credit risks and trends using quantitative and qualitative information, as well as reasonable and supportable forecasts of future economic conditions, all of which may undergo frequent and significant changes. Changes in conditions, including unforeseen events, changes in asset-specific risk characteristics, and other economic factors, both within and outside the Company's control, may indicate the need for an increase or decrease in the ACL on loans. While management makes every effort to utilize the best information available in making its assessment of the ACL estimate, the estimation process is inherently challenging as potential changes in any one factor or input may occur at different rates and/or impact pools of loans in different ways. Further, changes in factors and inputs may also be directionally inconsistent, such that improvement in one factor may offset deterioration in others.

The Company's management reviews the adequacy of the ACL on loans on at least a quarterly basis. Refer to Note 2, "Adoption of Accounting Standards", of the interim consolidated financial information for additional detail concerning the determination of the ACL on loans.

Goodwill and Bargain Purchase Gain

Goodwill represents the excess of the cost of an acquisition over the fair value of the net assets acquired. Determining fair value is subjective, requiring the use of estimates, assumptions and management judgment. Goodwill is tested at least annually for impairment, usually during the fourth quarter, or on an interim basis if circumstances dictate. Impairment testing requires a qualitative assessment or that the fair value of each of the Company's reporting units be compared to the carrying amount of its net assets, including goodwill. If the fair value of a reporting unit is less than book value, an expense may be required to write down the related goodwill to record an impairment loss.

A bargain purchase gain represents the excess of the fair value of net assets acquired over the cost of an acquisition. Determining fair value is subjective, requiring the use of estimates, assumptions and management judgement. Bargain purchase gain is recorded within noninterest income in the period it was generated. An acquirer has a measurement period to finalize the accounting for a business combination which could adjust bargain purchase gain if material facts or circumstances arise.

Loans Acquired in a Business Combination

Acquired loans are classified as either (i) purchase credit-deteriorated ("PCD") loans or (ii) purchased performing loans and are recorded at fair value on the date of acquisition.

PCD loans are those for which there is more than insignificant evidence of credit deterioration since origination. When determining fair value, PCD loans are aggregated into pools based on common risk characteristics as of the date of acquisition such as loan type, date of origination, and evidence of credit quality deterioration such as internal risk grades and past due and nonaccrual status. At the acquisition date, the ACL is determined and added to the fair value of the loan to determine the new amortized cost basis. The difference between the new amortized cost basis and the unpaid principal balance is either a noncredit discount or premium that will be amortized or accredited into the interest income over the remaining life of the loan. Disposals of loans, which may include sale of loans to third parties, receipt of payments in full or in part from the borrower or foreclosure of the collateral, result in removal of the loan from the PCD loan portfolio at its carrying amount.

The Company accounts for purchased performing loans using the contractual cash flows method of recognizing discount accretion based on the acquired loans' contractual cash flows. Purchased performing loans are recorded at fair value, including a credit discount. The fair value discount is accreted as an adjustment to yield over the estimated lives of the loans. Purchased performing loans do not have a more-than-insignificant deterioration in credit quality since origination and have an ACL established in a manner that is consistent with the Company originated loans. The allowance for PCD loans is determined based upon the Company's methodology for estimating the allowance under CECL, and is recorded as an adjustment to the acquired loan balance on the date of acquisition. Additionally, upon the purchase or acquisition of non-PCD loans, the Company measures and records a reserve for credit losses based on the Company's methodology for determining the allowance under CECL. The allowance for non-PCD loans is recorded through a charge to provision for credit losses in the period in which the loans were purchased or acquired.

Income Taxes

The Company and its subsidiaries file a consolidated federal income tax return. The Company accounts for income taxes using the liability method in accordance with required accounting guidance. Under this method, deferred tax assets and liabilities are determined by applying the applicable federal and state income tax rates to cumulative temporary differences. These temporary differences represent differences between financial statement carrying amounts and the corresponding tax bases of certain assets and liabilities. Deferred taxes result from such temporary differences.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date.

A valuation allowance, if needed, reduces deferred tax assets to the expected amount most likely to be realized. Realization of deferred tax assets is dependent on the generation of a sufficient level of future taxable income, recoverable taxes paid in prior years and tax planning strategies. The Company evaluates all positive and negative evidence before determining if a valuation allowance is deemed necessary regarding the realization of deferred tax assets.

The Company recognizes accrued interest and penalties as a component of tax expense.

The provision for income taxes includes the impact of reserve provisions and changes in the reserves that are considered appropriate as well as the related net interest and penalties. In addition, the Company is subject to the continuous examination of its income tax returns by the IRS and other tax authorities which may assert assessments against the Company. The Company regularly assesses the likelihood of adverse outcomes resulting from these examinations and assessments to determine the adequacy of its provision for income taxes. The Company remains subject to examination for tax years ending on or after December 31, 2020.

Introduction

The following MD&A is intended as a review of significant factors affecting the Company's financial condition and results of operations for the periods indicated. This discussion and analysis should be read in conjunction with the unaudited consolidated financial statements and related notes presented elsewhere in this report, as well as the audited consolidated financial statements and related notes included in the **2022 2023** Annual Report.

Shore Bancshares, Inc. is headquartered on the Eastern Shore of Maryland. It is the parent company of Shore United Bank, N.A. (the "Bank"). The Bank operates 42 full-service branches in Baltimore County, Howard County, Kent County, Queen Anne's County, Caroline County, Talbot County, Dorchester County, Anne Arundel County, Charles County, St. Mary's County, Calvert County and Worcester County in Maryland, Kent County and Sussex County in Delaware and Accomack County, **Fredericksburg City, Stafford County** and Spotsylvania County in Virginia. The Company **engages in trust and wealth management services** through Wye Financial Partners, a **department of the Bank**, provides full-service investment and insurance solutions through our broker/dealer, LPL Financial. The Bank also offers **wealth management solutions** such as corporate trustee services and trust administration through Wye Trust, a division of **Shore United Bank, N.A.** the **Bank**. The Company also engages in title work for real estate transactions through its wholly-owned subsidiary, Mid-Maryland Title Company, Inc.

The shares of common stock of Shore Bancshares, Inc. are listed on the NASDAQ Global Select Market under the symbol "SHBI".

OVERVIEW

Third quarter results include the successful completion of the merger (the "merger") on July 1, 2023 with The Community Financial Corporation ("TCFC") with total assets exceeding \$5.7 billion. Company's net income for the combined company. In the third first quarter of 2023, the Company's net loss 2024 was \$6.4 million \$8.2 million or \$(0.19) \$0.25 per diluted common share compared to net income of \$4.0 million \$10.5 million or \$0.20 \$0.32 per diluted common share for the second fourth quarter of 2023, and net income of \$9.7 million \$6.5 million or \$(0.49) \$0.32 per diluted common share for the third first quarter of 2022. Net income 2023.

First Quarter 2024 Highlights:

- Return on Average Assets ("ROAA") - The Company reported ROAA of 0.57% for the first nine months quarter of 2024, compared to 0.72% and 0.75% for the fourth and first quarters of 2023, was \$4.1 million or \$0.17 per diluted common share, compared to net income for the first nine months of 2022 of \$22.8 million or \$1.15 per diluted common share.

The Company's financial results for any periods ended prior to July 1, 2023 reflect the Company's results only on a standalone, pre-merger basis. As a result of the merger, the Company's financial results for the third quarter of 2023 may not be directly comparable to prior reported periods.

Third Quarter 2023 Highlights:

Merger with TCFC respectively.

The Company acquired TCFC and its wholly-owned subsidiary Community Bank of the Chesapeake ("CBTC") on July 1, 2023. The merger and acquisition method of accounting was used to account for the transaction with the Company as the acquirer. The Company recorded the assets and liabilities of TCFC at their respective fair values as of July 1, 2023. The transaction was valued at approximately \$153.6 million and expanded the Bank's footprint into the Southern Maryland Counties of Charles, St. Mary's and Calvert and the greater Fredericksburg area in Virginia, which includes, Stafford and Spotsylvania Counties. This acquired market area is one of the fastest growing regions in the country and is home to a mix of federal facilities and industrial and high-tech businesses. These areas boast a strong median household income, low unemployment and projected population growth better than national averages. Based on information from the U.S. Bureau of Labor Statistics, unemployment rates in legacy CBTC's footprint have historically remained well below the national average.

At the time of the acquisition, TCFC added \$2.4 billion in assets, \$454.5 million in investments, \$1.8 billion in loans, \$2.0 billion in deposits, \$150.6 million in brokered deposits, \$69.0 million in FHLB advances and \$32.0 million in subordinated debt and trust preferred debentures. The excess of the fair value of net TCFC assets acquired over the merger consideration resulted in a \$12.2 million bargain purchase gain.

For the three months ended September 30, 2023, the Company incurred net expenses of \$31.2 million related to the merger with TCFC including acquisition costs of \$14.9 million, losses from the sale of CBTC legacy securities of \$2.2 million and, increases to the ACL of \$20.1 million. In addition, the Company changed its method of estimating the ACL, which resulted in an increase of \$7.3 million related to legacy SHBI loans. These expenses were partially offset by non-recurring revenues including a net transition payment of \$1.1 million to move CBTC's securities broker of record to the Bank's broker of record and a bargain purchase gain of \$12.2 million. For the first six months of 2023, the Company incurred \$1.9 million in merger and acquisition costs. The Company incurred net expenses related to the merger and non-recurring merger related activities with TCFC of \$33.1 million for the nine months ended September 30, 2023.

As a result of the merger, fair value accounting adjustments, net accretion interest income increased \$5.1 million to \$5.4 million Stable Net Interest Margin for the three months ended September 30, 2023 compared \$0.3 million for the three months ended June 30, 2023. In addition, the Bank's core deposit intangible ("CDI") increased to \$50.7 million at September 30, 2023 from \$5.5 million at December 31, 2022. The increase in the CDI resulted in increased CDI amortization of \$2.2 million to \$2.6 million for the three months ended September 30, 2023 compared to \$0.4 million for the three months ended June 30, 2023.

Capital

The TCFC merger led to a 20% dilution in tangible book value per share which was \$11.80 at September 30, 2023 compared to \$14.83 at June 30, 2023. The principal cause of the dilution was due to the Company's stock price decline between the announcement date of December 14, 2022 and legal close date of July 1, 2023. In addition, fair value discount adjustments of approximately \$110.0 million to the acquired loan portfolio due to increasing interest rates in the last 12-18 months had an impact on the dilution. The Company's tangible common equity ratio at September 30, 2023 was 7.00%. The Company's Tier 1 and Tier 2 Risk-Based Capital Ratios at September 30, 2023 were 9.22% and 11.37%, respectively. The Bank's Tier 1 and Tier 2 Risk-Based Capital Ratios at September 30, 2023 were 9.97% and 11.20%, respectively. The loan fair value adjustments will accrete back through income (and capital) as the loans mature and should lead to earnings per share accretion moving forward.

Margin Expansion

The Company sold most of AFS securities portfolio acquired from TCFC for net proceeds of \$434.2 million and used \$380.0 million to reduce higher cost FHLB advances and brokered deposits. As a result of this balance sheet restructuring, net - Net interest margin ("NIM") increased to 3.35% remained relatively stable at 3.08% for the third first quarter of 2023 2024 from 2.68% 3.09% for the second fourth quarter of 2023. Excluding net accretion interest income of \$5.4 million \$3.6 million and \$0.3 million \$3.0 million for the same time periods, NIM increased 32 decreased six basis points to 2.96% 2.81% for the third first quarter of 2023 2024 from 2.64% 2.87% for the fourth quarter of 2023.

- **Deposit Costs** - Decreases in rates on higher cost deposit relationships mitigated margin compression in the first quarter of 2024. For the month of March 2024, asset yields grew more quickly than funding costs which positively impacted the Company's NIM and may position the Bank to see positive margin movement during the second quarter of 2023.

Funding 2024. As a result of decreased rates paid on some deposits and Liquidity

Total funding, which includes customer expected seasonal cash outflows in the first quarter of 2024, deposits FHLB advances, and brokered deposits, increased \$1.9 billiondecreased \$201.8 million, or 3.7% to \$5.2 billion at March 31, 2024 when compared to December 31, 2023. Liquidity remained relatively stable with the loan to deposit ratio modestly increasing from \$3.2 billion86.2% at June 30, 2023December 31, 2023 to \$5.1 billion89.7% at September 30, 2023March 31, 2024. The Bank had no FHLB brokered deposits or advances at September 30, 2023March 31, 2024.

- **Stable Credit Trends** - The Company's total nonperforming assets to total assets at March 31, 2024 was 0.28% compared to 0.23% at December 31, 2023. The Bank's uninsured deposits Company's credit quality metrics remain at September 30, 2023 greater than historical lows with no signs of significant deterioration or systemic issues within its loan portfolios.
- **Operational Efficiencies** - Management continues to pursue opportunities to increase efficiencies and decrease expenses as a percentage of operating revenues. Following feasibility assessments, management decided to close two branches by the Federal Deposit Insurance Corporation's ("FDIC") \$250,000 insurance limit were \$1.0 billionend of the third quarter. The Onley, VA branch should close on or 19.76% of total deposits. At September 30, 2023, there were \$144.9 million included in uninsured deposits that the Bank secured using the market value of pledged collateral. The Bank's uninsured deposits, excluding the market value of pledged collateral, at September 30, 2023 were \$864.6 million or 16.92% of total deposits.

At September 30, 2023, the Bank had approximately \$1.1 billion of available liquidity including: \$108.7 million in cash, \$954.4 million in secured borrowing capacity at the FHLB about July 17, 2024 and the other correspondent banks, Westgate branch located in Annapolis, MD should close on or about September 30, 2024. Limited growth opportunities within the Eastern Shore of Virginia and \$35.0 million a conscientious focus on profitability led to the decision to close the Onley branch. The Westgate branch has limited foot traffic and is located less than a mile from another SUB branch within the City of Annapolis. Customer disruption is expected to be limited. These closures are estimated to cost \$0.2 million. The Company is expected to reduce four positions as part of these closings.

- Additionally, the Company plans to reduce professional office space located in unsecured lines Easton, MD. By the end of credit. At September 30, 2023, available liquidity of approximately \$1.1 billion was 127% of uninsured deposits of \$864.6 million, excluding the market value of pledged collateral.

During the third quarter, a newly renovated office building is expected to be put into service eliminating the merger drove a 73.91% quarterly increase in total deposits need for two currently-occupied office buildings. In the second quarter, the Company expects to \$5.1 billion and a 55.5% quarterly increase in noninterest bearing ("NIB") deposits to \$1.2 billion. At September 30, 2023, brokered deposits amounted to \$111.0 million or 2.2% of total deposits. The Bank's loan to deposit ratio at September 30, 2023 was 89%.

Increased Allowance begin marketing for Credit Losses ("ACL")

The ACL increased from \$29.0 million and 1.05% of total loans at June 30, 2023 to \$57.1 million and 1.24% of total loans at September 30, 2023. The Bank's provision for credit losses for sale the third quarter of 2023 was \$28.2 million and consisted of \$20.1 million related to the acquisition of TCFC legacy loans including \$0.2 million related to unfunded commitments to extend credit, \$7.3 million due to a change in ACL methodology two redundant office properties. Recent appraisals on these properties exceed the Bank's legacy loans cost bases resulting in no impairment. At the present time, the two properties remain in service, are not listed for immediate sale, and \$0.8 million related are classified as active assets on our balance sheet. Once these properties meet the accounting criteria they will be moved to third quarter activity. Management believes that the allowance was adequate as of September 30, 2023.

Asset Quality:

Non-accrual loans, other real estate owned ("OREO") and loan modifications to borrowers' experiencing financial difficulties ("BEFDs") were \$9.2 million or 0.16% of total assets at September 30, 2023 compared to \$3.9 million or 0.11% of total assets at December 31, 2022, held for sale.

and \$4.7 million or 0.13% of total assets at June 30, 2023. Classified assets increased \$8.4 million to \$11.1 million or 0.19% of total assets at September 30, 2023 from \$2.7 million or 0.08% of total assets at December 31, 2022. Classified assets are substandard loans and OREO. The increase in classified assets was due to the acquisition of TCFC classified loans of \$5.1 million, the Company's legacy classified loans of \$5.8 million and OREO of \$0.2 million at September 30, 2023. The modest increase in nonperforming and classified assets was the result of a small increase in late payments in consumer loans and a proactive review of larger commercial relationships in the current interest rate environment.

SUMMARY OF OPERATING RESULTS

A comparison of the results of operations for the three and nine months ended September 30, 2023 March 31, 2024 and September 30, 2022 March 31, 2023 is presented below.

Unaudited (QTD)	Unaudited (YTD)
Three Months Ended September 30,	Nine Months Ended September 30,
Unaudited (QTD)	Unaudited (QTD)
Unaudited (QTD)	Unaudited (QTD)

		Unaudited (QTD)			
		Three Months Ended March 31,		Three Months Ended March 31,	
		Three Months Ended March 31,			
(Dollars in thousands)					
(Dollars in thousands)					
(Dollars in thousands)	(Dollars in thousands)				
OPERATING DATA	OPERATING DATA	2023	2022	2023	2022
OPERATING DATA					
OPERATING DATA					
Interest income					
Interest income					
Interest income	Interest income	\$ 71,248	\$ 30,576	\$ 142,943	\$ 81,566
Interest expenses	Interest expenses	25,626	3,261	49,161	7,207
Interest expenses					
Interest expenses					
Net interest income ("NII")	Net interest income ("NII")	45,622	27,315	93,782	74,359
Net interest income ("NII")					
Provision for credit losses	Provision for credit losses	28,176	675	30,056	1,475
Provision for credit losses					
Provision for credit losses					
NII after provision for credit losses	NII after provision for credit losses				
NII after provision for credit losses					
NII after provision for credit losses	NII after provision for credit losses	17,446	26,640	63,726	72,884
Noninterest income	Noninterest income	18,337	5,344	28,966	17,224
Noninterest income					
Noninterest income					
Noninterest expenses	Noninterest expenses	47,158	18,899	89,661	59,323
(Loss)/income before income tax taxes	(Loss)/income before income tax taxes	(11,375)	13,085	3,031	30,785
Income tax (benefit) expense	Income tax (benefit) expense	(4,991)	3,427	(1,060)	8,016
Net (loss) income	\$ (6,384)	\$ 9,658	\$ 4,091	\$ 22,769	
Noninterest expenses					
Noninterest expenses					
Income before income tax taxes	Income before income tax taxes				
Income before income tax taxes					
Income before income tax taxes					
Income tax expense	Income tax expense				
Income tax expense					
Net income	Net income				
Net income					
	Unaudited (QTD)			Unaudited (YTD)	
	Three Months Ended September 30,			Nine Months Ended September 30,	
	Unaudited (QTD)				

		Unaudited (QTD)		Unaudited (QTD)		Three Months Ended March 31,		Three Months Ended March 31,		Three Months Ended March 31,	
(Dollars in thousands, except per share amounts)											
(Dollars in thousands, except per share amounts)											
(Dollars in thousands, except per share amounts)	(Dollars in thousands, except per share amounts)										
KEY OPERATING RATIOS	KEY OPERATING RATIOS	2023		2022		2023		2022		2023	
KEY OPERATING RATIOS											
KEY OPERATING RATIOS											
Return on average assets ("ROAA")	Return on average assets ("ROAA")	(0.44)	%	1.11	%	0.13	%	0.88	%		
Return on average equity ("ROAE")	Return on average equity ("ROAE")	(4.75)		10.72		1.30		8.59			
Return on average equity ("ROAE")	Return on average equity ("ROAE")										
Return on average tangible equity ("ROATCE") Non-GAAP ⁽¹⁾	Return on average tangible equity ("ROATCE") Non-GAAP ⁽¹⁾	3.27		13.98		7.61		11.63			
Average total equity to average total assets	Average total equity to average total assets	9.24		10.38		9.77		10.29			
Average total equity to average total assets	Average total equity to average total assets										
Interest rate spread	Interest rate spread	2.61		3.18		2.46		2.95			
Net interest margin	Net interest margin	3.35		3.38		3.12		3.09			
Net interest margin	Net interest margin										
Net interest margin	Net interest margin										
Efficiency ratio ⁽²⁾	Efficiency ratio ⁽²⁾	73.73		57.87		73.04		64.78			
Non-interest income to average assets	Non-interest income to average assets	1.26		0.62		0.90		0.67			
Non-interest income to average assets	Non-interest income to average assets										
Non-interest income to average assets	Non-interest income to average assets										

Non-interest expense to average assets	Non-interest expense to average assets	3.24	2.18	2.79	2.30
Non-interest expense to average assets					
Non-interest expense to average assets					
Net operating expense to average assets ⁽³⁾					
Net operating expense to average assets ⁽³⁾					
Net operating expense to average assets ⁽³⁾	Net operating expense to average assets ⁽³⁾	1.98	1.56	1.89	1.63
COMMON SHARE DATA	COMMON SHARE DATA				
Basic and diluted net (loss) income per common share		\$ (0.19)	\$ 0.49	\$ 0.17	\$ 1.15
COMMON SHARE DATA					
Basic and diluted net income per common share					
Basic and diluted net income per common share					
Basic and diluted net income per common share					
Cash dividends paid per common share					
Cash dividends paid per common share					
Cash dividends paid per common share	Cash dividends paid per common share	\$ 0.12	\$ 0.12	\$ 0.36	\$ 0.36
Common dividend payout ratio	Common dividend payout ratio	(63.16)	% 24.49	% 211.76	% 31.30
Common dividend payout ratio					
Common dividend payout ratio					

(1) ROATCE is computed by dividing net earnings applicable to common **shareholders** stockholders by average tangible common **shareholders** stockholders' equity. ROATCE is a non-GAAP measure and may not be comparable to similar non-GAAP measures used by other companies. Refer to Use of Non-GAAP Financial Measures for additional details.

(2) Efficiency ratio is noninterest expense divided by the sum of net interest income and noninterest income.

(3) Net operating expense is the sum of noninterest expense offset by noninterest income.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED **SEPTEMBER 30, MARCH 31, 2024 AND 2023 AND 2022**

Summary of Financial Results

The Company reported a net loss income for the three months ended **September 30, 2023** **March 31, 2024** of \$6.4 million \$8.2 million or (\$0.19) \$0.25 diluted earnings per share compared to net income of \$9.7 million \$6.5 million or diluted earnings per share of \$0.49 \$0.32 for the three months ended **September 30, 2022** **March 31, 2023**. The Company's ROAA, ROACE₁ and ROATCE₂ were (0.44)% 0.57%, (4.75)% 6.38% and 3.27% 13.39%, respectively, for the three months ended **September 30, 2023** **March 31, 2024** compared to 1.11% 0.75%, 10.72% 7.25% and 13.98% 10.09%, respectively, for the three months ended **September 30, 2022** **March 31, 2023**.

The Company's net loss in the third quarter of 2023 compared to net income for the same quarter in 2022, was primarily due to merger activity with merger related expenses and increased provision for loan losses being the largest drivers of the net loss. These decreases to pretax earnings were partially offset by increased net interest income from an increased balance sheet as a result of the merger with TCFC. The increase to noninterest income was principally due to the bargain purchase gain of \$12.2 million recognized in the third quarter of 2023.

Three Months Ended September 30,		Three Months Ended March 31,			
(Dollars in thousands)		(Dollars in thousands)			
(Dollars in thousands)	(Dollars in thousands)	2023	2022	\$ Change	% Change
Interest and dividend income	Interest and dividend income	\$71,248	\$30,576	\$ 40,672	133.02 %
Interest expenses	Interest expenses	25,626	3,261	22,365	685.83 %
Net interest income	Net interest income	45,622	27,315	18,307	67.02 %
Provision for credit losses	Provision for credit losses	28,176	675	27,501	4074.22 %
Noninterest income	Noninterest income	18,337	5,344	12,993	243.13 %
Noninterest expenses	Noninterest expenses	47,158	18,899	28,259	149.53 %
Income before income taxes	Income before income taxes	(11,375)	13,085	(24,460)	(186.93)%
Income tax (benefit) expense		(4,991)	3,427	(8,418)	(245.64)%
Net (loss) income		\$ (6,384)	\$ 9,658	\$ (16,042)	(166.10)%
Income tax expense				Income tax expense	
Net income				Net income	

Net Interest Income

Tax-equivalent net interest income is net interest income adjusted for the tax-favored status of income from certain loans and investments. As shown in the table below, tax-equivalent net interest income was \$45.7 million \$41.2 million for the third first quarter of 2023 2024 and \$27.4 million \$25.7 million for the third first quarter of 2022 2023. The increase in net interest income when compared to the prior periods first quarter of 2023 was primarily due to the overall increased size increase in interest and fees on loans, interest on deposits from other banks, a decrease in interest on short term borrowings partially offset by the increase in interest on deposits and interest on long-term borrowings all significantly impacted by the merger of the balance sheet from the merger equals with TCFC in the third quarter of 2023.

Three Months Ended September 30,		Three Months Ended March 31,			
(Dollars in thousands)		(Dollars in thousands)			
(Dollars in thousands)	(Dollars in thousands)	2023	2022	\$ Change	% Change
2024	2023			\$ Change	% Change

1 For additional details, see "Reconciliation of Non-GAAP Measures (Unaudited).

2 For additional details, see "Reconciliation of Non-GAAP Measures (Unaudited).

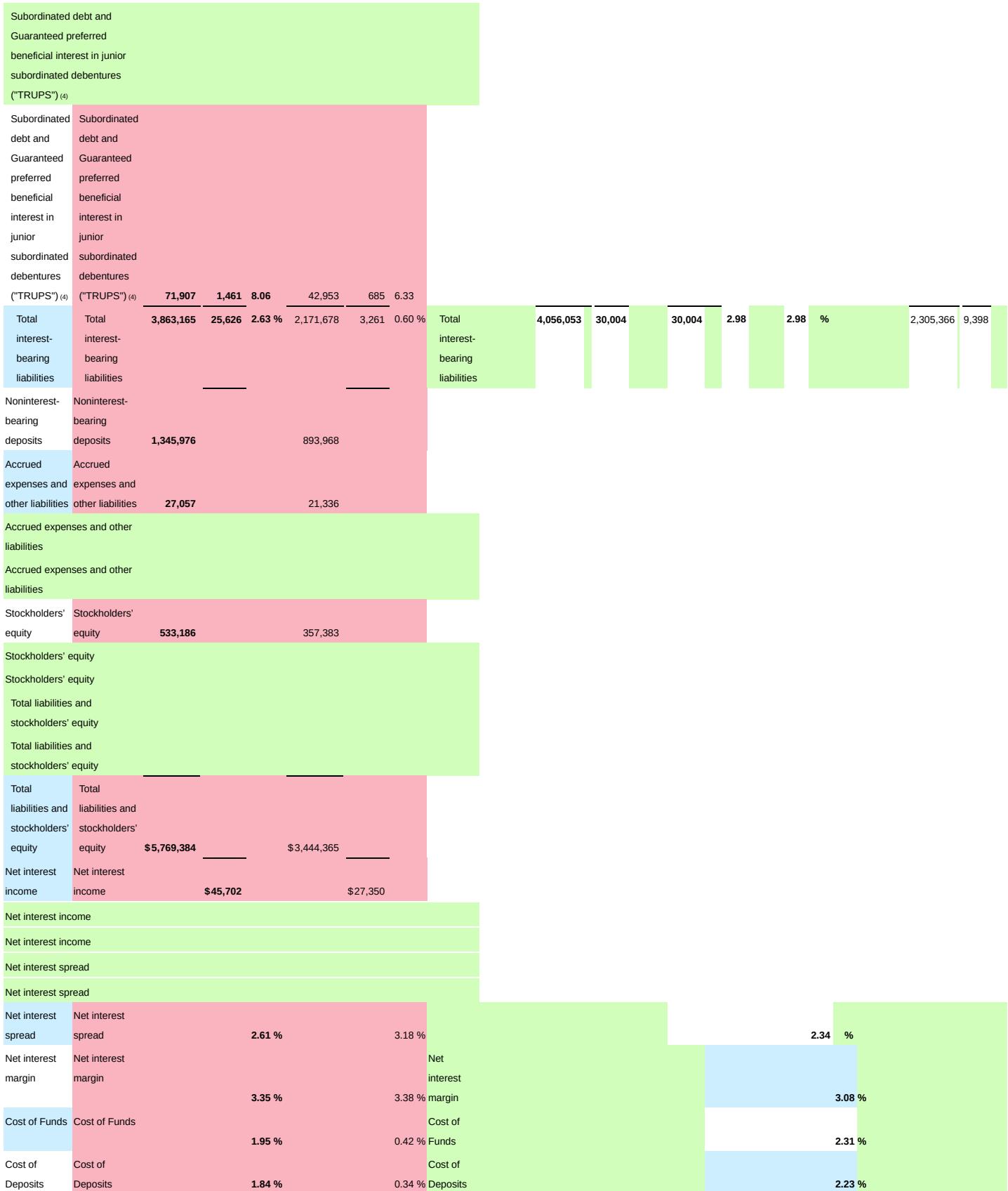
Average Balances and Yields

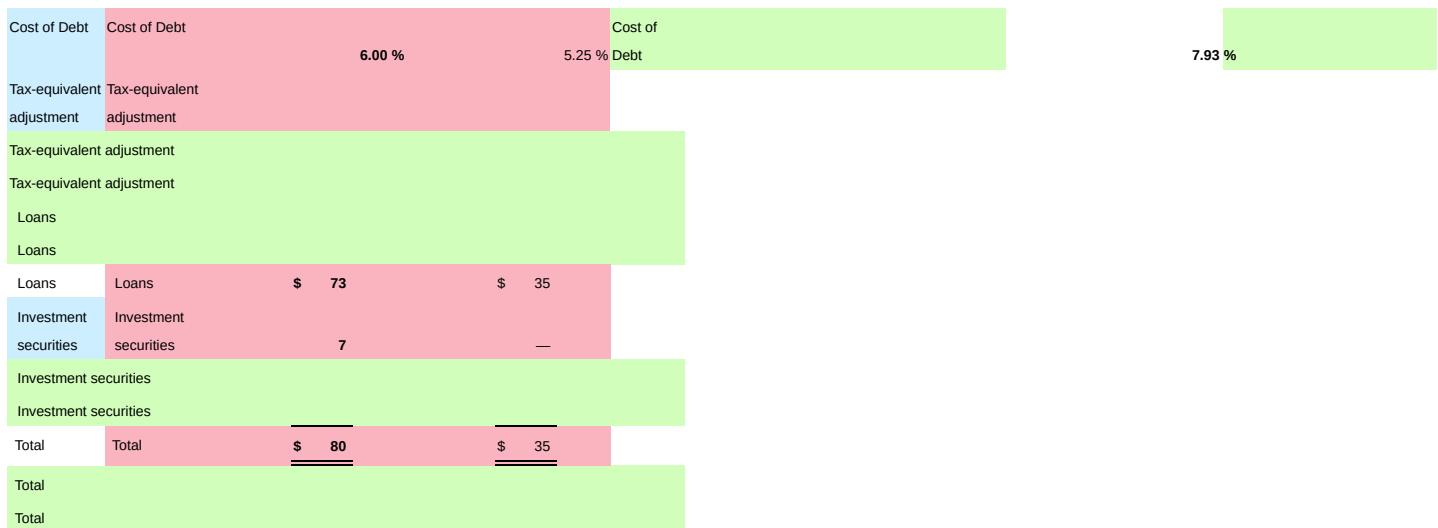
The following table sets forth average balances, average yields and costs, and certain other information for the periods indicated. Tax-equivalent adjustments were made. All average balances are daily average balances. Non-accrual loans were included in the computation of average balances. The yields set forth below include the effects of deferred fees, discounts and premiums that are amortized or accreted to interest income or expense.

		Three Months Ended			Three Months Ended						
		September 30,			September 30,						
		2023			2022						
		Three Months Ended			Three Months Ended						
		March 31,			March 31,						
		2024			2024			Three Months Ended March 31,			
(Dollars in thousands)	(Dollars in thousands)	Average Balance	Interest	Yield/Rate	Average Balance	Interest	Yield/Rate	(Dollars in thousands)	Average Balance	Interest	Yield/Rate
Earning assets	Earning assets							Earning assets			
Loans (1), (2), (3)	Loans (1), (2), (3)										
Consumer real estate	\$1,141,707	\$14,548	5.06 %	\$ 743,227	\$ 7,990	4.27 %					
Residential real estate											
Residential real estate											
Residential real estate								\$1,361,636	\$18,492	5.46 %	\$ 881,799
Commercial real estate	Commercial real estate	2,831,569	40,536	5.68	1,201,785	13,668	4.51				
Commercial	Commercial	233,756	5,315	9.02	152,182	1,984	5.17				
Consumer	Consumer	332,486	4,183	4.99	209,891	2,146	4.06				
State and political	State and political	929	10	4.27	1,504	15	3.96				
Credit Cards	Credit Cards	6,164	149	9.59	—	—	—				
Other	Other	16,137	201	4.94	18,690	157	3.87				
Total Loans	Total Loans	4,562,748	64,942	5.65	2,327,279	25,960	4.43				
Investment securities:	Investment securities:										
Investment securities:											
Taxable	Taxable										
Taxable	Taxable										
Taxable	Taxable	778,081	5,047	2.59	618,378	3,185	2.06				
Tax-exempt	Tax-exempt										
(1)	(1)	663	34	20.51	—	—	—				
Federal funds sold	Federal funds sold	7,533	92	4.85	—	—	—				
Interest-bearing deposits	Interest-bearing deposits										
Interest-bearing deposits	Interest-bearing deposits										
Interest-bearing deposits	Interest-bearing deposits	55,547	1,213	8.66	264,576	1,466	2.20				
Total earning assets	Total earning assets	5,404,572	71,328	5.24 %	3,210,233	30,611		Total earning assets	5,387,782	71,218	5.32 %
Cash and due from banks	Cash and due from banks	51,714			31,724						
Other assets	Other assets	359,798			218,163						
Other assets	Other assets										
Other assets	Other assets										

Allowance for credit losses	
Allowance for credit losses	
Allowance for credit losses	(46,700)
credit losses	(15,755)
Total assets	\$5,769,384
	\$3,444,365
Total assets	
Total assets	

		Three Months Ended			Three Months Ended					
		September 30,			September 30,					
		2023			2022					
		Three Months Ended			March 31,			Three Months Ended March 31,		
		2024			2024					
(Dollars in thousands)	(Dollars in thousands)	Average Balance	Interest	Yield/Rate	Average Balance	Interest	Yield/Rate	(Dollars in thousands)	Average Balance	Interest
										Yield/Rate
Interest-bearing liabilities	Interest-bearing liabilities									
Interest-bearing liabilities	Interest-bearing liabilities									
Demand deposits	Demand deposits	\$1,056,956	\$ 6,659	2.50 %	\$ 646,399	\$ 1,070	0.66 %	\$1,110,524	\$ 6,362	2.30 %
Money market and savings deposits	Money market and savings deposits	1,572,920	6,810	1.72	1,034,580	907	0.35			
Brokered deposits	Brokered deposits	98,649	1,225	4.93	—	—	—			
Certificates of deposit \$100,000 or more	Certificates of deposit \$100,000 or more	706,642	6,272	3.52	222,697	308	0.55			
Other time deposits	Other time deposits	285,743	2,507	3.48	215,014	275	0.51			
Interest-bearing deposits (4)	Interest-bearing deposits (4)	—	—	—	—	—	0.48			
Advances from FHLB - short-term	Advances from FHLB - short-term	70,348	692	3.90	—	—	—	2,118,690	2,560	
Advances from FHLB - long-term	Advances from FHLB - long-term	—	—	—	10,035	16	0.63			
Subordinated debt and Guaranteed preferred beneficial interest in junior subordinated debentures ("TRUPS") (4)	Subordinated debt and Guaranteed preferred beneficial interest in junior subordinated debentures ("TRUPS") (4)									





(1) All amounts are reported on a tax-equivalent basis computed using the statutory federal income tax rate of 21.0%, exclusive of nondeductible interest expense.

(2) Average loan balances include nonaccrual loans.

(3) Interest income on loans includes accrued loan fees, net of costs and accretion of discounts on acquired loans, which are included in the yield calculations. There were \$6.1 million \$4.2 million and \$0.3 million \$0.5 million of accretion interest on loans for the three months ended September 30, 2023 March 31, 2024 and 2022, 2023, respectively.

(4) Interest expense on deposits and borrowing includes amortization of deposit premiums and amortization of borrowing fair value adjustment. There were \$(0.5) \$(0.4) million and \$0.2 million \$0.1 million of amortization of deposits premium, and \$(0.2) million and \$(47,000) of amortization of borrowing fair value adjustment for the three months ended September 30, 2023 March 31, 2024 and 2022, 2023, respectively.

The following table presents changes in interest income and interest expense for the periods indicated. For each category of interest-earning asset and interest-bearing liability, information is provided on changes attributable to (1) changes in volume (changes in volume multiplied by old rate) (2) changes in rate (changes in rate multiplied by old volume). Changes in rate-volume (changes in rate multiplied by the change in volume) have been allocated to changes due to volume.

Three Months Ended September 30, 2023 Compared to the Three Months Ended September 30, 2022

Due to			
	Volume	Rate	Total
Three Months Ended March 31, 2024 Compared to the Three Months Ended March 31, 2023			
Interest income:	Interest income:		
Loan Portfolio	Loan Portfolio		
Consumer real estate	\$ 5,082	\$ 1,476	\$ 6,558
Loan Portfolio			
Residential real estate			
Residential real estate			
Residential real estate			
Three Months Ended March 31, 2024 Compared to the Three Months Ended March 31, 2023			
	Volume	Volume	Due to
	Volume	Volume	Rate
	Volume	Volume	Total

Commercial real estate	Commercial real estate	23,333	3,535	26,868
Commercial	Commercial	1,855	1,477	3,332
Consumer	Consumer	1,542	495	2,037
State and political	State and political	(6)	1	(5)
Credit Cards	Credit Cards	149	—	149
Other	Other	(32)	75	43
Taxable investment securities	Taxable investment securities	1,034	828	1,862
Tax-exempt investment securities	Tax-exempt investment securities	34	—	34
Fed funds sold		92	—	92
Interest-bearing deposits				
Interest-bearing deposits				
Interest-bearing deposits	Interest-bearing deposits	(4,563)	4,310	(253)
Total interest income	Total interest income	\$ 28,520	\$ 12,197	\$ 40,717
Interest-bearing liabilities:	Interest-bearing liabilities:			
Interest-bearing liabilities:				
Interest-bearing liabilities:				
Interest-bearing demand deposits	Interest-bearing demand deposits			
Interest-bearing demand deposits	Interest-bearing demand deposits	\$ 2,587	\$ 3,002	\$ 5,589
Money market and savings deposits	Money market and savings deposits	2,334	3,570	5,904
Certificate of deposits	Certificate of deposits	6,140	3,281	9,421
Advances from FHLB - Short-term	Advances from FHLB - Short-term	692	—	692
Advances from FHLB - Long-term		—	(16)	(16)
Advances from FHLB - Short-term				
Advances from FHLB - Short-term				
Subordinated debt	Subordinated debt			
Subordinated debt	Subordinated debt			
Subordinated debt	Subordinated debt	588	187	775

Total interest-bearing liabilities	Total interest-bearing liabilities	\$ 12,341	\$ 10,024	\$ 22,365
Net change in net interest income	Net change in net interest income	\$ 16,179	\$ 2,173	\$ 18,352

Fluctuations in net interest income can result from the combination of changes in the average balances of asset and liability categories and changes in interest rates. Interest rates earned and paid are affected by general economic conditions, particularly changes in market interest rates, and by competitive factors, government policies and actions of regulatory authorities.

Net interest income was \$45.6 million \$41.1 million for the third first quarter of 2024, compared to \$41.5 million for the fourth quarter of 2023 compared to \$27.3 million and \$25.7 million for the third first quarter of 2022 2023. The increase decrease in net interest income when compared to the prior period fourth quarter of 2023 was primarily due to the overall increased size of the balance sheet from the merger in the third quarter of 2023 as well as increases in net accretion interest income. Net accretion interest income for the three months ended September 30, 2023 and September 30, 2022 was \$5.4 million and \$0.5 million, respectively.

Over the last 18 months, deposits have repriced at a faster rate than loans due to the Federal Reserve Open Market Committee's increases in short-term interest rates from 0.25% to 5.50%. The Company's NIM decreased to 3.35% for the third quarter of 2023 from 3.38% for the third quarter of 2022 as the increase in funding costs slightly exceeded the additional interest income from accretion interest from fair value marks, higher yields on CBTC's legacy loan portfolio, and the benefits to margin for the payoff of higher cost wholesale funding with the proceeds received from the sale of CBTC's securities portfolio in July 2023. The Company's increase in the cost of funds was seven basis points greater than the increase in interest-earning asset yields for the comparable periods. Comparing the third quarter of 2023 to the third quarter of 2022, the Company's interest-earning asset yields increased 146 basis points, while the cost of funds increased 153 basis points.

Provision for Credit Losses ("PCL") and Allowance for Credit Losses ("ACL")

See discussion of the Bank's PCL and ACL in the asset quality discussion in the analysis of financial condition in this MD&A.

Noninterest Income

Total noninterest income for the third quarter of 2023 of \$18.3 million increased \$13.0 million from \$5.3 million for the third quarter of 2022, primarily due to the bargain purchase gain of \$12.2 million and an increase of \$1.1 million in trust and investment fee income both the result of the merger, partially offset by a loss of \$2.2 million on the sale of investment securities in the third quarter of 2023. Management sold virtually all of CBTC's AFS investment securities soon after the merger close on July 1, 2023. The \$2.2 million loss relates to the difference in the fair values of the securities on July 1, 2023 compared to actual sales proceeds received from the sales on the settlement date.

Noninterest Expense

Total noninterest expense of \$47.2 million for the third quarter of 2023 increased \$28.3 million or 149.5%, when compared to the third quarter of 2022 expense of \$18.9 million. The increases in noninterest expense for the comparable periods were primarily due to merger related expenses and the addition of headcount and infrastructure, including 11 additional branches, amortization of intangible assets, and core processing fees. The Bank's average full-time equivalent employees ("FTEs") increased from 453 FTEs for the third quarter of 2022 to 660 FTEs for the third quarter of 2023. Excluding merger related expenses and amortization of core deposit intangible, of \$17.5 million for the third quarter of 2023 and \$0.7 million for the third quarter of 2022, noninterest expense for the comparable periods was \$29.7 million and \$18.2 million, respectively. Noninterest expense as a percentage of average assets increased to 3.24% for the three months ended September 30, 2023 from 2.18% for the three months ended September 30, 2022. Excluding merger related expenses and amortization of core deposit intangible for the comparable periods, noninterest expense as a percentage of average assets decreased to 2.04% for the third quarter of 2023 compared to 2.10% for the third quarter of 2022.

Income Taxes

The Company reported income tax benefit of \$5.0 million for the third quarter of 2023, and an income tax expense of \$3.4 million for the third quarter of 2022. The effective tax rate for the third quarter of 2023 was (43.9%) and 26.2% for the third quarter of 2022. The third quarter 2023 effective tax rate was impacted by a net pre-tax loss, nondeductible merger costs, and reassessment of deferred tax assets and liabilities at an estimated effective tax rate due to an adjustment to state apportionment. The Company's estimated effective tax rate applied to net deferred tax assets of \$48.7 million at September 30, 2023 was 27.52%. The bank's deferred taxes are recorded at 26.00%. As of September 30, 2023 the Company recorded \$38.4 million and \$34.1 million of gross federal and state net operating loss carryovers, ("NOL's"). These NOL's will offset future taxable income to the Company.

RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2023 AND 2022

Summary of Financial Results

The Company reported net income for the nine months ended September 30, 2023 of \$4.1 million or diluted earnings per share of \$0.17 compared to net income of \$22.8 million or diluted earnings per share of \$1.15 for the nine months ended September 30, 2022. The Company's ROAA, ROACE₃ and ROATCE₄ were 0.13%, 1.30% and 7.61% for the nine months ended September 30, 2023 compared to 0.88% and 8.59% and 11.63% for the nine months ended September 30, 2022.

The decrease to net income in the first nine months of 2023 compared to the same period in 2022 was primarily due to merger-related expenses and increased provision for loan losses. These decreases to pretax earnings were partially offset by increased net interest income from an increased balance sheet as a result of the merger. The increase to noninterest income was principally due to the bargain purchase gain recognized in the third quarter of 2023 of \$12.2 million.

(Dollars in thousands)	Nine Months Ended September 30,		\$ Change	% Change
	2023	2022		
Interest and dividend income	\$ 142,943	\$ 81,566	\$ 61,377	75.25 %
Interest expenses	49,161	7,207	41,954	582.13 %
Net interest income	93,782	74,359	19,423	26.12 %
Provision for credit losses	30,056	1,475	28,581	1937.69 %
Noninterest income	28,966	17,224	11,742	68.17 %
Noninterest expenses	89,661	59,323	30,338	51.14 %
Income before income taxes	3,031	30,785	(27,754)	(90.15)%
Income tax (benefit) expense	(1,060)	8,016	(9,076)	(113.22)%
Net income	\$ 4,091	\$ 22,769	\$ (18,678)	(82.03)%

Net Interest Income

As shown in the table below, tax-equivalent net interest income increased \$19.5 million to \$94.0 million for the nine months ended September 30, 2023 compared to \$74.5 million for nine months ended September 30, 2022. The increase in net interest income when compared to the prior period was primarily due to the overall increased size of the balance sheet from the merger and increased accretion interest income in the third quarter of 2023. On a year to date basis, \$18.3 million or 93.8% of the \$19.5 million increase from the comparable period was from third quarter 2023 merger activity and operations.

(Dollars in thousands)	Nine Months Ended September 30,		\$ Change	% Change
	2023	2022		
Interest and dividend income				
Loans, including fees	\$ 128,424	\$ 71,458	\$ 56,966	79.72 %
Interest and dividends on investment securities	12,973	7,562	5,411	71.56 %
Interest on deposits with banks	1,546	2,546	(1,000)	(39.28)%
Total Interest and Dividend Income	\$ 142,943	\$ 81,566	\$ 61,377	75.25 %
Interest Expenses				
Deposits	\$ 40,668	\$ 5,429	\$ 35,239	649.09 %
Short-term borrowings	5,501	2	5,499	274,950.00 %
Long-term debt	2,992	1,776	1,216	68.47 %
Total Interest Expenses	\$ 49,161	\$ 7,207	\$ 41,954	582.13 %
Taxable-equivalent adjustment	\$ 172	\$ 117	\$ 55	47.01 %
Tax Equivalent Net Interest Income	\$ 93,954	\$ 74,476	\$ 19,423	26.12 %

³ For additional details, see "Reconciliation of Non-GAAP Measures (Unaudited).

⁴ For additional details, see "Reconciliation of Non-GAAP Measures (Unaudited).

Average Balances and Yields

The following tables present the distribution of the average consolidated balance sheets, interest income/expense, and annualized yields earned and rates paid for the nine months ended September 30, 2023 and 2022.

(Dollars in thousands)	Nine Months Ended September 30, 2023			Nine Months Ended September 30, 2022		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
Earning assets						
Loans (1), (2), (3)						
Consumer real estate	\$ 990,970	\$ 35,929	4.85 %	\$ 660,611	\$ 23,491	4.75 %
Commercial real estate	1,806,983	71,328	5.28 %	1,161,237	36,706	4.23 %

Commercial	171,702	9,312	7.25 %	210,192	5,863	3.73 %
Consumer	318,066	11,440	4.81 %	179,054	4,957	3.70 %
State and political	936	27	3.86 %	1,791	53	3.96 %
Credit Cards	2,077	149	9.59 %	—	—	— %
Other	11,192	400	4.78 %	22,207	505	2.90 %
Total Loans	3,301,926	128,585	5.21 %	2,235,092	71,575	4.28 %
Investment securities:						
Taxable	692,718	12,840	2.47	565,535	7,562	1.79
Tax-exempt (1)	664	52	10.44	—	—	—
Federal funds sold	2,539	92	4.84	—	—	—
Interest-bearing deposits	27,750	1,546	7.45	424,790	2,546	0.80
Total earning assets	4,025,597	143,115	4.75 %	3,225,417	81,683	3.39 %
Cash and due from banks	36,831			14,383		
Other assets	271,745			222,236		
Allowance for credit losses	(35,206)			(15,095)		
Total assets	\$ 4,298,967			\$ 3,446,941		

(Dollars in thousands)	Nine Months Ended September 30, 2023			Nine Months Ended September 30, 2022		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
Interest-bearing liabilities						
Demand deposits	\$ 813,834	13,808	2.27 %	\$ 627,213	1,652	0.35 %
Money market and savings deposits	1,163,595	11,709	1.35	1,046,230	2,027	0.26
Brokered deposits	33,244	1,225	4.93	—	—	—
Certificates of deposit \$100,000 or more	421,852	9,685	3.07	247,635	931	0.50
Other time deposits	239,834	4,241	2.36	204,283	819	0.54
Interest-bearing deposits (4)	2,672,359	40,668	2.03	2,125,361	5,429	0.34
Securities sold under retail repurchase agreements and federal funds purchased	—	—	—	913	2	0.29
Advances from FHLB - short-term	148,546	5,501	4.95	—	—	—
Advances from FHLB - long-term	—	—	—	10,075	45	0.60
Subordinated debt and Guaranteed preferred beneficial interest in junior subordinated debentures ("TRUPS") (4)	52,839	2,992	7.57	42,878	1,731	5.40
Total interest-bearing liabilities	2,873,744	49,161	2.29 %	2,179,227	7,207	0.44 %
Noninterest-bearing deposits	983,325			891,233		
Accrued expenses and other liabilities	22,073			21,932		
Stockholders' equity	419,825			354,549		
Total liabilities and stockholders' equity	\$ 4,298,967			\$ 3,446,941		
Net interest income		\$ 93,954			\$ 74,476	
Net interest spread			2.46 %			2.95 %
Net interest margin			3.12 %			3.09 %
Cost of Funds			1.70 %			0.31 %
Cost of Deposits			1.49 %			0.24 %
Cost of Debt			5.64 %			4.48 %
Tax-equivalent adjustment						
Loans	\$ 161			\$ 117		
Investment securities	11			—		

Total	\$ <u>172</u>	\$ <u>117</u>
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(1) All amounts are reported on a tax-equivalent basis computed using the statutory federal income tax rate of 21.0%, exclusive of nondeductible interest expense.
 (2) Average loan balances include nonaccrual loans.
 (3) Interest income on loans includes accrued loan fees, net of costs and accretion of discounts on acquired loans, which are included in the yield calculations. There were \$7.0 million and \$1.0 million of accretion interest on loans for the nine months ended September 30, 2023 and 2022, respectively.
 (4) Interest expense on deposits and borrowing includes amortization of deposit premiums and amortization of borrowing fair value adjustment. There were \$(0.3) million and \$0.4 million of amortization of deposits premium, and \$(0.3) million and \$(0.1) million of amortization of borrowing fair value adjustment for the nine months ended September 30, 2023 and 2022, respectively.

The following table presents changes in interest income and interest expense for the periods indicated. For each category of interest earning asset and interest-bearing liability, information is provided on changes attributable to (1) changes in volume (changes in volume multiplied by old rate); and (2) changes in rate (changes in rate multiplied by old volume). Changes in rate-volume (changes in rate multiplied by the change in volume) have been allocated to changes due to volume.

Nine Months Ended September 30, 2023 Compared to the Nine Months Ended September 30, 2022

	Volume	Due to Rate	Total
Interest income from earning assets:			
Loans			
Consumer real estate	\$ 11,984	\$ 454	\$ 12,438
Commercial real estate	25,501	9,121	34,622
Commercial	(2,087)	5,536	3,449
Consumer	5,001	1,482	6,483
State and political	(25)	(1)	(26)
Credit Cards	149	—	149
Other	(394)	289	(105)
Taxable investment securities	2,356	2,922	5,278
Tax-exempt investment securities	52	—	52
Fed funds sold	92	—	92
Interest-bearing deposits	(22,124)	21,123	(1,001)
Total interest income	\$ 20,505	\$ 40,926	\$ 61,431
Interest-bearing liabilities:			
Interest-bearing demand deposits	3,169	8,987	12,156
Money market and savings deposits	1,185	8,497	9,682
Certificate of deposits	5,854	7,547	13,401
Securities sold under repurchase agreements and federal funds purchased	—	(2)	(2)
Advances from FHLB - Short-term	5,501	—	5,501
Advances from FHLB - Long-term	—	(45)	(45)
Subordinated debt	564	697	1,261
Total interest-bearing liabilities	\$ 16,273	\$ 25,681	\$ 41,954
Net change in net interest income	\$ 4,232	\$ 15,245	\$ 19,477

Net interest income for the first nine months of 2023 was \$93.8 million, an increase of \$19.4 million, or 26.1%, when compared to the first nine months of 2022. The increase in net interest income was primarily due to an increase in total interest income of \$61.4 million, or 75.2%, which included an increase in interest and fees on loans of \$57.0 million, or 79.7%. The increase of interest and fees on loans was primarily due to increases in loan yields and in the average balance of loans of \$1.1 billion, or 47.7%, largely due to the merger. Interest on investment securities increased \$5.3 million, or 69.8%, primarily due to an increase in the average balance of \$127.2 million, or 22.5%. Increases to net interest income were partially offset by increased total interest expense of \$42.0 million, or 582.1%, primarily due to increases in the cost of funds and \$0.4 million resulting from an increase in the average balance of interest-bearing deposits of \$547.0 million, or 25.7%, largely \$70.9 million. The increase when compared to the first quarter of 2023 was primarily due to the merger. increase in interest and fees on loans, interest on deposits from other banks, a decrease in interest on short term borrowings partially offset by the increase in interest on deposits and interest on long-term borrowings all significantly impacted by the merger of equals with TCFC in the third quarter of 2023.

The Company's NIM increased decreased slightly to 3.12% 3.08% for the first nine months quarter of 2023 2024 from 3.09% for the first nine months fourth quarter of 2022. The increase in the NIM was 2023 primarily due to an increase in the average balance overall mix of interest-bearing deposits compared to non-interest-bearing deposits. Average interest-bearing deposits increased \$70.9 million which resulted in a two basis point rate increase. In addition to the change in deposit mix, rates on money market and time deposits also increased, which were partially offset by lower rates earned on total earning assets demand deposits. The Company's NIM decreased to 3.08% for the first quarter of \$800.2 million and 136 2024 from 3.18% for the first quarter of 2023. Comparing the first quarter of 2024 to the first quarter of 2023, the Company's interest-earning asset yields increased 98 basis points partially offset by an increase in the average balance and rates paid on interest-bearing liabilities of \$694.5 million and 185 basis points. For the comparable periods, to 5.32% from 4.34%, while the cost of funds increased repriced at a similar rate as interest-earning assets or 139 faster pace resulting in an increase of 109 basis points to 1.70% 2.31% from 1.22% for the nine months ended September 30, 2023 compared to 0.31% for the nine months ended September 30, 2022. Total net accretion income for the first

nine months of 2023 was \$6.4 million, compared to \$1.2 million for the first nine months of 2022. Prior to the balance sheet restructuring in the third quarter of 2023, the NIM experienced compression due to the Company's liability sensitive position, deposit rate pressures, and significantly higher FHLB borrowing rates. same period.

Provision for Credit Losses ("PCL") and Allowance for Credit Losses

See discussion of the Bank's PCL and ACL in the asset quality discussion in the analysis of financial condition in this MD&A.

Noninterest Income

Total noninterest income for the nine months ended September 30, 2023 first quarter of \$29.0 million increased \$11.7 million or 68.2% 2024 was \$6.6 million, a decrease of \$1.0 million from \$17.2 million \$7.5 million for the nine months ended September 30, 2022, fourth quarter of 2023 and an increase \$1.2 million from \$5.3 million for the first quarter of 2023. The increase in noninterest income decrease from the fourth quarter of 2023 was primarily due to other noninterest income, which included decreases in other fees on bank services and other loan fee income, decreases in mortgage banking revenue and trust and investment fee income. The increase from the bargain purchase gain first quarter of \$12.2 million 2023 was primarily due to other noninterest income, which included increases in other loan fee income, gains on life insurance contracts and an increase of \$1.4 million in credit card income, increases in trust and investment fee income of which \$1.1 million of the increase related to the transition of customers to and interchange credits all a new broker of record for the Bank's investment division. Both the bargain purchase gain and the transition payment were the result of the merger. Additionally, interchange income increased \$0.5 million due to a larger customer base and increased transaction activity. These increases to noninterest income were partially offset by a \$2.2 million loss on sales of investment securities merger in the third quarter and a decrease of \$0.7 million in title company revenue. Management sold virtually all of CBTC's AFS investment securities soon after the merger close on July 1, 2023 2023. The \$2.2 million loss relates to the difference in the fair values of the securities on July 1, 2023 compared to actual sales proceeds received from the sales on the settlement date. Title company revenues have fallen in 2023 as real estate settlement activity has decreased in 2023 due to higher interest rates.

Noninterest Expense

Total noninterest expense of \$89.7 million \$36.7 million for the nine months ended September 30, 2023 first quarter of 2024 increased \$30.3 million, or 51.1%, \$3.0 million when compared to \$59.3 million for the same period fourth quarter of 2023 expense of \$33.7 million and increased \$15.8 million when compared to the first quarter of 2023 expense of \$20.9 million. The increase from the fourth quarter of 2023 was primarily due to credit card fraud expense of \$4.3 million, and an increase in 2022. Almost employee benefits of \$0.7 million partially offset by decreases in salaries and wages expense of \$1.0 million, merger-related expenses of \$0.6 million, and FDIC insurance premium expense of \$0.6 million. The increase from the first quarter of 2023 was primarily due to other noninterest expense, salaries, amortization of intangibles, employee benefits, data processing, and the credit card fraud expenses. Other than the credit card fraud expenses, all noninterest expense line items increased as a result of expenses categories were significantly impacted by the merger and the expanded operations of the newly combined Company. Merger-related expenses were almost entirely captured during in the third quarter of 2023 and totaled \$16.8 million for the first nine months of 2023, compared to \$1.1 million for the first nine months of 2022. Excluding merger and acquisition costs and core deposit amortization, of \$20.3 million million for the first nine months of 2023 and \$2.7 million million for the first nine months of 2022, noninterest expense for the comparable periods was \$69.4 million million and \$56.7 million million, respectively. Noninterest expense as a percentage of average assets increased to 2.79% for the nine months ended September 30, 2023 from 2.30% for the nine months ended September 30, 2022. Excluding merger and acquisition costs and core deposit amortization for the comparable periods, noninterest expense as a percentage of average assets decreased to 2.16% for the nine months ended September 30, 2023 compared to 2.20% for the nine months ended September 30, 2022. As the Company continues its merger integration, a key focus of management will be to streamline processes, unlock operational efficiencies and reduce overall noninterest expense, 2023.

Income Taxes

The Company reported income tax benefit expense of \$1.1 million \$2.4 million for the nine months ended September 30, 2023, first quarter of 2024, and income tax expense of \$8.0 million \$2.4 million for the nine months ended September 30, 2022, first quarter of 2023. The effective tax rate was (35.0%) for the nine months ended September 30, 2023, first quarter of 2024 was 22.8% and 26.0% 27.4% for the nine months ended September 30, 2022, first quarter of 2023. The 2023 decrease in the effective tax rate was impacted by nondeductible merger costs incurred due to a re-assessment of year-end 2023 tax deductions during the first quarter of 2024 which presented favorable differences. Due to the timing of the re-assessment, the differences were recorded in the first quarter of 2024 to reduce significant tax return to provision adjustments when the 2023 tax return is filed and to properly calculate the effective tax rate. The Company's estimated effective tax rate applied to net deferred tax assets of \$48.7 million \$39.0 million at September 30, 2023 March 31, 2024 was 27.52%. The bank's Bank's deferred taxes are recorded at 26.00%. As of September 30, 2023 March 31, 2024 the Company recorded \$38.4 million \$23.2 million and \$34.1 million \$39.2 million of gross federal and state net operating loss carryovers ("NOL's"). These NOL's will offset future taxable income to the Company.

ANALYSIS OF FINANCIAL CONDITION

Balance Sheet Summary

Total assets were \$5.7 billion \$5.8 billion at September 30, 2023 March 31, 2024, an increase a decrease of \$2.2 billion \$185.2 million or 64.2% 3.1%, when compared to \$3.5 billion \$6.0 billion at December 31, 2022 December 31, 2023. The aggregate increase decrease was primarily due to the merger, with significant increases decreases in loans held for investment of \$2.1 billion, or 80.7%, and cash and cash equivalents of \$53.2 million, \$257.9 million and investment securities held to maturity ("HTM") of \$9.4 million partially offset by an increase in ACL investment securities available for sale ("AFS") of \$40.4 million \$69.0 million and loans held for investment of \$7.7 million.

The ratio of the allowance for credit losses ACL on loans to total loans increased decreased from 0.65% at December 31, 2022, to 1.05% at June 30, 2023 and 1.24% at September 30, 2023 December 31, 2023 to 1.23% at March 31, 2024. The increases were due to the adoption of CECL on January 1, 2023 and the merger with TCFC in July 2023. Due to a lack of uniformity of historical data between the legacy banks in their respective CECL models, management implemented a new post-merger model methodology. The Bank's provision for credit losses for the third quarter of 2023 was \$28.2 million and consisted of approximately \$20.1 million related to the acquisition of TCFC legacy loans, \$7.3 million due to the change in ACL methodology on the Bank's legacy loans and \$0.8 million related to third quarter activity.

Cash and Cash Equivalents

Cash and cash equivalents totaled \$108.7 million \$114.6 million at September 30, 2023 March 31, 2024, compared to \$55.5 million \$372.4 million at December 31, 2022 December 31, 2023. Total cash and cash equivalents fluctuate due to transactions in process and other liquidity demands. Management believes liquidity needs are satisfied by the current balance of cash and cash equivalents, readily available access to traditional and wholesale funding sources, and the portions of the investment and loan portfolios that mature within one year.

In addition, management sold low cost deposits during the third quarter of 2023 to manage liquidity and earn additional interest income of \$0.4 million, earning greater than a 4.5% yield. These funds are off-balance sheet and totaled \$68.7 million at September 30, 2023. These sold deposits are available daily if needed to fund the Bank's operating needs.

Investment Securities

The investment portfolio includes debt and equity securities. Securities are classified as either AFS or HTM. AFS investment securities are stated at estimated fair value based on market prices. They represent securities which may be sold as part of the asset/liability management strategy or in response to changing interest rates. Net unrealized holding gains and losses on these securities are reported net of related income taxes as accumulated other comprehensive income (loss), a separate component of stockholders' equity. Investment securities in the HTM category are stated at cost adjusted for amortization of premiums and accretion of discounts and the ACL. We have the intent and ability to hold such securities until maturity. At September 30, 2023 March 31, 2024, 13.1% 26.3% of the portfolio of debt securities was classified as AFS and 86.9% 73.7% was classified as HTM, compared to 13.0% 17.7% and 87.0% 82.3% respectively, at December 31, 2022 December 31, 2023. See Note 43 – "Investment Securities", in the Notes to Consolidated Financial Statements for additional details on the composition of our investment portfolio.

Investment securities, including restricted stock and equity securities, totaled \$621.0 million \$707.0 million at September 30, 2023 March 31, 2024, a \$34.5 million \$59.6 million, or 5.3% 9.2%, decrease increase compared to \$655.4 million \$647.4 million at December 31, 2022 December 31, 2023. The Bank acquired approximately \$454.5 million in securities as a result of the merger and subsequently sold most of the acquired available-for-sale securities ("AFS") portfolio for net proceeds of \$434.2 million, and used \$380.0 million to reduce higher cost Federal Home Loan Bank ("FHLB") advances and brokered deposits.

At September 30, 2023 March 31, 2024, AFS securities, carried at fair value, totaled \$79.1 million \$179.5 million compared to \$83.6 million \$110.5 million at December 31, 2022 December 31, 2023. At September 30, 2023 March 31, 2024, AFS securities consisted of 67.7% 57.7% mortgage-backed, 24.8% 38.7% U.S. Government agencies and 7.5% 3.5% corporate bonds, compared to 76.0%, 21.7% 18.5% and 2.3% 5.5%, respectively, at year-end 2022 2023.

At September 30, 2023 March 31, 2024, HTM securities, carried at amortized cost, totaled \$523.1 million \$503.9 million compared to \$559.5 million \$513.3 million at December 31, 2022 December 31, 2023. At September 30, 2023 March 31, 2024, HTM securities consisted of 70.3% 69.2% mortgage-backed, 27.4% 28.4% U.S. Government agencies, 2.0% 2.1% other debt securities, and 0.3% states and political subdivisions, compared to 71.3% 69.7%, 26.5% 27.9%, 2.0% and 0.3%, respectively, at year-end 2022 2023.

At September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, 97.0% 97.3% and 97.8% 97.1%, respectively, of the Bank's carrying value of its investment portfolio consisted of securities issued or guaranteed by U.S. Government agencies or government-sponsored agencies.

Loans

Loans Held for Sale

The Bank originates residential mortgage loans for sale on the secondary market, which are recorded at fair value. At September 30, 2023 March 31, 2024 and December 31, 2022 2023, the fair value of loans held for sale amounted to \$14.7 million \$13.8 million and \$4.2 million \$8.8 million, respectively.

The Bank makes certain representations to purchasers in the sale of the mortgage loans related to loan ownership, loan compliance and legality, and accurate documentation. If a loan is found to be out of compliance with any of the representations subsequent to the date of purchase, the Bank may be required to repurchase the loan or indemnify the purchaser.

Loans Held for Investment

The following table summarizes the Company's loan portfolio at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023.

(Dollars in thousands)	(Dollars in thousands)	September 30, 2023	December 31, 2022	%	%	\$ Change	% Change	(Dollars in thousands)	March 31, 2024	%	%	December 31, 2023	%
Construction	Construction	\$ 328,750	\$ 246,319	7.12 %	9.64 %	\$ 82,431	33.47 %	Construction	\$ 299,133	6.43	6.43 %	\$ 299,000	6
Residential real estate	Residential real estate	1,439,464	810,497	31.17 %	31.71 %	628,967	77.60 %	Residential real estate	1,515,134	32.59	32.59 %	1,490,438	32
Commercial real estate	Commercial real estate												
Commercial real estate	Commercial real estate	2,283,521	1,065,409	49.45 %	41.68 %	1,218,112	114.33 %	Commercial	2,272,867	48.90	48.90 %	2,286,154	49.27
Commercial	Commercial	229,474	147,856	4.97 %	5.78 %	81,618	55.20 %	Commercial	229,594	4.94	4.94 %	229,939	4
Consumer	Consumer	330,411	286,026	7.16 %	11.19 %	44,385	15.52 %	Consumer	325,076	6.99	6.99 %	328,896	7
Credit Cards	Credit Cards	6,099	—	0.13 %	— %	6,099	— %	Credit Cards	6,921	0.15	0.15 %	6,583	0

Total loans	Total loans	4,617,719	100.00 %	2,556,107	100.00 %	2,061,612	80.65 %	Total loans	4,648,725	100.00	100.00 %	4,641,010	100
Allowance for credit losses on loans	Allowance for credit losses on loans	(57,051)		(16,643)		(40,408)	242.79 %	Allowance for credit losses on loans	(57,336)		(57,351)		
Total loans, net	Total loans, net	\$4,560,668		\$2,539,464		\$2,021,204	79.59 %	Total loans, net	\$4,591,389		\$		

Our loan portfolio has a commercial real estate loan ("CRE") concentration, which is generally defined as a combination of certain construction and **commercial real estate** CRE loans. The federal banking regulators have issued guidance for those institutions which are deemed to have concentrations in **commercial real estate** CRE lending. Pursuant to the supervisory criteria contained in the guidance for identifying institutions with a potential **commercial real estate** CRE concentration risk, institutions which have (1) total reported loans for construction, land development, and other land acquisitions which represent 100% or more of an institution's total risk-based capital; or (2) total non-owner occupied **commercial real estate** CRE loans representing 300% or more of the institution's total risk-based capital and the institution's non-owner occupied **commercial real estate** CRE loan portfolio (including construction) has increased 50% or more during the prior 36 months are identified as having potential **commercial real estate** CRE concentration risk. Institutions which are deemed to have concentrations in **commercial real** CRE estate lending are expected to employ heightened levels of risk management with respect to their **commercial real** **estate** CRE portfolios, and may be required to hold higher levels of capital. The Bank has a concentration in **commercial real estate** CRE loans, and has experienced significant growth in its **commercial real estate** CRE portfolio in recent years and was further impacted with its acquisition of **CBTC** in the third quarter of 2023. Non-owner occupied **commercial real estate** ("CRE") CRE loans as a percentage of the Bank's Tier 1 Capital + ACL at **September 30, 2023** **March 31, 2024** and **December 31, 2022** **December 31, 2023** were **\$2.1** **\$2.0** billion or **394.5%** **370.0%** and **\$1.0** **\$2.0** billion or **289.4%** **382.6%**, respectively. Construction loans as a percentage of the Bank's Tier 1 Capital + ACL at **September 30, 2023** **March 31, 2024** and **December 31, 2022** **December 31, 2023** were **\$330.0** **\$299.1** million or **62.8%** **54.9%** and **\$246.3** **\$299.0** million or **69.9%** **56.7%**, respectively.

The **commercial real estate** CRE portfolio (including construction) has increased significantly in the past two years. Management has extensive experience in **commercial real estate** CRE lending, and has implemented and continues to maintain heightened risk management procedures, as well as strong underwriting criteria with respect to its **commercial real estate** CRE portfolio. Monitoring practices include stress testing analysis to evaluate changes in collateral values and to cash flows from interest rate increases and declines in net operating income. We may be required to maintain higher levels of capital as a result of our **commercial real estate** CRE concentrations, which could require us to obtain additional capital or be required to sell/participate portions of loans, which may adversely affect **shareholder** stockholder returns.

Non-Owner Occupied CRE Loans

(dollars in thousands)	March 31, 2024			
	Amount	Average Loan Size	% of Non-Owner Occupied CRE Loans	% of Total Portfolio Loans, Gross
Loan Type:				
Retail	\$ 454,347	\$ 2,113	22.5 %	9.7 %
Office/Office Condo	375,143	1,443	18.6 %	8.0 %
Multi-Family (5+ Units)	265,709	2,233	13.2 %	5.7 %
Industrial/Warehouse	217,890	1,492	10.8 %	4.7 %
Other ⁽¹⁾	702,900	688	34.9 %	15.1 %
Total non-owner occupied CRE loans ⁽²⁾	\$ 2,015,989	\$ 1,145	100.0 %	43.2 %
Total Portfolio loans, gross ⁽³⁾	\$ 4,662,492			

(1) Other non-owner occupied CRE loans include Motel/Hotel loans of \$215.1 million, mini-storage loans of \$85.2 million, restaurant loans of \$45.9 million, and other loans of \$356.7 million.

(2) The balances for our non-owner occupied CRE portfolio as of March 31, 2024, as presented in this table, coincide with our internal evaluation of risk for the purpose of monitoring loan concentrations in accordance with internal and regulatory guidelines. Within the non-owner occupied balances presented in this table, the Company has included certain loans secured by multi-family residential properties and other investor owned 1-4 family residential properties that are reported in the residential real estate caption in other areas of this report. As such, the total balance of loans presented in this table when added to the balance of the table presented below detailing owner occupied CRE may not reconcile to the CRE caption included in other tables and footnotes.

(3) Includes loans held for sale of \$13.8 million.

Owner-Occupied CRE Loans

(dollars in thousands)	March 31, 2024			
	Amount	Average Loan Size	% of Owner-Occupied CRE Loans	% of Total Portfolio Loans, Gross
Loan Type:				
Office/Office Condo	\$ 140,839	\$ 514	18.6 %	3.0 %
Industrial/Warehouse	111,599	631	14.7 %	2.4 %
Church	71,106	936	9.4 %	1.5 %
Retail	61,411	558	8.1 %	1.3 %

Other ⁽¹⁾	373,353	1,023	49.2 %	8.0 %
Total owner-occupied CRE loans	\$ 758,308	\$ 757	100.0 %	16.2 %
Total Portfolio loans, gross ⁽²⁾	\$ 4,662,492			

(1) Other owner-occupied CRE loans include restaurant loans of \$61.0 million, marine/boat slips of \$59.9 million, fire/CMS building loans of \$41.6 million and other loans of \$210.9 million.

(2) Includes loans held for sale of \$13.8 million.

Office CRE Portfolio

The Bank's office CRE loan portfolio, which includes owner-occupied and non-owner occupied non-owner-occupied CRE loans, was \$520.7 million or 11.2% of total loans of \$4.6 billion at September 30, 2023, which March 31, 2024. The Bank's office CRE loan portfolio included \$139.0 million or 26.7% of the total with medical tenants and \$56.5 million or 10.8% of the total with government or government contractor tenants. There were 529 loans in the office CRE portfolio with an average and median loan size of \$1.0 million and \$0.3 million, respectively. Loan to Value ("LTV") estimates are less than 70.0% for \$356.7 million or 68.0% of the office CRE portfolio and less than 80% for \$490.4 million or 95.0% of the office CRE portfolio.

The Bank had 2319 office CRE loans totaling \$207.0 million that were greater than \$5.0 million at September 30, 2023 March 31, 2024, compared to 24 office CRE loans totaling \$189.8 million at December 31, 2023. For The decrease in this subset portfolio segment was the result of normal amortization and two large loan payoffs in the quarter. For the office CRE portfolio, at September 30, 2023 March 31, 2024, the average loan debt-service coverage ("DSC") ratio was 1.42x 1.7x and average LTV was 57.04% 57.6%. Most buildings in Of the Bank's office CRE portfolio balance, 73% is secured by properties in rural or suburban areas with limited exposure to metropolitan cities and 92% are two secured by properties with five stories or less. Of the office CRE loans, \$5.8 million will mature and \$5.1 million will reprice prior to December 31, 2024. Of the office CRE loans, \$2.2 million are special mention or substandard.

Asset Quality

The following table summarizes asset quality information and ratios at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023.

(dollars in thousands,)	(dollars in thousands,)	September 30, 2023	December 31, 2022	(dollars in thousands,)	March 31, 2024	December 31, 2023
ASSET	ASSET					
QUALITY	QUALITY					
Total portfolio loans	Total portfolio loans	\$4,617,719	\$2,556,107			
Total portfolio loans						
Total portfolio loans						
Classified Assets ⁽¹⁾	Classified Assets ⁽¹⁾	11,068	2,663			
Allowance for credit losses on loans	Allowance for credit losses on loans	(57,051)	(16,643)			
Past due loans - 31 to 89 days		9,093	13,081			
Past due loans - 30 to 89 days						
Past due loans - 30 to 89 days						
Past due loans - 30 to 89 days						
Accruing past due loans >= 90 days	Accruing past due loans >= 90 days	2,149	1,841			
Total past due loans (delinquency)	Total past due loans (delinquency)	11,242	14,922			
Non-accrual loans	Non-accrual loans	8,982	1,908			

Accruing borrowers experiencing financial difficulty ("BEFD") modifications (2), (3)	—	4,405
Other real estate owned (OREO)	179	197
Non-accrual loans, OREO and BEFD modifications	9,161	6,510

Non-accrual loans

Non-accrual loans

Accruing
borrowers
experiencing
financial
difficulty
("BEFD")
modifications

(2)

Other real
estate owned
(OREO) and
Repossessed

Property

Non-accrual
loans,
OREO,
Repossessed
Property and
BEFD
modifications

ASSET QUALITY RATIOS

ASSET QUALITY RATIOS

Classified assets to total assets (1)

Classified assets to total assets (1)

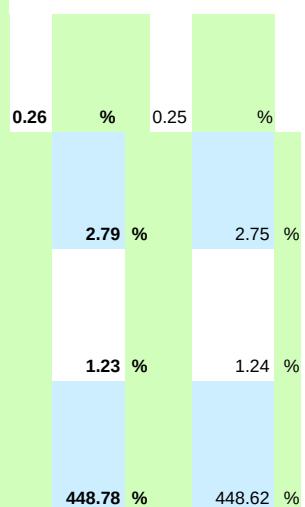
Classified assets to total assets	0.19 %	0.08 %
total assets (1)		

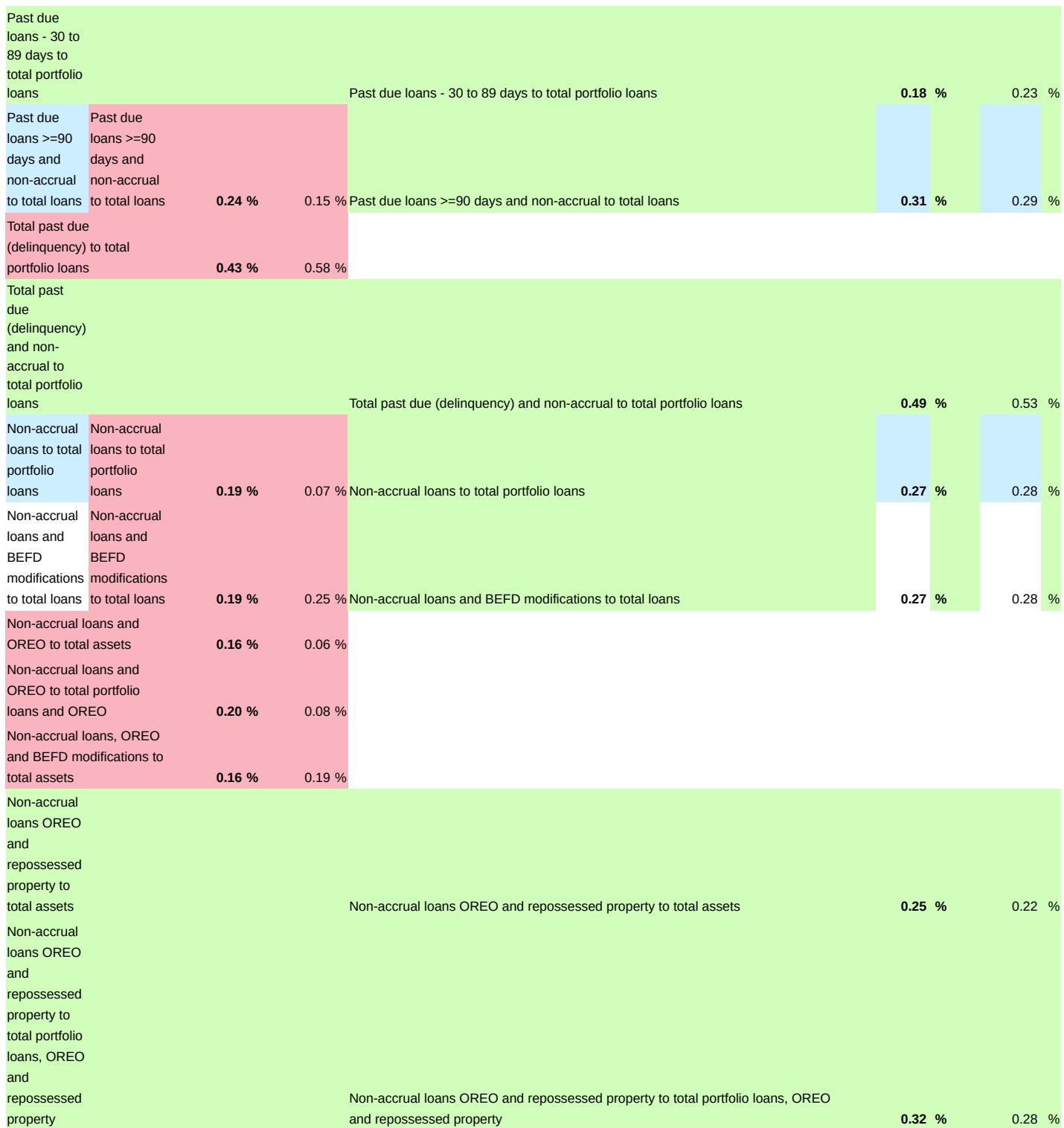
Classified assets to risk-based capital (1)	2.07 %	0.73 %	Classified assets to risk-based capital (1)	2.79 %	2.75 %
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Allowance for credit losses on loans to total portfolio loans	1.24 %	0.65 %	Allowance for credit losses on loans to total portfolio loans	1.23 %	1.24 %
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Allowance for credit losses on loans to non-accrual loans	635.17 %	872.27 %	Allowance for credit losses on loans to non-accrual loans	448.78 %	448.62 %
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Past due loans - 31 to 89 days to total portfolio loans	0.20 %	0.51 %
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Non-accrual loans, OREO, repossessed property and BEFD modifications to total assets	Non-accrual loans, OREO, repossessed property and BEFD modifications to total assets	0.25 %	0.22 %
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(1) Classified assets are substandard loans and OREO. OREO and other repossessed property. Classified assets do not include special mention loans.

(2) On January 1, 2023, the Company adopted ASU 2022-02—Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures, which eliminated the TDR recognition and measurement guidance. As such, loans designated as TDRs prior to January 1, 2023 and are currently performing are no longer reported as a BEFD loan beginning in the quarter ended March 31, 2023, while prior period amounts continue to be reported in accordance with previously applicable GAAP.

(3) BEFD modification loans include both non-accrual and accruing performing loans. All BEFD modification loans are included in the calculation of asset quality financial ratios. Non-accrual BEFD modification loans are included in the non-accrual balance and accruing BEFD modification loans are included in the accruing BEFD modification balance.

Allowance for Credit Losses on Loans

The ACL was \$57.1 million at September 30, 2023 March 31, 2024, \$16.6 million at December 31, 2022 December 31, 2023 and \$16.3 million at September 30, 2022 March 31, 2023. There were net charge-offs of \$1.4 million for the third quarter of 2023, compared to net charge-offs of \$0.5 million for the second quarter of 2023 and net recoveries of \$119,000 for the third quarter of 2022. The ratio of annualized net charge-offs to average loans was 0.13% for the third quarter of 2023, compared to annualized net charge-offs of 0.01% for the second quarter of 2022 and annualized net recoveries of 0.02% for the third quarter of 2022. Management remains focused on its efforts to dispose of problem loans and to prudently charge-off nonperforming loans to enable the Company to maintain overall credit quality. The ACL on loans as a percentage of period-end loans was 1.23% at March 31, 2024 and 1.24% at September 30, 2023 and 0.65% at December 31, 2022 December 31, 2023.

We adopted ASU 2016-13 using the modified retrospective method. Results for reporting periods beginning after January 1, 2023 are presented under ASU 2016-13. Upon the adoption of ASC 326, the Company recorded a \$10.8 million increase to the ACL. ACL balances increased to 1.07% and 1.05% of portfolio loans at March 31, 2023 and June 30, 2023, respectively, compared to 0.65% at December 31, 2022. In the third quarter of 2023, as a result of the merger with TCFC, the ACL increased from \$29.0 million and 1.05% of total loans at

June 30, 2023 to \$57.1 million and 1.24% of total loans at September 30, 2023. The Bank's provision for credit losses for the third quarter of 2023 was \$28.2 million and consisted of \$20.1 million related to the acquisition of TCFC legacy loans including \$0.2 million related to unfunded commitments to extend credit, \$7.3 million due to a change in ACL methodology on the Bank's legacy loans and \$0.8 million related to third quarter activity. Management believes that the allowance is adequate at September 30, 2023. The ACL as a percent of total loans may increase or decrease in future periods based on economic conditions. Management's determination of the adequacy of the allowance is based on a periodic evaluation of the portfolio. For additional information regarding the allowance for credit losses, refer to Notes 1, 2 and 5 of the Consolidated Financial Statements and the Critical Accounting Policies section of the MD&A.

The following tables present a summary of the net charge-off activity in the ACL at or for the three and nine months ended September 30, 2023 March 31, 2024 and 2022 2023.

For the Three Months Ended																	
September 30, 2023						September 30, 2022											
For the Three Months Ended																	
March 31, 2024																	
(Dollars in thousands)	(Dollars in thousands)	Percentage of net charge-offs (recoveries) (annualized)	Percentage of net charge-offs (recoveries) (annualized)	Net loans (charge-outstanding)	Net loans (charge-outstanding)	Net (Charge-offs) Recoveries	(Dollars in thousands)	Average Balance (1)	%	Net (Charge-offs) Recoveries	March 31, 2024						
Construction	Construction	\$ 398,340	\$ 3	\$ 239,120	\$ 2	\$ (10)	\$ 292,803	0.01	0.01 %	\$ 3	\$ 31						
Residential real estate	Residential real estate	1,425,729	3	730,738	12	1	1,512,805	1,512,805	- %	-	31						
Commercial real estate	Commercial real estate	2,389,138	(1,327)	980,174	243	—	2,279,899	2,279,899	- %	-	—						
Commercial	Commercial	776	2	(1.02)	150,143	(142)	0.38	230,844	230,844	- %	(54)						
Consumer	Consumer	330,929	(70)	0.08	213,984	4	(0.01)	325,258	325,258	0.56 %	—						
Credit Cards	Credit Cards	6,223	(60)	3.83	—	—	—	4,196	4,196	10.35 %	—						

Total	\$4,551,135	\$ (1,449)	0.13 %	\$2,314,159	\$ 119	(0.02) %		\$	\$ (565)	\$ 4,645,805	0.05 %	\$
Allowance for credit losses				Allowance for credit losses				\$ (565)		(57,336)		
Total net charge- off and average loans				Total net charge-off and average loans						- %		
								\$ (565)		\$4,588,469	0.05 %	\$ (20)

Allowance for credit losses on loans at period end as a percentage of total period end loans ⁽¹⁾	1.24 %	0.68 %
Allowance for credit losses on loans at period end as a percentage of total period end loans ⁽²⁾	1.24 %	0.84 %
Allowance for credit losses on loans at period end as a percentage of average loans ⁽³⁾	1.25 %	0.70 %
Allowance for credit losses on loans at period end as a percentage of period end nonaccrual loans	635.17 %	550.08 %

(1) At September 30, 2023 and September 30, 2022, these ratios included all loans held for investment, including PPP loans of \$129,000 and \$291,000, respectively. ^{Sale}

(2) For 2023, this ratio excludes only PPP loans given the Company's adoption of the CECL standard. For periods in 2022, this ratio excludes PPP loans and loans acquired in the Severn and Northwest branch acquisitions.

(3) At September 30, 2023 and September 30, 2022, these ratios included all loans held for investment, including average PPP loans of \$137,000 and \$749,000, respectively.

	For Nine Months Ended September 30, 2023						
	September 30, 2023			September 30, 2022			
	(Dollars in thousands)		Net (charge-offs)	Percentage of net charge-offs (recoveries) (annualized) to average loans outstanding	Net (charge-offs)		
	Average balances	recoveries	during the year	Average balances	recoveries	during the year	
Construction	\$ 292,430	\$ 10		- %	\$ 251,150	\$ 9	- %
Residential real estate	1,056,892	37		-	680,107	127	(0.02)
Commercial real estate	1,528,869	(1,327)	0.12		938,892	942	(0.13)
Commercial	93,925	10	(0.01)		165,692	(216)	0.17
Consumer	319,699	(189)	0.08		181,443	(4)	-
Credit cards	2,075	(60)	3.87		—	—	-
Total	\$ 3,293,890	\$ (1,519)	0.06 %		\$ 2,217,284	\$ 858	(0.05)%

Allowance for credit losses on loans at period end as a percentage of total period end loans ⁽¹⁾	1.24 %	0.68 %
Allowance for credit losses on loans at period end as a percentage of total period end loans ⁽²⁾	1.24 %	0.84 %
Allowance for credit losses on loans at period end as a percentage of average loans ⁽³⁾	1.73 %	0.73 %
Allowance for credit losses on loans at period end as a percentage of period end nonaccrual loans	635.17 %	550.08 %

(1) At September 30, 2023 and September 30, 2022, these ratios included all loans held for investment, including PPP loans of \$129,000 and \$291,000, respectively.

(2) For 2023, this ratio excludes only PPP loans given the Company's adoption of the CECL standard. For periods in 2022, this ratio excludes PPP loans and loans acquired in the Severn and Northwest branch acquisitions.

(3) At September 30, 2023 and September 30, 2022, these ratios included all loans held for investment, including average PPP loans of \$156,000 and \$8.9 million, respectively.

Nonperforming Assets

Classified assets increased \$8.4 million \$0.6 million to \$11.1 million \$15.4 million or 0.19% 0.26% of total assets at **September 30, 2023** **March 31, 2024** from \$2.7 million \$14.9 million or 0.08% 0.25% of total assets at **December 31, 2022** **December 31, 2023**. Classified assets are substandard loans, repossessed properties and OREO. The increase in classified assets was primarily due to the acquisition repossessed properties of TCFC classified loans of \$5.1 \$1.8 million and an increase offset by decrease of \$1.3 million in Shore legacy classified loans to \$5.8 million, and OREO of \$0.2 million at September 30, 2023, substandard loans.

As shown in the following table, nonperforming assets were \$11.3 million \$16.4 million or 0.20% 0.28% of total assets at **September 30, 2023** **March 31, 2024** compared to \$3.9 million \$13.7 million or 0.11% 0.23% of total assets at **December 31, 2022** **December 31, 2023**. The balance of nonperforming assets increased primarily due to a \$7.1 million an increase in total nonaccrual loans. The modest repossessed properties of \$1.8 million and an increase of \$0.8 million in nonperforming loans 90 days past due and classified assets was the result of the merger, a small increase in late payments in consumer loans and a proactive review of larger commercial relationships in the current interest rate environment still accruing.

The following table summarizes our nonperforming assets at **September 30, 2023** **March 31, 2024** and **December 31, 2022** **December 31, 2023**.

(Dollars in thousands)	(Dollars in thousands)	September 30, 2023	December 31, 2022	(Dollars in thousands)	March 31, 2024		December 31, 2023
Nonperforming assets	Nonperforming assets			Nonperforming assets			
Nonaccrual loans	Nonaccrual loans	\$ 8,982	\$ 1,908				
Total loans 90 days or more past due and still accruing	Total loans 90 days or more past due and still accruing	2,149	1,841				
Other real estate owned		179	197				
Other real estate owned and reposessed property							
Total nonperforming assets	Total nonperforming assets	\$ 11,310	\$ 3,946				
As a percent of total loans:	As a percent of total loans:						
As a percent of total loans:	As a percent of total loans:						
Nonaccrual loans							
Nonaccrual loans							
Nonaccrual loans	Nonaccrual loans	0.19 %	0.07 %		0.27	%	0.28 %
As a percent of total loans and other real estate owned:	As a percent of total loans and other real estate owned:						
As a percent of total loans, other real estate owned and reposessed property:	As a percent of total loans, other real estate owned and reposessed property:						
As a percent of total loans, other real estate owned and reposessed property:	As a percent of total loans, other real estate owned and reposessed property:						
Nonperforming assets							
Nonperforming assets							
Nonperforming assets	Nonperforming assets	0.24 %	0.15 %		0.35	%	0.30 %
As a percent of total assets:	As a percent of total assets:						
As a percent of total assets:	As a percent of total assets:						
Nonaccrual loans							
Nonaccrual loans							
Nonaccrual loans	Nonaccrual loans	0.16 %	0.05 %		0.22	%	0.21 %
Nonperforming assets	Nonperforming assets	0.20 %	0.11 %	Nonperforming assets	0.28	%	0.23 %

Deposits

The following is a breakdown of the Company's deposit portfolio at **September 30, 2023** **March 31, 2024** and **December 31, 2022** **December 31, 2023**:

(dollars in thousands)	(dollars in thousands)	September 30, 2023		December 31, 2022		\$ Change	% Change			
		Balance	%	Balance	%					
Balance										
Balance										
Noninterest-bearing demand	Noninterest-bearing demand	\$1,211,401	23.70 %	\$ 862,015	28.60 %	\$ 349,386	40.50 %			
Interest-bearing:	Interest-bearing:									
Demand	Demand	1,210,051	23.70 %	694,101	23.10 %	515,950	74.30 %			
Money market deposits	Money market deposits	1,179,049	23.10 %	709,132	23.60 %	469,917	66.30 %			
Savings	Savings	371,755	7.30 %	320,188	10.60 %	51,567	16.10 %			
Certificates of deposit	Certificates of deposit	1,136,488	22.20 %	424,348	14.10 %	712,140	167.80 %			
Total interest-bearing	Total interest-bearing	3,897,343	76.30 %	2,147,769	71.40 %	1,749,574	81.50 %			
Total Deposits	Total Deposits	\$5,108,744	100.00 %	\$3,009,784	100.00 %	\$2,098,960	69.70 %			
Total Deposits										
Total Deposits										

Total deposits increased \$2.1 billion decreased \$0.2 billion, or 69.7% 3.7% to \$5.1 billion \$5.2 billion at September 30, 2023 March 31, 2024 when compared to December 31, 2022 December 31, 2023. The increase decrease in total deposits was primarily due to the merger, which resulted in an increase a decrease in time deposits of \$712.1 \$15.3 million, demand deposits of \$516.0 \$63.6 million, money market and savings of \$521.5 \$65.6 million, and noninterest-bearing deposits of \$349.4 \$57.4 million. The decrease in deposits is attributable seasonal municipal runoff and MRB deposits.

Total estimated uninsured deposits were \$1.0 billion or 19.76% 18.9% of total deposits at September 30, 2023 March 31, 2024 and \$871.5 million \$1.0 billion or 28.95% 19.5% of total deposits at December 31, 2022 December 31, 2023. At September 30, 2023 March 31, 2024, there were \$144.9 million \$155.4 million included in uninsured deposits that the Bank secured using the market value of pledged collateral. The Bank's uninsured deposits, excluding the market value of pledged collateral, at September 30, 2023 March 31, 2024 were \$864.6 million \$825.9 million or 16.92% 15.9% of total deposits.

The Company does not consider reciprocal deposits to be brokered as reciprocal deposits are used to maximize FDIC insurance available to our customers. During 2018, revisions to the Federal Deposit Insurance Act determined that reciprocal deposits are core deposits and are not considered brokered deposits unless they exceed 20% of the Bank's total liabilities of \$5.1 billion. \$5.2 billion. Reciprocal deposits were \$1.1 billion \$1.2 billion at September 30, 2023 March 31, 2024 compared to \$475.8 million \$1.3 billion at December 31, 2022 December 31, 2023. Reciprocal deposits as a percentage of the Bank's liabilities at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023 were 20.47% 23.1% and 15.44% 24%, respectively. For call reporting purposes, there were \$24.4 million \$161.5 million and zero \$204.8 million reciprocal deposits that were considered brokered at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023.

The Bank is required to monitor large deposit relationships and concentration risks in accordance with regulatory guidance. This includes monitoring deposit concentrations and maintaining fund management policies and strategies that take into account potentially volatile concentrations and significant deposits that mature simultaneously. Regulatory guidance defines a large depositor as a customer or entity that owns or controls 2% or more of the Bank's total deposits. At September 30, 2023 March 31, 2024, the Bank had three local municipal customer deposit relationships that exceeded 2% of total deposits, totaling \$406.4 million \$403.7 million which represented 8.0% 7.8% of total deposits of \$5.1 billion \$5.2 billion. At December 31, 2022 December 31, 2023, there were two four customer deposit relationships that exceeded 2% of total deposits, totaling \$217.8 million \$598.5 million which represented 7.2% 11.1% of total deposits of \$3.0 billion \$5.4 billion.

Wholesale Funding - Short-Term Borrowings and Brokered Deposits

The Company had no short-term borrowings as of September 30, 2023 March 31, 2024, compared and reduced brokered deposits of \$44.5 million to short-term advances with the FHLB of \$40.0 million at December 31, 2022 zero. Other short-term borrowings may consist of overnight borrowing from correspondent banks or securities sold under agreements to repurchase, primarily with commercial depositors. Short-term advances are defined as those with original maturities of one year or less. At September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, the Company had no securities sold under agreements to repurchase or overnight borrowings from correspondent banks.

The Company's wholesale funding increased \$71.0 million, which includes FHLB advances and brokered deposits, from \$40.0 million in FHLB advances at December 31, 2022 to \$111.0 million in brokered deposits at September 30, 2023. Brokered deposits for the Company's measurement of wholesale funding exclude reciprocal deposit balances that exceeded 2% of total deposits. The Bank decreased wholesale funding by \$380.0 million during the third quarter of 2023 using proceeds from the sale of TCFC's securities portfolio after the legal merger.

Long-Term Debt

The Company occasionally borrows from the FHLB Federal Home Loan Bank ("FHLB") to meet longer term liquidity needs, specifically to fund loan growth when liquidity from deposit growth is not sufficient. There were no long-term borrowings from the FHLB outstanding at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023.

On August 25, 2020, the Company entered into Subordinated Note Purchase Agreements with certain purchasers pursuant to which the Company issued and sold \$25.0 million in aggregate principal amount with an initial interest rate of 5.375% of Fixed-to-Floating Rate Subordinated Notes due September 1, 2030.

As a result of the merger with Severn Bancorp, Inc., effective October 31, 2021, the Company acquired Junior Subordinated Debt Securities due in 2035 which had an outstanding principal balance of \$20.6 million. The debt balance of \$18.5 million \$18.6 million at September 30, 2023 March 31, 2024 and \$18.4 million \$18.6 million at December 31, 2022 December 31, 2023 was presented net of fair value adjustments of \$2.1 million \$2.0 million and \$2.2 million \$2.0 million, respectively.

Additionally, as a result of the TCFC merger, the Company acquired Junior Subordinated Debt Securities which had an outstanding principal balance of \$12.0 million. The debt balance of \$10.5 million \$10.6 million at September 30, 2023 March 31, 2024 was presented net of a fair value adjustment of \$1.5 million \$1.4 million. In addition, the Company acquired 4.75% fixed-to-floating rate subordinated notes with a carrying value of \$19.5 million at September 30, 2023 March 31, 2024. The notes balance of \$18.2 million \$18.5 million at September 30, 2023 March 31, 2024 was presented net of fair value adjustment of \$1.3 million \$1.0 million.

Stockholders' Equity

(Dollars in thousands)	(Dollars in thousands)	September 30, 2023	December 31, 2022	% Change	(Dollars in thousands)	March 31, 2024	December 31, 2023	% Change	(Dollars in thousands)	% Change
Common Stock at par of \$0.01	Common Stock at par of \$0.01	\$ 331	\$ 199	\$ 132 66.33 %	Common Stock at par of \$0.01	\$ 332	\$ 332	\$ —	\$ —	— %
Additional paid in capital	Additional paid in capital	355,575	201,494	154,081 76.47 %	Additional paid in capital	356,464	356,007	356,007 457	457	0.13 %
Retained earnings	Retained earnings	159,134	171,613	(12,479) (7.27)%	Retained earnings	166,490	162,290	162,290 4,200	4,200	2.59 %
Accumulated other comprehensive loss	Accumulated other comprehensive loss	(10,109)	(9,021)	(1,088) 12.06 %	Accumulated other comprehensive loss	(8,058)	(7,494)	(7,494) (564)	(564)	7.53 %
Total Stockholders' Equity	Total Stockholders' Equity	\$ 504,931	\$ 364,285	\$ 140,646 38.61 %	Total Stockholders' Equity	\$ 515,228	\$ 511,135	\$ 4,093 0.80	0.80	0.80 %

Total stockholders' equity increased \$140.6 million \$4.1 million, or 38.61% 0.80%, to \$504.9 million \$515.2 million at September 30, 2023 March 31, 2024 when compared to December 31, 2022 December 31, 2023 primarily due to a \$153.1 million additional paid in capital from the merger on July 1, 2023, \$8.2 million of net income partially offset by \$7.8 million CECL adjustment in the first quarter of 2023 and dividends paid of \$8.8 million \$4.0 million.

Liquidity and Capital Resources

Liquidity is our ability to meet cash demands as they arise. Cash needs may come from loan demand, deposit withdrawals or acquisition opportunities. Potential obligations resulting from the issuance of standby letters of credit and commitments to fund future borrowings to our loan customers are other factors affecting our liquidity needs. Many of these obligations and commitments are expected to expire without being drawn upon; therefore, the total commitment amounts do not necessarily represent future cash requirements affecting our liquidity position.

The Company's principal sources of liquidity are cash on hand and dividends received from the Bank. The Bank's most liquid assets are cash, cash equivalents and federal funds sold. The levels of such assets are dependent on the Bank's operating, financing and investment activities at any given time. The variations in levels of cash and cash equivalents are influenced by deposit flows and anticipated future deposit flows. Customer deposits are considered the primary source of funds supporting the Bank's lending and investment activities.

Based on management's going concern evaluation, we believe that there are no conditions or events, considered in the aggregate, that raise substantial doubt about the Company's or the Bank's ability to continue as a going concern, within one year of the date of the issuance of the financial statements.

The Bank's principal sources of funds for investment and operations are net income, deposits, sales of loans, borrowings, principal and interest payments on loans, principal and interest received on investment securities and proceeds from the maturity and sale of investment securities. The Bank's principal funding commitments are for the origination or purchase of loans, the purchase of securities and the payment of maturing deposits.

The Bank's most liquid assets are cash, cash equivalents and federal funds sold. The levels of such assets are dependent on the Bank's operating, financing and investment activities at any given time. The variations in levels of cash and cash equivalents are influenced by deposit flows and anticipated future deposit flows.

Liquidity is provided by access to funding sources, which include core depositors and brokered deposits. Other sources of funds include our ability to borrow, such as purchasing federal funds from correspondent banks, sales of securities under agreements to repurchase and advances from the FHLB of Atlanta. The Bank uses wholesale funding (brokered deposits and other sources of funds) to supplement funding when loan growth exceeds core deposit growth and for asset-liability management purposes.

We derive liquidity through increased customer deposits, non-reinvestment of the cash flow from the investment portfolio, loan repayments, borrowings and income from earning assets. As seen in the Consolidated Statements of Cash Flows, in the Financial Statements, the net increase decrease in cash and cash equivalents was \$53.2 million \$257.9 million for the first nine three months of 2023 2024 compared to a decrease of \$420.3 million \$17.8 million for the first nine three months of 2022 2023. The increase decrease in cash and cash equivalents in 2023 the first quarter of 2024 was mainly due to the proceeds from the sale decrease of acquired AFS securities of \$434.2 million, \$144.9 million in interest-bearing deposits.

To the extent that deposits are not adequate to fund customer loan demand, liquidity needs can be met in the short-term fund markets. The Bank has arrangements with other correspondent banks whereby it has \$35.0 million \$45.0 million available in federal funds lines of credit and a reverse repurchase agreement available to meet any short-term needs which may not otherwise be funded by the Bank's portfolio of readily marketable investments that can be converted to cash. At September 30, 2023 March 31, 2024, the Bank had approximately \$1.1 billion \$1.2 billion of available liquidity including: \$108.7 million \$114.6 million in cash and \$954.4 million cash equivalents, \$321.0 million in unpledged securities, \$782.2 million in secured borrowing capacity at the FHLB of Atlanta and the other correspondent banks banks of \$66.1 million. The Bank is a member of the FHLB of Atlanta, which provides another source of liquidity. Through the FHLB of Atlanta, the Bank had available lendable collateral of approximately \$726.6 million \$782.2 million and \$298.9 million \$745.1 million at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, respectively. The Bank has pledged, under a blanket lien, all qualifying residential and commercial real estate loans under borrowing agreements with the FHLB FHLB of Atlanta.

The Bank and the Company are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of its assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank and the Company to maintain minimum ratios of common equity Tier 1, Tier 1, and total capital as a percentage of assets and off-balance sheet exposures, adjusted for risk weights ranging from 0% to 12.50%. The Bank and Company are also required to maintain capital at a minimum level based on quarterly average assets, which is known as the leverage ratio. The Bank and the Company were deemed "well capitalized" under applicable regulatory capital requirements at September 30, 2023 March 31, 2024.

The Bank and Company were in compliance with all applicable regulatory capital requirements to which they were subject, and the Bank was classified as "well capitalized" for purposes of the prompt corrective action regulations. The following tables present the applicable capital ratios for the Company and the Bank as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023.

		Tier 1		Total									
		Common	risk-based	Common	risk-based								
		Tier 1	Equity	based	based								
		leverage	Tier 1	capital	capital								
September 30, 2023		ratio	ratio	ratio	ratio								
March 31, 2024				March 31, 2024		Tier 1 leverage ratio		Common Equity Tier 1 ratio		Tier 1 risk-based capital ratio		Total risk-based capital ratio	
Shore Bancshares, Inc.	Shore Bancshares, Inc.	7.65 %	8.61 %	9.22 %	11.37 %	Shore Bancshares, Inc.	7.93 %	8.91 %	9.53 %	11.68 %			
Shore United Bank	United Bank	8.28 %	9.97 %	9.97 %	11.20 %	Shore United Bank	8.58 %	10.32 %	10.32 %	11.56 %			
December 31, 2022				Tier 1		Total							
				Common		risk-based		Common		risk-based			
				Tier 1		Equity		based		based			
				leverage		Tier 1		capital		capital			
				ratio									
Shore Bancshares, Inc.		9.52 %	11.62 %	12.33 %	13.91 %								
Shore United Bank		9.92 %	12.82 %	12.82 %	13.47 %								
December 31, 2023		Tier 1 leverage ratio		Common Equity Tier 1 ratio		Tier 1 risk-based capital ratio		Total risk-based capital ratio					
Shore Bancshares, Inc.		7.74 %		8.69 %		9.31 %		11.48 %					
Shore United Bank		8.33 %		10.02 %		10.02 %		11.27 %					

For information on risks relating to liquidity, see Item 1A. "Risk Factors - Liquidity Risk," as presented in the Company's 2023 Annual Report.

USE OF NON-GAAP FINANCIAL MEASURES

Statements included in the MD&A include non-GAAP financial measures and should be read along with the accompanying tables, which provide a reconciliation of non-GAAP financial measures to GAAP financial measures. The Company's management uses these non-GAAP financial measures and believes that non-GAAP financial measures provide additional useful information that allows readers to evaluate the ongoing performance of the Company. Non-GAAP financial measures should not be considered as an alternative to any measure of performance or financial condition as promulgated under GAAP, and investors should consider the Company's performance and financial condition as reported under GAAP and all other relevant information when assessing the performance or financial condition of the Company. Non-GAAP financial measures have limitations as analytical tools, and investors should not consider them in isolation or as a substitute for analysis of the results or financial condition as reported under GAAP. See Non-GAAP reconciliation schedules that immediately follow:

RECONCILIATION OF NON-GAAP MEASURES (UNAUDITED)

Reconciliation of U.S. GAAP total assets, common equity, common equity to assets and book value to Non-GAAP tangible assets, tangible common equity, tangible common equity to tangible assets and tangible book value.

This Quarterly Report on Form 10-Q, including the accompanying financial statement tables, contains financial information determined by methods other than in accordance with GAAP. This financial information includes certain performance measures, which exclude intangible assets. These non-GAAP measures are included because the Company believes they may provide useful supplemental information for evaluating the underlying performance trends of the Company.

(dollars in thousands, except per share amounts)	(dollars in thousands, except per share amounts)	September 30, 2023	December 31, 2022	September 30, 2022	(dollars in thousands, except per share amounts)	March 31, 2024	December 31, 2023	March 31, 2023
Total assets	Total assets	\$5,708,725	\$3,477,276	\$3,446,804				
Less: intangible assets	Less: intangible assets							
Goodwill	Goodwill							
Core deposit intangibles	Core deposit intangibles	63,266	63,266	63,281				
Total intangible assets	Total intangible assets	50,685	5,547	6,007				
		<u>113,951</u>	<u>68,813</u>	<u>69,288</u>				
Tangible assets	Tangible assets	\$5,594,774	\$3,408,463	\$3,377,516				
Total common equity	Total common equity	\$ 504,931	\$ 364,285	\$ 357,221				
Total common equity	Total common equity							
Less: intangible assets	Less: intangible assets							
Common shares outstanding at end of period	Common shares outstanding at end of period	<u>113,951</u>	<u>68,813</u>	<u>69,288</u>				
Tangible common equity	Tangible common equity	\$ 390,980	\$ 295,472	\$ 287,933				
Common shares outstanding at end of period	Common shares outstanding at end of period	<u>33,136,182</u>	<u>19,864,956</u>	<u>19,857,774</u>				
Common shares outstanding at end of period	Common shares outstanding at end of period							

Common shares outstanding at end of period											
Common equity to assets											
Common equity to assets											
Common equity to assets	Common equity to assets	8.84 %	10.48 %	10.36 %		8.84	%	8.50	%	10.18	%
Tangible common equity to tangible assets	Tangible common equity to tangible assets	7.00 %	8.67 %	8.52 %	Tangible common equity to tangible assets	7.11	%	6.78	%	8.41	%
Common book value per share	Common book value per share	\$ 15.24	\$ 18.34	\$ 17.99							
Common book value per share											
Tangible common book value per share	Tangible common book value per share	\$ 11.80	\$ 14.87	\$ 14.50							

Return on Average Common Equity ("ROACE")

The ROACE is a financial ratio that measures the profitability of a company in relation to the average **shareholders' stockholders'** equity. This financial metric is expressed in the form of a percentage which is equal to net income after tax divided by the average **shareholders' stockholders'** equity for a specific period of time.

		Three Months Ended September 30,		Nine Months Ended September 30,	
		Three Months Ended March 31,	Three Months Ended March 31,	Three Months Ended March 31,	
(dollars in thousands, except per share amounts)					
(dollars in thousands, except per share amounts)					
(dollars in thousands, except per share amounts)	(dollars in thousands, except per share amounts)				
		2023	2022	2023	2022
Net (loss) income (as reported)	\$ (6,384)	\$ 9,658	\$ 4,091	\$ 22,769	
Net income (as reported)					
Net income (as reported)					
ROACE					
ROACE	ROACE	(4.75) %	10.72 %	1.30 %	8.59 %
Average Equity	Average Equity	\$ 533,186	\$ 357,383	\$ 419,825	\$ 354,549
Average Equity					
Average Equity					

Return on Average Tangible Common Equity ("ROATCE")

ROATCE is computed by dividing net earnings applicable to common **shareholders** by average tangible common shareholders' equity. Management believes that ROATCE is meaningful because it measures the performance of a business consistently, whether acquired or internally developed. ROATCE is a non-GAAP measure and may not be comparable to similar non-GAAP measures used by other companies.

		Three Months Ended September 30,		Nine Months Ended September 30,	
		Three Months Ended March 31,			
		Three Months Ended March 31,			
		Three Months Ended March 31,			
(dollars in thousands, except per share amounts)	(dollars in thousands, except per share amounts)				
(dollars in thousands, except per share amounts)	(dollars in thousands, except per share amounts)				
Net (loss) income (as reported)	\$ (6,384)	\$ 9,658	\$ 4,091	\$ 22,769	
Net income (as reported)					
Net income (as reported)					
Net income (as reported)					
Merger and acquisition costs (net of tax)					
Merger and acquisition costs (net of tax)					
Merger and acquisition costs (net of tax)	Merger and acquisition costs (net of tax)	8,343	117	12,398	837
Core deposit intangible amortization (net of tax)	Core deposit intangible amortization (net of tax)	1,478	368	2,597	1,130
Net (loss) earnings applicable to common shareholders	\$ 3,437	\$ 10,143	\$ 19,086	\$ 24,736	
Core deposit intangible amortization (net of tax)					
Core deposit intangible amortization (net of tax)					
Net earnings applicable to common stockholders					
Net earnings applicable to common stockholders					
Net earnings applicable to common stockholders					
ROATCE					
ROATCE					
ROATCE	ROATCE	3.27	%	13.98	%
Average equity	Average equity	\$ 533,186		\$ 357,383	
Average equity					
Average equity					
Less: Average goodwill and core deposit intangible					
Less: Average goodwill and core deposit intangible					

Less: Average goodwill and core deposit intangible	Less: Average goodwill and core deposit intangible	(115,604)	(69,558)	(84,300)	(70,104)
Average Tangible Common Equity	Average Tangible Common Equity	\$ 417,582	\$ 287,825	\$ 335,525	\$ 284,445
Average Tangible Common Equity					
Average Tangible Common Equity					

Item 3 – Quantitative and Qualitative Disclosures about Market Risk.

Our primary market risk is interest rate fluctuation, and management has procedures in place to evaluate and mitigate this risk. This risk and these procedures are discussed in **Item 7 of Part II, Item 7A of the 2022 Annual Report** under the caption **"Market Risk Management" "Quantitative and Interest Sensitivity". Qualitative Disclosures About Market Risk**. Management recognizes that recent increases in interest rates have had an impact on the Company's market risk. The procedures used to evaluate and mitigate these risks remain unchanged, and we continue to monitor our actual and simulated sensitivity positions since **December 31, 2022** **December 31, 2023**.

Item 4 – Controls and Procedures.

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports that the Company files under the Securities Exchange Act of 1934, as amended ("Exchange Act") with the SEC, such as this Quarterly Report, is recorded, processed, summarized and reported within the time periods specified in those rules and forms, and that such information is accumulated and communicated to management, including Shore Bancshares, Inc.'s principal executive officer ("PEO") and its principal financial officer ("PFO"), as appropriate, to allow for timely decisions regarding required disclosure. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate.

An evaluation of the effectiveness of these disclosure controls and procedures as of **September 30, 2023** **March 31, 2024** was carried out under the supervision and with the participation of management, including the PEO and the PFO. Based on that evaluation, the Company's management, including the PEO and the PFO, **has** concluded that our disclosure controls and procedures **are, in fact, were not effective at the reasonable assurance level at September 30, 2023** **March 31, 2024** due to the material weakness in the Company's internal control over financial reporting described below.

Material Weaknesses in Internal Control Over Financial Reporting

Management assessed the Company's system of internal control over financial reporting as of March 31, 2024. This assessment was conducted based on the Committee of Sponsoring Organizations ("COSO") of the Treadway Commission "Internal Control – Integrated Framework (2013)." Based on this assessment, management has concluded that the Company's internal control over financial reporting was not effective as of March 31, 2024 due to the material weaknesses identified below.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

Management identified a material weakness caused by improperly designed preventative controls and insufficient monitoring controls of the online credit card account opening process, which resulted in a material fraud loss during the quarter-ended March 31, 2024.

Management identified a previously disclosed material weakness associated with ineffective input review controls relating to specific aspects of the Company's ACL model and a previously disclosed material weakness in relation to deferred income taxes discussed in Part II, Item 9A of the 2023 Annual Report. Management's assessment concluded that the deferred income tax material weakness had been fully remediated as of March 31, 2024. Management continues to follow its remediation plan with respect to the review of controls related to the allowance for credit losses.

Remediation Plan to Address the Material Weaknesses

Management, with the oversight of the Audit Committee, is actively engaged in remediating the material weaknesses in internal control over financial reporting that existed as of March 31, 2024. In response to the material weaknesses identified above, the Company is in the process of implementing changes to its internal control over financial reporting.

Specifically in relation to the material weakness identified related to the online credit card account opening process, remediation began immediately upon detection on April 1, 2024, by completely closing the online application portal and suspending the opening of all new credit card accounts using the automated online account opening application hosted by the Company's third party credit card processor. The Company reviewed all accounts opened on or after February 1, 2024, and closed those deemed to be fraudulent including all accounts/cards opened on or after March 28, 2024, to ensure no additional loss to the Bank.

The Company is evaluating whether to sell and exit the credit card issuer program or to retain the portfolio and outsource the management of the opening of new accounts and ongoing transaction monitoring to an experienced third-party. In the event that the Company continues the credit card program, it will need to establish controls to address and mitigate this material weakness. We expect that the remediation of the online credit card account opening material weakness will be completed prior to the end of 2024.

Specifically in relation to the allowance for credit losses, management has continued to follow the remediation plan outlined in the 2023 Annual Report. This plan includes compiling a detailed inventory of significant inputs to the allowance for credit losses calculation and, reevaluating the relevant SOX control design and operation to ensure all significant inputs to the allowance for credit losses calculation are recorded timely and accurately. In addition, management expects to conduct a detailed data audit to effectively ensure the

completeness and accuracy of select inputs to the allowance for credit losses calculation. We expect that the allowance for credit losses material weakness will be fully remediated prior to the end of 2024.

Management will consider the material weaknesses remediated once the applicable controls have been operated for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively.

Changes in Internal Control Over Financial Reporting

Except as described above, there were no additional changes in the Company's internal control over financial reporting (as such term is defined by Rules 13a-15(f) and 15d-15(f) of the Exchange Act) during the fiscal first quarter ended September 30, 2023 of 2024 that have has materially affected, or are is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1 – Legal Proceedings

From time to time the Company may become involved in legal proceedings. At the present time, there are no proceedings which the Company believes will have a material adverse impact on the financial condition or earnings of the Company.

Item 1A – Risk Factors

There have been no material changes to the risk factors as previously disclosed under Item 1A in our 2023 Annual Report for the year ended December 31, 2022, Item 1A in our Quarterly Report on Form 10-Q for the quarter ended September 30, 2023 and those referenced in other reports on file with the SEC. SEC, other than those set forth below:

We have identified material weaknesses in our internal controls, and cannot provide assurances that these weaknesses will be effectively remediated or that additional material weaknesses will not occur in the future.

If our internal control over financial reporting or our disclosure controls and procedures are not effective, we may not be able to accurately report our financial results, which may cause investors to lose confidence in the Company's reported financial information and may lead to a decline in our stock price.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) under the Exchange Act and for evaluating and reporting on that system of internal control. Management identified control deficiencies related to the Bank's online credit card activation system which delayed the detection and mitigation of fraudulent credit card account openings, along with a previously disclosed material weakness associated with ineffective input review controls relating to specific aspects of the Company's ACL model discussed in Part II, Item 9A of the Company's 2023 Annual Report. Accordingly, management determined that these control deficiencies constituted material weaknesses and, as a result, has concluded that as of March 31, 2024, our internal control over financial reporting was not effective based on the criteria in Internal Control Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

While our management is taking steps to remediate the material weaknesses, we cannot provide any assurance that such remedial measures, or any other remedial measures we take, will be effective. In the future, we may identify additional material weaknesses or otherwise fail to maintain an effective system of internal control over financial reporting or adequate disclosure controls and procedures, which may result in material errors in our financial statements or cause us to fail to meet our period reporting obligations. If we fail to remediate these material weaknesses or otherwise fail to establish and maintain effective control over financial reporting, it may adversely affect our ability to accurately and timely report our financial results in the future, may adversely affect investor confidence, our reputation and our ability to raise additional capital, cause the market price of our stock to decline, expose us to sanctions or investigations by the SEC or other regulatory authorities, or impact our results of operations.

Item 2 – Unregistered Sales of Equity Securities and Use of Proceeds and Issuer Purchases of Equity Securities

There were no repurchases or unregistered sales of the Company's common stock, par value \$0.01 per share, ("Common Stock"), during the quarter-to-date period ended September 30, 2023 March 31, 2024.

Item 3 – Defaults Upon Senior Securities

None

Item 4 – Mine Safety Disclosures

Not Applicable applicable

Item 5 – Other Information

Rule 10b5-1 Trading Plans

During the quarter ended September 30, 2023 March 31, 2024, no officer or director of the Company adopted or terminated any contract, instruction, or written plan for the purchase or sale of securities of the Company's common stock that is intended to satisfy the affirmative defense conditions of Securities Exchange Act Rule 10b5-1(c) or any non-Rule 10b5-1 trading arrangement as defined in 17 CFR § 229.408(c).

Item 6 – Exhibits.

Exhibit Number	Description
2.1	Agreement and Plan of Merger, dated as of December 14, 2022, between Shore Bancshares, Inc. and The Community Financial Corporation (incorporated by reference to Exhibit 2.1 of the Company's Form 8-K filed on December 14, 2022)
3.1(i)	Amended and Restated Articles of Incorporation (incorporated by reference to Exhibit 3.1 of the Company's Form 8-K filed on December 14, 2000)
3.1(ii)	Articles of the Amendment of Amended and Restated Articles of Incorporation (incorporated by reference to Exhibit 3.1 of the Company's Form 8-K filed on July 3, 2023)
3.1(iii)	Articles Supplementary relating to the Fixed Rate Cumulative Perpetual Preferred Stock Series A (incorporated by reference to Exhibit 4.1 of the Company's Form 8-K filed on January 13, 2009)
3.1(iv)	Articles Supplementary relating to the reclassification of the Fixed Rate Cumulative Perpetual Preferred Stock Series A, as common stock (incorporated by reference to Exhibit 3.1(i) of the Company's Form 8-K filed on June 17, 2009)
3.2	Second Amended and Restated By-Laws, dated July 1, 2023 (incorporated by reference to Exhibit 3.2 of the Company's Form 8-K filed on July 3, 2023)
4.1	Description of Registrant's Securities (incorporated by reference to Exhibit 4.1 to the Company's Form 10-K filed March 13, 2020, March 15, 2024)
4.2	Form of Common Stock Certificate (incorporated by reference to Exhibit 4.1 of the Company's Form S-3 filed on June 25, 2010)
10.1	Assumption and Amendment of Employment Agreement, effective as of July 1, 2023, by and between Shore Bancshares, Inc. and James M. Burke (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K filed on July 3, 2023)
10.2	Assumption and Amendment of Employment Agreement, effective as of July 1, 2023, by and between Shore Bancshares, Inc. and Todd L. Capitani (incorporated by reference to Exhibit 10.2 of the Company's Form 8-K filed on July 3, 2023)
10.3	Retention Agreement, effective as of July 1, 2023, by and between Shore Bancshares, Inc. and James M. Burke (incorporated by reference to Exhibit 10.3 of the Company's Form 8-K filed on July 3, 2023)
10.4	Retention Agreement, effective as of July 1, 2023, by and between Shore Bancshares, Inc. and Todd L. Capitani (incorporated by reference to Exhibit 10.4 of the Company's Form 8-K filed on July 3, 2023)
10.5	Retention Agreement, effective as of July 1, 2023, by and between Shore Bancshares, Inc. and Donna Stevens (incorporated by reference to Exhibit 10.5 of the Company's Form 8-K filed on July 3, 2023)
31.1	Certifications of the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act (filed herewith)
31.2	Certifications of the Principal Accounting Officer pursuant to Section 302 of the Sarbanes-Oxley Act (filed herewith)
32	Certification pursuant to Section 906 of the Sarbanes-Oxley Act (furnished herewith)
101	Inline Interactive Data File
101.INS	Inline XBRL Instance Document (the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document)
101.SCH	Inline XBRL Taxonomy Extension Schema (filed herewith)
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase (filed herewith)
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase (filed herewith)
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase (filed herewith)
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase (filed herewith)
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SHORE BANCSHARES, INC.

Date: **November 14, 2023** **May 9, 2024**

By: /s/ James M. Burke

James M. Burke
President & Chief Executive Officer
(Principal Executive Officer)

Date: **November 14, 2023** **May 9, 2024**

By: /s/ Todd L. Capitani

Todd L. Capitani
Executive Vice President & Chief Financial Officer
(Principal Financial Officer)

EXHIBIT 31.1

Certifications of the Principal Executive Officer
Pursuant to Securities Exchange Act Rules 13a-1 and 15d-14
As adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, James M. Burke, certify that:

1. I have reviewed this report on Form 10-Q of Shore Bancshares, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: **November 14, 2023** **May 9, 2024**

By: **/s/ James M. Burke**
 James M. Burke
 President & Chief Executive Officer
 (Principal Executive Officer)

EXHIBIT 31.2

Certifications of the Principal Accounting Officer
Pursuant to Securities Exchange Act Rules 13a-1 and 15d-14
As adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Todd L. Capitani, certify that:

1. I have reviewed this report on Form 10-Q of Shore Bancshares, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: **November 14, 2023** **May 9, 2024**

By: /s/ Todd L. Capitani

Todd L. Capitani
Executive Vice President & Chief Financial Officer
(Principal Financial Officer)

EXHIBIT 32

Certification of Periodic Report
Pursuant to 18 U.S.C. Section 1350
As adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Pursuant to, and for purposes only of, 18 U.S.C. § 1350, the undersigned hereby certify that (i) the Quarterly Report of Shore Bancshares, Inc. on Form 10-Q for the Quarter ended **September 30, 2023** **March 31, 2024** filed with the Securities and Exchange Commission (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and (ii) information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Shore Bancshares, Inc.

Date: **November 14, 2023** **May 9, 2024**

/s/ James M. Burke

James M. Burke
President & Chief Executive Officer
(Principal Executive Officer)

Date: **November 14, 2023** **May 9, 2024**

/s/ Todd L. Capitani

Todd L. Capitani
Executive Vice President & Chief Financial Officer
(Principal Financial Officer)

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