REFINITIV

DELTA REPORT

10-K

SHBI - SHORE BANCSHARES INC

10-K - DECEMBER 31, 2023 COMPARED TO 10-K - DECEMBER 31, 2022

The following comparison report has been automatically generated

TOTAL DELTAS	6225
CHANGES	170
DELETIONS	3483
ADDITIONS	2572

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the Year Ended December 31, 2022

December 31, 2023

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

Commission File No. 0-22345

Shore_Bancshares_Logo.jpg

SHORE BANCSHARES, INC.

INC.

(Exact name of registrant as specified in its charter)

Maryland	52-1974638
(State or Other Jurisdiction other jurisdiction of incorporation or organization) Incorporation or Organization)	(I.R.S. Employer Identification No.) Identification No.)
18 E. Dover Street, Easton, Maryland	21601
(Address of Principal Executive Offices)	(Zip Code)

Registrant's Telephone Number, Including Area Code: (410) 763-7800

Securities Registered 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, par value $.01 per share	**SHBI**	**Nasdaq Global Select Market**

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ☐ o Yes þ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 16(d) 15(d) of the Act. ☐ o Yes þ No

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 period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days þ Yes þ o 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 files). þ Yes þ o No☐

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

Large accelerated filer	☐ o	Accelerated filer	☐ ☑
Non-accelerated filer	þ o	Smaller reporting company	þ ☑
		Emerging growth company	☐ o

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. ☐ o

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☐ ☑

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐ o

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐ o

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter: quarter based on the closing price of $11.56 per share: $148.9 million.

$326,483,875.

The number of shares outstanding of the registrant's common stock as of the latest practicable date: 19,898,388 33,210,522as of March 1, 2023 March 12, 2024.

Documents Incorporated by Reference

Certain information required by Part III of this annual report is incorporated therein by reference to the definitive proxy statement for the 2023 2024 Annual Meeting of Stockholders.

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PART II

PART III

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Cautionary note regarding forward-looking statements

This Annual Report on Form 10-K of Shore Bancshares, Inc. and subsidiaries (the “Company” or “Shore” and “we,” “our” or “us” on a consolidated basis) contains forward-looking statements within the meaning of The Private Securities Litigation Reform Act of 1995. These forward looking statements represent plans, estimates, objectives, goals, guidelines, expectations, intentions, projections and statements of our beliefs concerning future events, business plans, expected operating results and the assumptions upon which those statements are based. In some cases, you can identify these forward-looking statements by words like “may,” “will,” “should,” “expect,” “plan,” “anticipate,” “intend,” “believe,” “estimate,” “predict,” “potential,” or “continue” or the negative of those words and other comparable terminology, although not all forward-looking statements contain these words. Forward-looking statements are not a guarantee of future performance or results, and will not necessarily be accurate indications of the times at, or by, which such performance or results will be achieved. We caution that the forward-looking statements are based largely on our expectations and information available at the time the statements are made and are subject to a number of known and unknown risks and uncertainties that are subject to change based on factors, which are in many instances, beyond our control. Actual results, performance or achievements could differ materially from those contemplated, expressed or implied by the forward-looking statements. You should bear this in mind when reading this annual report Annual Report on Form 10-K and not place undue reliance on these forward-looking statements.

The following factors, among others, could cause our financial performance to differ materially from that expressed in such forward-looking statements:

- 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 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 real estate that we own or that is the collateral for our loans;
- our ability to prudently manage our growth and execute our strategy;
- the effect of acquisitions we have made or may make, including, without limitation, the failure to achieve the expected revenue growth and/or expense savings from such acquisitions, and/or the failure to effectively integrate an acquisition target into our operations;
- risks related to the proposed merger with The Community Financial Corporation ("TCFC") including, among others, (i) failure to complete the merger with TCFC or unexpected delays related to the merger or either party's inability to satisfy closing conditions required to complete the merger, (ii) certain restrictions during the pendency of the proposed transactions with TCFC that may impact the parties' ability to pursue certain business opportunities or strategic transactions, (iii) diversion of management's attention from ongoing business operations and opportunities, (iv) cost savings and any revenue synergies from the merger may not be fully realized or may take longer than anticipated to be realized, (v) the integration of each party's management, personnel and operations will not be successfully achieved or may be materially delayed or will be more costly or difficult than expected, (vi) deposits attrition, customer or employee loss and/or revenue loss as a result of the proposed merger, and (vii) expenses related to the proposed merger being greater than expected;
- impairment of our goodwill and intangible assets;
- 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 to write-down assets;
- changing bank regulatory conditions, policies or programs, whether arising as new legislation or regulatory initiatives, that could lead to restrictions on activities of banks generally, or our subsidiary

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- 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 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 real estate that we own or that is the collateral for our loans;
- recent adverse developments in the banking industry highlighted by high-profile bank failures and 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 to write-down assets;
- changing bank regulatory conditions, policies or programs, whether arising as new legislation or regulatory initiatives, which could 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 prohibition of certain income producing activities or changes in the secondary market for loans and other products;
- changes in market rates and 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 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 (the "SEC"), 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

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- 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 Russian and Ukraine and the conflict in the Middle East, which could impact business and economic conditions in the United States and abroad.

bank in particular, more restrictive regulatory capital requirements, increased costs, including deposit insurance premiums, regulation or prohibition of certain income producing activities or changes in the secondary market for loans and other products;

- the effect of any change in federal government enforcement of federal laws affecting the cannabis industry;
- changes in market rates and 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 changes in our assets and liabilities;
- the effect of legislative or regulatory developments, including changes in laws concerning taxes, banking, securities, insurance and other aspects of the financial services industry;
- competitive factors among financial services organizations, including product and pricing pressures and our ability to attract, develop and retain qualified banking professionals;
- the expected discontinuation of the London Interbank Offering Rate ("LIBOR") and uncertainty regarding potential alternative reference rates, including Secured Overnight Financing Rate ("SOFR");
- the growth and profitability of non-interest or fee income being less than expected;
- the effect of changes in accounting policies and practices, as may be adopted by the Financial Accounting Standards Board, the Securities and Exchange Commission (the "SEC"), the Public Company Accounting Oversight Board and other regulatory agencies;
- Cybersecurity threats and the cost of defending against them;
- Climate change, including the enhanced regulatory, compliance, credit and reputational risks and costs;
- the effect of fiscal and governmental policies of the United States federal government; and
- geopolitical conditions, including acts or threats of terrorism, actions taken by the U.S. or other governments in response to acts of terrorism, and/or military conflicts, which could impact business and economic conditions in the U.S. and abroad.

You should also consider carefully the Risk Factors contained in Item 1A of Part I of this annual report, Annual Report on Form 10-K, which address additional factors that could cause our actual results to differ from those set forth in the forward-looking statements and could materially and adversely affect our business, operating results and financial condition. The risks discussed in this annual report Annual Report on Form 10-K are factors that, individually or in the aggregate, management believes could cause our actual results to differ materially from expected and historical results. You should understand that it is not possible to predict or identify all such factors. Consequently, you should not consider such disclosures to be a complete discussion of all potential risks or uncertainties.

The forward-looking statements speak only as of the date on which they are made, and, except to the extent required by federal securities laws, we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events. In addition, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

PART I

Item 1. Business.

BUSINESS

General

The Company was incorporated under the laws of Maryland on March 15, 1996 and is a financial holding company registered under the Bank Holding Company Act of 1956, as amended (the "BHC Act"). The Company is the largest independent financial holding company located on the Eastern Shore of Maryland. The Company conducts business primarily through two wholly owned-owned subsidiaries, Shore United Bank, N.A. (the "Bank") and Mid-Maryland Title Company, Inc. (the "Title Company"). The Bank provides consumer and commercial banking products and services including and secondary mortgage lending, trust, wealth management and financial planning services. The Title Company engages in title work related to real estate transactions. The Company, Bank and Title Company are Affirmative Action/Equal Opportunity Employers.

Pending Merger

On December 14, 2022, the Company and TCFC entered into a definitive agreement pursuant to which TCFC will be merged with and into the Company, with the Company as the surviving corporation (the "Merger"). Promptly following the Merger, TCFC's wholly-owned bank subsidiary, the Community Bank of the Chesapeake, will be merged with and into the Bank, with the Bank as the surviving bank.

Under the terms of the agreement, TCFC shareholders will have the right to receive 2.3287 shares of Shore common stock and cash in lieu of any fractional shares of Shore common stock. Upon closing, shareholders of Shore will own approximately 60% of the combined company and shareholders of TCFC will own approximately 40% of the combined company. The transaction is subject to satisfaction of customary closing conditions, including approval from Shore and TCFC shareholders. Shore and TCFC have received all required regulatory approvals and waivers. The transaction is expected to close late in the second quarter or early in the third quarter of 2023.

As of December 31, 2022, TCFC had more than $2.4 billion in assets and operated ten full-service offices in Maryland and two full-service offices in Virginia.

Banking Products and Services

The Bank is a national banking association chartered under the laws of the United States with trust powers that can trace its origin to 1876. The Bank currently operates 31 42 full-service branches, 33 ATMs, 6 42 automatic teller machines (an "ATM"), 3 interactive teller machines, 5 loan production offices, and provides a full range of commercial and consumer banking products and services to individuals, businesses, and other organizations in Baltimore City, 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 in Accomack County, Fredericksburg City, Stafford County and Spotsylvania County in Virginia. The Bank's deposits are insured up to applicable legal limits by the Federal Deposit Insurance Corporation (the "FDIC").

FDIC.

The Bank is an independent community bank that serves businesses and individuals in their respective market areas. Services offered are essentially the same as those offered by larger regional institutions that compete with the Bank. Services provided to businesses include commercial checking, savings, certificates of deposit and overnight investment sweep accounts. The Bank offers all forms of commercial lending, including secured and unsecured loans, working capital loans, lines of credit, term loans, accounts receivable financing, real estate acquisition and development, construction loans and letters of credit. Merchant credit card clearing Treasury management services are also available, such as, well as direct merchant card processing services, remote deposit of payroll, internet capture, ACH origination, digital banking, and telephone banking services.

Services to individuals include checking accounts, various savings programs, mortgage loans, home improvement loans, installment and other personal loans, credit cards, personal lines of credit, automobile and other consumer financing, safe deposit boxes, debit cards, 24-hour telephone banking, internet banking, mobile banking and 24-hour automatic teller machine services. the Bank, provides full-service investment and insurance solutions through our broker/dealer, LPL Financial. The Bank also offers non-deposit products, wealth management solutions such as mutual funds corporate trustee services and annuities, and discount brokerage services to their customers. trust administration through Wye Trust, a division of the Bank. Additionally, the Bank has Saturday hours and extended hours on certain evenings during the week for added customer convenience.

Cannabis Related

Business

Strategy

The Bank provides Company's business strategy is to establish a leading community banking franchise that delivers exceptional financial services to customers that are licensed by various states the communities we serve. We believe this strategy has been implemented over the past several years through a combination of organic and strategic growth, both within and contiguous to do business our existing footprint.

Consistent with our strategy, on July 1, 2023, the Company completed its acquisition of TCFC and its wholly-owned subsidiary Community Bank of the Chesapeake ("CBTC"). 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. At the time of the acquisition, TCFC added $2.4 billion in assets, $454.5 million in investments, $1.8 billion in loans, $2.1 billion in deposits, $150.6 million in brokered deposits, $69.0 million in Federal Home Loan Bank (the "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 an $8.8 million bargain purchase gain.

On October 31, 2021, the Company completed the acquisition of Severn Bancorp, Inc. ("Severn"), and its wholly-owned subsidiary Severn Savings Bank, FSB, a federally charted savings bank, headquartered in Annapolis, Maryland. The transaction was valued at approximately $169.8 million and expanded the Bank's footprint into the Columbia, Baltimore and Towson MSA, while also filling in the cannabis industry as growers, processors and dispensaries. The Bank maintains stringent written policies and procedures related to Bank's existing market footprint. At the on-boarding of such businesses and to the monitoring and maintenance of such business accounts.

In accordance with Federal regulatory guidance, and industry best practices, the Bank performs a multilayered due diligence review of a cannabis business before the business is on-boarded, including site visits and confirmation that the business is properly licensed by the state in which it is conducting business. Throughout the relationship, the Bank continues to monitor the business, including site visits, to ensure that the cannabis business continues to meet stringent requirements, including maintenance of required licenses. The Bank performs periodic financial reviews time of the business acquisition, Severn added $1.1 billion in assets, $584.8 million in net loans held for investment, $955.3 million in deposits and monitors the business $28.3 million in accordance with the Bank Secrecy Act ("BSA") and Maryland Medical Cannabis Commission requirements.

See Note 23 to the Consolidated Financial Statements for a summary of the level of business activities with the Bank's cannabis customers.

subordinated debt.

Lending Activities

The Bank originates loans of all types, including commercial, commercial mortgage, commercial construction, residential construction, residential mortgage and consumer loans.

- ***Commercial Lending.*** The Bank originates secured and unsecured loans for business purposes. Commercial loans are typically secured by real estate, accounts receivable, inventory, equipment and/or other assets of the business. Commercial loans generally involve a greater degree of credit risk than one to four family residential mortgage loans. Repayment is often dependent upon the successful operation of the business and may be affected by adverse conditions in the local economy or real estate market. The financial condition and cash flow of commercial borrowers is therefore carefully analyzed during the loan approval process, and continues to be monitored by obtaining business financial statements, personal financial statements and income tax returns. The frequency of this ongoing analysis depends upon the size and complexity of the credit and collateral that secures the loan. It is also the Bank's general policy to obtain personal guarantees from the principals of the commercial loan borrowers.

- ***Commercial Real Estate ("CRE") and Other Non-Residential Real Estate Loans.*** The Bank's commercial real estate CRE loans are primarily secured by land for residential and commercial development, agricultural purpose properties, service industry buildings such as restaurants and motels, hotels, retail buildings and general purpose business space. The Bank attempts to mitigate the risks associated with these loans through thorough financial analyses, conservative underwriting procedures, including loan to value ratio standards, obtaining additional collateral closely monitoring construction projects to control disbursement of funds on loans, and management's knowledge of the local economy in which the Bank lends.

- ***Residential Construction Loans.*** The Bank provides residential real estate construction loans to builders and individuals for single family dwellings. Residential construction loans are usually granted based upon "as completed" appraisals and are secured by the property under construction. Additional collateral may be taken if loan to value ratios exceed 80%. Site inspections are performed to determine pre-specified stages of completion before loan proceeds are disbursed. These loans typically have maturities of six to twelve months and may have fixed or variable rate features. Permanent financing options for individuals include fixed and variable rate loans with three- and five-year balloon features and one-, three- and five-year adjustable rate mortgage loans. The risk of loss associated with real estate construction lending is controlled through conservative underwriting procedures such as loan to value ratios of 80% or less at origination, obtaining additional collateral when prudent, and closely monitoring construction projects to control disbursement of funds on loans.

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Residential Mortgage Loans. The Bank originates residential mortgage loans that are to be held in our loan portfolio as well as loans that are intended for sale in the secondary market. Loans sold in the secondary market are primarily sold to investors with which the Bank maintains a correspondent relationship. These loans are made in conformity with standard government-sponsored enterprise ("GSE") underwriting criteria required by the investors to assure maximum eligibility for resale in the secondary market and are approved either by the Bank's underwriter or the correspondent's underwriter. Additionally, loans that are sold into the secondary market are typically residential long-term loans (15 or more years), generally with fixed rates of interest. Loans retained for the Bank's portfolio typically include construction loans and loans that periodically reprice or mature prior to the end of an amortized term. Generally, loans are sold with servicing retained which includes loans sold to the Federal National Mortgage Association ("FNMA") or Federal Home Loan Mortgage Corporation ("FHLMC"). Freddie Mac. Due to increasing interest rates, the market for residential mortgage loans slowed in the second half of 2023. Management recognizes that residential mortgage lending is cyclical, but believes that residential mortgage loans we retain in our portfolio are important to both support our local communities and balance sheet diversification. As of December 31, 2022 December 31, 2023, the Bank was servicing $343.8 million $371.5 million in loans for FNMA Federal National Mortgage Association and $74.1 million $113.2 million in loans for FHLMC.

Freddie Mac.

- ***Consumer Loans.*** A variety of consumer loans are offered to customers, including home equity loans, credit cards, marine loans and other secured and unsecured lines of credit and term loans. Careful analysis of an applicant's creditworthiness is performed before granting credit, and ongoing monitoring of loans outstanding is performed in an effort to minimize risk of loss by identifying problem loans early.

Deposit Activities

The Bank offers a full array of deposit products including checking, savings and money market accounts, and regular and IRA certificates of deposit. The Bank also offers the CDARS its certificate of deposit account registry service ("CDARS") program providing up to $50 million of FDIC insurance to our customers. Another program offered by and the Bank is the ICS program, which is an insured cash sweep ("ICS") program allowing customers the ability to insure deposits over $250 thousand $250,000 among other Banks that participate in the CDARS and ICS network networks while providing competitive rates and easy access to funds. In addition, we offer our commercial customers packages which include cash management services and various checking opportunities and other cash sweep products.

Trust Services

The Bank has a trust department through which it offers trust, asset management and financial planning services to customers within our market areas using the trade name Wye Trust.

Cannabis Related Business

The Bank provides banking services to customers that are licensed by various states to do business in the cannabis industry as growers, processors and dispensaries. The Bank maintains stringent written policies and procedures related to the on-boarding of such businesses and to the monitoring and maintenance of such business accounts.

In accordance with Federal regulatory guidance, and industry best practices, the Bank performs a multilayered due diligence review of a cannabis business before the business is on-boarded, including site visits and confirmation that the business is properly licensed by the state in which it is conducting business. Throughout the relationship, the Bank continues to monitor the business, including site visits, to ensure that the cannabis business continues to meet stringent requirements, including maintenance of required licenses. The Bank performs periodic financial reviews of the business and monitors the business in accordance with the Bank Secrecy Act of 1970 ("BSA") and Maryland Cannabis Administration requirements.

See Note 20 to the Consolidated Financial Partners.

Seasonality

Management does not believe that our Statements for a summary of the level of business activities are with the Bank's cannabis customers.

Seasonality

The Company recognizes that certain customers have a seasonality within their operations which indirectly impact the Bank's liquidity. The Bank has a significant banking activity with state, county and local municipalities within Maryland, Virginia and Delaware who receive their funding from federal and state agencies, as well as, tax generating revenue which is seasonal in nature.

Employees and Human Capital Resources

At March Resourc*1, 2023, we*es

Our Mission and Culture

The Bank is built around the character of our people and our communities. We are dedicated to our clients, our employees, our communities, and our shareholders – our mission is your success. The Bank's corporate culture is defined by core values which include integrity, family, performance, dedication and empowerment. We value our employees by investing in competitive compensation and benefit packages and fostering a team environment centered on professional service and open communication. Attracting, retaining and developing qualified, engaged employees who embody these values are crucial to the success of the Bank and Company. We believe that relations with our employees are good.

Employee Demographics

As of December 31, 2023, the Bank employed 481 persons, 630 individuals, of which 469 610 were employed on a full-time basis. None of our basis (620 full time equivalent employees). The Bank's employees are were not represented by any collective bargaining unit or are a party to a collective bargaining agreement.

The Company has no employees and reimburses the Bank for estimated expenses, including an allocation of salaries and benefits.

Diversity and Inclusion

We believe the relationship with are committed to building a diverse workforce and an inclusive work environment which are supported by our employees to be excellent. Our ability culture and values. We strive to attract and retain employees with diverse characteristics, backgrounds and perspectives, which inspires our team to achieve more creative and innovative solutions for our customers. With a commitment to equality, inclusion and workplace diversity, we focus on understanding, accepting, and valuing the differences between people. Our commitment to equal employment opportunities is a key to our success. We offer a competitive total rewards program to our employees and monitor the competitiveness demonstrated through an affirmative action plan which includes annual compensation analyses, ongoing reviews of our selection and hiring practices and an annual review of our plan to ensure we build and maintain a diverse workforce.

Compensation and Benefits

The Bank's compensation and benefits programs in our various market areas.

The Company prides itself on being package is designed to attract and retain a values-driven organization, supporting diversity, equity and inclusion. Employees are empowered to share ideas that keep the organization connected. Our company core values guide each team member to:

- Integrity – Honesty, Commitment, Ethics
- Family – Teamwork, Open, Engage, Communicate
- Performance – Effort, Knowledge, Quality, Results
- Dedication – Passion, Motivated, Tireless, Perseverance
- Empowerment – Innovative, Initiative, Accountable

We believe that these values enable our success with our customers and have helped us build an inspiring, vibrant and accountability driven culture. talented workforce. In addition we to salaries, benefits include a 401(k) plan with an employer matching contribution, an employee stock purchase plan, medical insurance benefits, paid short-term and long-term disability and life insurance, flexible spending accounts, and tuition assistance.

Employee Health, Safety and Wellness

We are committed to developing supporting the safety, health and wellness of our staff through internal/external training programs, availability employees. We provide paid time off (including parental and adoption leave), an employee assistance program and wellness benefits which include mental health support, coaching and other resources for employees and their immediate family members.

We have adopted a flexible approach to remote work which designates roles as remote, on-site or hybrid (a combination of online training resources, on-site and remote work) based on specific job responsibilities and requirements.

Professional Development

The Bank invests in the growth of its employees by providing access to professional development and continuing education courses and seminars that are relevant to implement the banking industry and their job function within the Company. We offer our employees the opportunity to participate in various professional and leadership development programs to all

programs. On-demand training opportunities include a variety of industry, technical, professional, business development, leadership and regulatory topics.

levels of leadership within the organization. This includes career development as well as identifying future leaders and preparing them for leadership opportunities.

COMPETITION

Shore Bancshares, Inc. and its subsidiaries operate in a highly competitive environment. Our competitors include community banks, commercial banks, credit unions, thrifts, mortgage banking companies, credit card issuers, investment advisory firms, brokerage firms, mutual fund companies, fintechs, title companies and e-commerce and other internet-based companies. We compete on a local and regional basis for banking and investment products and services.

The primary factors when competing in the financial service market include personalized services, the quality and range of products and services, interest rates on loans and deposits, lending services, price, customer convenience, and our ability to attract and retain experienced employees.

To compete in our market areas, we utilize multiple media channels including print, online, social media, television, radio, direct mail, e-mail and digital signage. Our employees also play a significant role in maintaining existing relationships with customers while establishing new relationships to grow all areas of our businesses.

SUPERVISION AND REGULATION

General

The Company is a financial holding company registered with the Board of Governors of the Federal Reserve System (the “FRB”) under the BHC Act and, as such, is subject to the supervision, examination and reporting requirements of the BHC Act and the regulations of the FRB.

Following a charter conversion occurring in 2021, the

The Bank is now a national banking association, chartered by and subject to the supervision of the Office of the Comptroller of the Currency (“OCC” (the “OCC”). The deposits of the Bank are insured by the FDIC, so certain laws and regulations administered by the FDIC also govern its deposit taking deposit-taking operations. In addition to the foregoing, the Bank is subject to numerous state and federal statutes and regulations that affect the business of banking generally.

Nonbank affiliates of the Company are subject to examination by the FRB, and, as affiliates of the Bank, may be subject to examination by the Bank's regulators from time to time.

time-to-time.

To the extent that the following information describes statutory and regulatory provisions, it is qualified in its entirety by reference to the text of applicable statutory and regulatory provisions. Legislative and regulatory initiatives, which necessarily impact the regulation of the financial services industry, are introduced from time-to-time. We cannot predict whether or when potential legislation or new regulations will be enacted, and if enacted, the effect that new legislation or any implemented regulations and supervisory policies would have on our financial condition and results of operations. The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), by way of example, contains a comprehensive set of provisions designed to govern the practices and oversight of financial institutions and other participants in the financial markets. The Dodd-Frank Act made extensive changes in the regulation of financial institutions and their holding companies. Some of the changes brought about by the Dodd-Frank Act have been modified by the Economic Growth, Regulatory Relief, and Consumer Protection Act of 2018 (the "Regulatory Relief Act"), signed into law on May 24, 2018. The Dodd-Frank Act has increased the regulatory burden and compliance costs of the Company. Moreover, bank regulatory agencies can be more aggressive in responding to concerns and trends identified in examinations, which could result in an increased issuance of enforcement actions to financial institutions requiring action to address credit quality, liquidity, and risk management, and capital adequacy, as well as other safety and soundness concerns.

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Regulation of Financial Holding Companies

The Gramm-Leach-Bliley Act (the "GLB Act") amended the BHC Act and repealed the affiliation provisions of the Glass-Steagall Act of 1933, which, taken together, limited the securities, insurance and other non-banking activities of any company that controls an FDIC insured financial institution. Under the GLB Act, a bank holding company can elect, subject to certain qualifications, to become a "financial holding company." The GLB Act provides that a financial holding company may engage in a full range of financial activities, including insurance and securities underwriting and agency activities, merchant banking, and insurance company portfolio investment activities, with new expedited notice procedures. The Company is a financial holding company.

Under FRB policy, the Company is expected to act as a source of strength to the Bank, and the FRB may charge the Company with engaging in unsafe and unsound practices for failure to commit resources to the Bank when required. This support may be required at times when the Company may not have the resources to provide the support. Under the prompt corrective action provisions, if a controlled bank is undercapitalized, then the regulators could require the bank holding company to guarantee the bank's capital restoration plan. In addition, if the FRB believes that a company's activities, assets or affiliates represent a significant risk to the financial safety, soundness or stability of a controlled bank, then the FRB could require the bank holding company to terminate the activities, liquidate the assets or divest the its affiliates. The regulators may require these and other actions in support of controlled banks even if such actions are not in the best interests of the bank holding company or its stockholders. Because the Company is a bank holding company, it is viewed as a source of financial and managerial strength for any controlled depository institutions, like the Bank.

The Dodd-Frank Act, enacted in 2010, made sweeping changes to the financial regulatory landscape that impacts all financial institutions, including the Company and the Bank. The Dodd-Frank Act directs federal bank regulators to require that all companies that directly or indirectly control an insured depository institution serve as sources of financial strength for the institution. The term "source of financial strength" is defined under the Dodd-Frank Act as the ability of a company to provide financial assistance to its insured depository institution subsidiaries in the event of financial distress. The appropriate federal banking agency for such a depository institution may require reports from companies that control the insured depository institution to assess their abilities to serve as sources of strength and to enforce compliance with the source-of-strength requirements. The appropriate federal banking agency may also require a holding company to provide financial assistance to a bank with impaired capital. Under this requirement, the Company could be required to provide financial assistance to the Bank should it experience financial distress.

Federal Regulation of Banks

The OCC may prohibit national banking associations, such as the Bank, from engaging in activities or investments that the OCC believes is are unsafe or unsound banking practices. The OCC has extensive enforcement authority over national banking associations to prohibit or correct activities that violate law, regulation or a regulatory agreement or which are deemed to be unsafe or unsound practices. Enforcement actions may include the appointment of a conservator or receiver, the issuance of a cease and desist order, the termination of deposit insurance, the imposition of civil money penalties on the institution, its directors, officers, employees and institution-affiliated parties, the issuance of directives to increase capital, the issuance of formal and informal agreements, the removal of or restrictions on directors, officers, employees and institution-affiliated parties, and the enforcement of any such mechanisms through restraining orders or other court actions.

The Bank is subject to the provisions of Section 23A and Section 23B of the Federal Reserve Act. Section 23A limits the amount of loans or extensions of credit to, and investments in, the Company and its nonbank affiliates by the Bank. Section 23B requires that transactions between the Bank and the Company and its nonbank affiliates be on terms and under circumstances that are substantially the same as with non-affiliates.

The Bank is also subject to certain restrictions on extensions of credit to executive officers, directors and principal stockholders or any related interest of such persons, which generally require that such credit extensions be made on substantially the same terms as are available to third parties dealing with the Bank and not involve more than the normal risk of repayment. Other laws tie the maximum amount that may be loaned to any one customer and its related interests to capital levels.

As part of the Federal Deposit Insurance Company Improvement Act of 1991, (“FDICIA”), each federal banking regulator adopted non-capital safety and soundness standards for institutions under its authority. These standards include internal controls, information systems and internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, and compensation, fees and benefits. An institution that fails to meet those standards may be required by the agency to develop a plan acceptable to meet the standards. Failure to submit or implement such a plan may subject the institution to regulatory sanctions. The Federal Deposit Insurance Company Improvement Act of 1991 also imposes capital standards on insured depository institutions. The Company, on behalf of the Bank, believes that the Bank meets substantially all standards that have been adopted. FDICIA also imposes capital standards on insured depository institutions.

Deposit Insurance

Our deposits are insured up to applicable limits by the DIF Deposit Insurance Fund (“DIF”) of the FDIC. Deposit insurance is mandatory. We are required to pay assessments to the FDIC on a quarterly basis. The assessment amount is the product of multiplying the assessment base by the assessment amount.

The assessment base against which the assessment rate is applied to determine the total assessment due for a given period is the depository institution’s average total consolidated assets during the assessment period less average tangible equity during that assessment period. Tangible equity is defined in the assessment rule as Tier 1 Capital and is calculated monthly, unless the insured depository institution has less than $1 billion $1 billion in assets, in which case the insured depository institution calculates Tier 1 Capital on an end-of-quarter basis. Parents or holding companies of other insured depository institutions are required to report separately from their subsidiary depository institutions.

The FDIC’s methodology for setting assessments for individual banks has changed over time, although the broad policy is that lower-risk institutions should pay lower assessments than higher-risk institutions. The FDIC now uses a methodology, known as the “financial ratios method,” that began to apply on July 1, 2016, in order to meet requirements of the Dodd-Frank Act. The statute established a minimum designated reserve ratio, (the “DFR”), for the DIF of 1.35% of the estimated insured deposits and required the FDIC to adopt a restoration plan should the reserve ratio fall below 1.35%. The financial ratios took effect when the DRR designated reserve ratio exceeded 1.15%. The FDIC declared that the DIF reserve ratio exceeded 1.15% by the end of the second quarter of 2016. Accordingly, beginning July 1, 2016, the FDIC began to use the financial ratios method. This methodology assigns a specific assessment rate to each institution based on the institution’s leverage capital, supervisory ratings, and information from the institution’s call report. Under this methodology, the assessment rate schedules used to determine assessments due from insured depository institutions become progressively lower when the reserve ratio in the DIF exceeds 2% 2.0% and 2.5%.

On October 18, 2022, the FDIC adopted a final rule that increases increased initial base deposit insurance assessment rates by 2 basis points, beginning which began with the first quarterly assessment period of 2023. Due to Extraordinary growth in insured deposits during the first and second quarters of 2020 caused a decline in the DIF reserve ratio below the statutory minimum of 1.35 percent 1.35% as of June 30, 2020, caused by extraordinary growth in insured deposits during the first and second quarters of 2020, . Due to this decline, the FDIC established a Restoration Plan in September 2020 to restore the DIF reserve ratio to meet or exceed the statutory minimum of 1.35 percent 1.35% within eight years. This 2020 plan Restoration Plan did not include an increase in the deposit insurance assessment rate. On June 21, 2022, however, the FDIC adopted an Amended Restoration Plan and notice of proposed rulemaking to increase the deposit insurance assessment rates as it was otherwise at risk of not reaching the statutory minimum by the statutory deadline of September 30, 2028. The proposed rule was adopted as final without change.

Also, in the final rule adopted on October 18, 2022, the FDIC incorporated Accounting Standards Update (“ASU”) 2022-02, Financial Instruments - Credit Losses (Topic 326) Troubled Debt Restructurings and Vintage Disclosures in the risk-based deposit insurance assessment system applicable to all large and highly complex insured depository institutions. In March 2022, the FASB issued ASU 2022-02, which eliminates accounting guidance for troubled debt restructurings (“TDRs”) and introduces new disclosures and enhances existing disclosures concerning certain loan refinancings and restructurings when a borrower is experiencing financial difficulty. The FDIC final rule amends the assessment regulations to include a new term, “modifications to borrowers experiencing financial difficulty,” in two financial measures—the underperforming assets ratio and the higher-risk assets ratio—used to determine deposit insurance assessments for large and highly complex insured depository institutions.

The Dodd-Frank Act also raised the limit for federal deposit insurance to $250,000 for most deposit accounts and increased the cash limit of Securities Investor Protection Corporation protection from $100,000 to $250,000.

The FDIC has authority to increase insurance assessments. A significant increase in insurance assessments would likely have an adverse effect on our operating expenses and results of operations. We cannot predict what insurance assessment rates will be in the future. Furthermore, deposit insurance may be terminated by the FDIC upon a finding that an insured depository institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC.

The Bank is required to monitor large deposit relationships and concentration risks in accordance with FDIC policy. 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. The FDIC defines a large depositor as a customer or entity that owns or controls 2% or more of the Bank’s total deposits.

Capital Adequacy Guidelines

Bank holding companies and banks are subject to various regulatory capital requirements administered by state and federal agencies. These agencies may establish higher minimum requirements if, for example, a banking organization previously has received special attention or has a high susceptibility to interest rate risk. Risk-based capital requirements determine the adequacy of capital based on the risk inherent in various classes of assets and off-balance sheet items. Under the Dodd-Frank Act, the FRB must apply consolidated capital requirements to depository institution holding companies that are no less stringent than those currently applied to depository institutions. The Dodd-Frank Act additionally requires capital requirements to be countercyclical counter cyclical so that the required amount of capital increases in times of economic expansion and decreases in times of economic contraction, consistent with safety and soundness.

Under federal regulations, bank holding companies and banks must meet certain risk-based capital requirements. Effective as of January 1, 2015, the Basel III final capital framework (“Basel III”), among other things, (i) introduced as a new capital measure “Common Equity Tier 1” (“CET1”), (ii) specifies that Tier 1 capital consists of CET1 and “Additional Tier 1 capital” instruments meeting specified requirements, (iii) defines CET1 narrowly by requiring that most adjustments to regulatory capital measures be made to CET1 and not to the other components of capital, and (iv) expands the scope of the adjustments as compared to existing regulations. Beginning January 1, 2016, financial institutions were required to maintain a minimum "capital conservation buffer" to avoid restrictions on capital distributions such as dividends and equity repurchases and other payments such as discretionary bonuses to executive officers. The minimum capital conservation buffer was phased-in over a four year -year transition period with minimum buffers of 0.625%, 1.25%, 1.875%, and 2.50% during 2016, 2017, 2018, and 2019, respectively.

As fully phased-in on January 1, 2019, Basel III subjects banks to the following risk-based capital requirements:

- a minimum ratio of CET1 to risk-weighted assets of at least 4.5%, plus a 2.5% capital conservation buffer, or 7%;

- a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, plus the capital conservation buffer, or 8.5%;

- a minimum ratio of Total (Tier 1 plus Tier 2) capital to risk-weighted assets of at least 8.0%, plus the capital conservation buffer, or 10.5%; and

- a minimum leverage ratio of 4%, calculated as the ratio of Tier 1 capital to balance sheet exposures plus certain off-balance sheet exposures.

- a minimum ratio of CET1 to risk-weighted assets of at least 4.5%, plus a 2.5% capital conservation buffer, or 7.0%;
- a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, plus the capital conservation buffer, or 8.5%;
- a minimum ratio of Total (Tier 1 plus Tier 2) capital to risk-weighted assets of at least 8.0%, plus the capital conservation buffer, or 10.5%; and
- a minimum leverage ratio of 4.0%, calculated as the ratio of Tier 1 capital to balance sheet exposures plus certain off-balance sheet exposures.

The Basel III final framework provides for a number of deductions from and adjustments to CET1. These include, for example, the requirement that mortgage servicing rights, deferred tax assets dependent upon future taxable income and significant investments in non-consolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10% 10.0% of CET1 or all such categories in the aggregate exceed 15% 15.0% of CET1. Basel III also includes, as part of the definition of CET1 capital, a requirement that banking institutions include the amount of Accumulated Other Comprehensive Income ("AOCI"), which (which primarily consists of unrealized gains and non-credit related unrealized losses on available-for-sale securities, which are not required to be treated as other-than-temporary impairment, net of tax) in calculating regulatory capital. Banking institutions had the option to opt out of including AOCI in CET1 capital if they elected to do so in their first

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regulatory report following January 1, 2015. As permitted by Basel III, the Company and the Bank have elected to exclude AOCI from CET1.

In addition, goodwill and most intangible assets are deducted from Tier 1 capital. For purposes of applicable total risk-based capital regulatory guidelines, Tier 2 capital (sometimes referred to as "supplementary capital") is defined to include, subject to limitations: perpetual preferred stock not included in Tier 1 capital, intermediate-term preferred stock and any related surplus, certain hybrid capital instruments, perpetual debt and mandatory convertible debt securities, allowances for loan and lease losses and intermediate-term subordinated debt instruments. The maximum amount of qualifying Tier 2 capital is 100% of qualifying Tier 1 capital. For purposes of determining total capital under federal guidelines, total capital equals Tier 1 capital, plus qualifying Tier 2 capital, minus investments in unconsolidated subsidiaries, reciprocal holdings of bank holding company capital securities and deferred tax assets and other deductions.

Basel III changed the manner of calculating risk-weighted assets. New methodologies for determining risk-weighted assets in the general capital rules are included, including revisions to recognition of credit risk mitigation, including a greater recognition of financial collateral and a wider range of eligible guarantors. They also include risk weighting of equity exposures and past due loans; loans, and higher (greater than 100%) risk weighting for certain commercial real estate CRE exposures that have higher credit risk profiles, including higher loan to value and equity components. In particular, loans categorized as "high-volatility commercial real estate" CRE" loans, ("HVCRE loans"), as defined pursuant to applicable federal regulations, are required to be assigned a 150% risk weighting, and require additional capital support.

In addition to the uniform risk-based capital guidelines and regulatory capital ratios that apply across the industry, the regulators have the discretion to set individual minimum capital requirements for specific institutions at rates significantly above the minimum guidelines and ratios. Future changes in regulations or practices could further reduce the amount of capital recognized for purposes of capital adequacy. Such a change could affect our ability to grow and could restrict the amount of profits, if any, available for the payment of dividends.

In addition, the Dodd-Frank Act requires the federal banking agencies to adopt capital requirements that address the risks that the activities of an institution poses to the institution and the public and private stakeholders, including risks arising from certain enumerated activities.

Basel III is currently applicable to the Bank and the Company. Overall, the Company believes that implementation of the Basel III Rule rule has not had and will not have a material adverse effect on the Company's or the Bank's capital ratios, earnings, stockholders' equity, or its ability to pay dividends, effect stock repurchases or pay discretionary bonuses to executive officers.

In December 2017, the Basel Committee published standards that it described as the finalization of the Basel III post-crisis regulatory reforms (the standards are commonly referred to as "Basel IV"). Among other things, these standards revise the Basel Committee's standardized approach for credit risk (including recalibrating risk weights and introducing new capital requirements for certain "unconditionally cancellable commitments," such as unused credit card lines of credit) and provides a new standardized approach for operational risk capital. Under the Basel framework, these standards were generally effective on January 1, 2022, with an aggregate output floor phasing in through January 1, 2027. Under the current U.S. capital rules, operational risk capital requirements and a capital floor apply only to advanced approaches institutions, and not to the Company or the Bank. The impact of Basel IV on us will depend on the manner in which it is implemented by the federal bank regulators.

In 2018, the federal bank regulatory agencies issued a variety of proposals and made statements concerning regulatory capital standards. These proposals touched on such areas as commercial real estate CRE exposure, credit loss allowances under generally accepted accounting principles and capital requirements for covered swap entities, among others. Public statements by key agency officials have also suggested a revisiting of capital policy and supervisory approaches on a going-forward basis. In July 2019, the federal bank regulators adopted a final rule that simplifies the capital treatment for certain deferred tax assets, mortgage servicing assets, investments in non-consolidated financial entities and minority interests for banking organizations, such as the Company and the Bank, that which are not subject to the advanced approaches requirements. We will be assessing the impact on us of these new regulations and supervisory approaches as they are proposed and implemented.

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In February 2019, the U.S. federal bank regulatory agencies approved a final rule modifying their regulatory capital rules and providing an option to phase-in over a three-year period the Day 1 adverse regulatory capital effects of CECL accounting standard. As a result, entities may gradually phase in the full effect of CECL on regulatory capital over a three-year transition period. The requirement to implement the CECL model was effective January 1, 2023.

Prompt Corrective Action

The federal banking regulators are required to take "prompt corrective action" with respect to capital-deficient institutions. Federal banking regulations define, for each capital category, the levels at which institutions are "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized," undercapitalized" and "critically undercapitalized." Under applicable regulations, as of December 31, 2023, the Bank was "well capitalized," which means it had a common equity Tier 1 CET1 capital ratio of 6.5% or higher; a Tier I risk-based capital ratio of 8.0% or higher; a total risk-based capital ratio of 10.0% or higher; a leverage ratio of 5.0% or higher; and was not subject to any written agreement, order or directive requiring it to maintain a specific capital level for any capital measure.

As noted above, Basel III integrates the capital requirements into the prompt corrective action category definitions set forth below.

Capital Category	Total Risk-Based Capital Ratio	Tier 1 Risk-	Common Equity	Leverage Ratio	Tangible Equity	Supplemental Leverage
Well Capitalized	10% 10.0% or greater	8% 8.0% or greater	6.5% or greater	5% 5.0% or greater	n/a n/a	n/a
Adequately Capitalized	8% 8.0% or greater	6% 6.0% or greater	4.5% or greater	4% 4.0% or greater	n/a n/a	3% 3.0% or greater
Undercapitalized	Less than 8% 8.0%	Less than 6% 6.0%	Less than 4.5%	Less than 4% 4.0%	n/a n/a	Less than 3% 3.0%
Significantly Undercapitalized	Less than 6% 6.0%	Less than 4% 4.0%	Less than 3% 3.0%	Less than 3% 3.0%	n/a n/a	n/a
Critically Undercapitalized	n/a	n/a	n/a	n/a n/a	n/a Less than 2% 2.0%	n/a

As of December 31, 2022 December 31, 2023, the Bank and the Company exceeded all regulatory capital requirements and exceeded the minimum CET 1, Tier 1 and total capital ratio inclusive of the fully phased-in capital conservation buffer of 7.0%, 8.5%, and 10.5%, respectively.

An institution may be downgraded to, or deemed to be in, a capital category that is lower than indicated by its capital ratios if it is determined to be in an unsafe or unsound condition or if it receives an unsatisfactory examination rating with respect to certain matters. An institution's capital category is determined solely for the purpose of applying prompt corrective action regulations, and the capital category may not constitute an accurate representation of the institution's overall financial condition or prospects for other purposes.

In the event an institution becomes "undercapitalized," it must submit a capital restoration plan. The capital restoration plan will not be accepted by the regulators unless each company having control of the undercapitalized institution guarantees the subsidiary's compliance with the capital restoration plan up to a certain specified amount. Any such guarantee from a depository institution's holding company is entitled to a priority of payment in bankruptcy. The aggregate liability of the holding company of an undercapitalized bank is limited to the lesser of 5% of the institution's assets at the time it became undercapitalized or the amount necessary to cause the institution to be "adequately capitalized." The bank regulators have greater power in situations where an institution becomes "significantly" or "critically" undercapitalized or fails to submit a capital restoration plan. In addition to requiring undercapitalized institutions to submit a capital restoration plan, bank regulations contain broad restrictions on certain activities of undercapitalized institutions including asset growth, acquisitions, branch establishment and expansion into new lines of business. With certain exceptions, an insured depository institution is prohibited from making capital distributions, including dividends, and is prohibited from paying management fees to control persons if the institution would be undercapitalized after any such distribution or payment.

As an institution's capital decreases, the regulators' enforcement powers become more severe. A significantly undercapitalized institution is subject to mandated capital raising activities, restrictions on interest rates paid and transactions with affiliates, removal of management, and other restrictions. A regulator has limited discretion in dealing with a critically undercapitalized institution and is virtually required to appoint a receiver or conservator.

Banks with risk-based capital and leverage ratios below the required minimums may also be subject to certain administrative actions, including the termination of deposit insurance upon notice and hearing, or a temporary suspension of insurance without a hearing in the event the institution has no tangible capital.

Safety and Soundness Standards

The federal banking agencies have adopted guidelines designed to assist the federal banking such agencies in identifying and addressing potential safety and soundness concerns before capital becomes impaired. The guidelines set forth operational and managerial standards relating to: (i) internal controls, information systems and internal audit systems; (ii) loan documentation; (iii) credit underwriting; (iv) asset growth; (v) earnings; and (vi) compensation, fees and benefits.

In addition, the federal banking agencies have also adopted safety and soundness guidelines with respect to asset quality and for evaluating and monitoring earnings to ensure that earnings are sufficient for the maintenance of adequate capital and reserves. These guidelines provide six standards for establishing and maintaining a system to identify problem assets and prevent those assets from deteriorating. Under these standards, an insured depository institution should: (i) conduct periodic asset quality reviews to identify problem assets; (ii) estimate the inherent losses in problem assets and establish reserves that are sufficient to absorb estimated losses; (iii) compare problem asset totals to capital; (iv) take appropriate corrective action to resolve problem assets; (v) consider the size and potential risks of material asset concentrations; and (vi) provide periodic asset quality reports with adequate information for management and the board of directors to assess the level of asset risk.

Acquisitions

On January 29, 2024, the OCC issued a notice of proposed rulemaking and Policy Statement on Bank Mergers, wherein the OCC requested comment on a proposal to update its rules for business combinations involving national banks and federal savings associations. The

proposal also includes a policy statement to clarify the OCC's review of applications under the Bank Merger Act (the "BMA"). The proposed rulemaking is part of the OCC's effort to enhance transparency around its process of reviewing transactions under the BMA. It would also serve to provide additional guidance to stakeholders around the OCC's review of applications. The proposed policy statement specifically would discuss: (1) general principles for the OCC's review of applications under the BMA, including indicators for applications likely consistent with approval and applications that raise supervisory or regulatory concerns; (2) the OCC's consideration of the financial stability; managerial and financial

resources and future prospects; and convenience and needs statutory factors under the BMA; and (3) the OCC's decision process for extending the public comment period or holding a public meeting.

Community Reinvestment Act

The Community Reinvestment Act ("CRA" (the "CRA") requires the federal banking regulatory agencies to assess all financial institutions that they regulate to determine whether these institutions are meeting the credit needs of the communities they serve, including their assessment area(s) (as established for these purposes in accordance with applicable regulations based principally on the location of branch offices). In addition to substantial penalties and corrective measures that may be required for a violation of certain fair lending laws, the federal banking agencies may take compliance with such laws and the CRA into account when regulating and supervising other activities. Under the CRA, institutions are assigned a rating of "outstanding," "satisfactory," "needs to improve," or "unsatisfactory." An institution's record in meeting the requirements of the CRA is based on a performance-based evaluation system, and is made publicly available and is taken into consideration in evaluating any applications it files with federal regulators to engage in certain activities, including approval of a branch or other deposit facility, mergers and acquisitions, office relocations, or expansions into nonbanking activities. Our Bank received a "satisfactory" rating in its most recent CRA evaluation.

In April 2018, October 2023, the U.S. Department of Treasury OCC, together with the FRB and FDIC, issued a memorandum to the federal banking regulators recommending changes to the CRA's regulations to reduce their complexity and associated burden on banks, and in December 2019, the FDIC and the Office of the Comptroller of the Currency (the "OCC") proposed for public comment rules joint final rule to modernize the agencies' regulations CRA regulatory framework. The final rule is intended, among other things, to adapt to changes in the banking industry, including the expanded role of mobile and online banking, and to tailor performance standards to account for differences in bank size and business models. The final rule introduces new tests under which the CRA. performance of banks with over $2 billion in assets will be assessed. The OCC adopted its new rule also includes data collection and reporting requirements, some of which are applicable only to banks with over $10 billion in assets. Most provisions of the final rules in May 2020, rule will become effective on January 1, 2026, and then the data reporting requirements will become effective on December 14, 2021, the OCC rescinded the 2020 rules and replaced them with rules based on the rules adopted jointly by the federal bank regulatory agencies in 1995. We will continue to evaluate the impact of any changes to the CRA regulations.

January 1, 2027.

Anti-Terrorism, Money Laundering Legislation and OFAC

The Bank is subject to the BSA and the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "USA PATRIOT Act"). 2001. These statutes and related rules and regulations impose requirements and limitations on specified financial transactions and accounts and other relationships intended to guard against money laundering and terrorism financing. The principal requirements for an insured depository institution include (i) establishment of an anti-money laundering program that includes training and audit components,

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(ii) establishment of a "know your customer" program involving due diligence to confirm the identities of persons seeking to open accounts and to deny accounts to those persons unable to demonstrate their identities, (iii) the filing of currency transaction reports for deposits and withdrawals of large amounts of cash and suspicious activities reports for activity that might signify money laundering, tax evasion, or other criminal activities, (iv) additional precautions for accounts sought and managed for non-U.S. persons and (v) verification and certification of money laundering risk with respect to private banking and foreign correspondent banking relationships. For many of these tasks a bank must keep records to be made available to its primary federal regulator. Anti-money laundering rules and policies are developed by a bureau within the U.S. Department of the Treasury's Financial Crimes Enforcement Network ("FinCEN"), but compliance by individual institutions is overseen by its primary federal regulator.

The Bank has established appropriate anti-money laundering and customer identification programs. The Bank also maintains records of cash purchases of negotiable instruments, files reports of certain cash transactions exceeding $10,000 (daily aggregate amount), and reports suspicious activity that might signify money laundering, tax evasion, or other criminal activities pursuant to the BSA. The Bank otherwise has implemented policies and procedures to comply with the foregoing requirements.

The U.SU.S. Department of Treasury's Office of Foreign Assets Control ("OFAC"), administers and enforces economic and trade sanctions against targeted foreign countries and persons, as defined by various Executive Orders and Acts of Congress. OFAC publishes lists of persons that are the target of sanctions, including the List of Specially Designated Nationals and Blocked Persons. Financial institutions are responsible for, among other things, blocking accounts of and transactions with sanctioned persons and countries, prohibiting unlicensed trade and financial transactions with them and reporting blocked and rejected transactions after their occurrence. If the Company or the Bank finds a name or other information on any transaction, account or wire transfer that is on an OFAC list or that otherwise indicates that the transaction involves a target of sanctions, the Company or the Bank generally must freeze or block such account or transaction, file a suspicious activity report, and notify the appropriate authorities. Banking regulators examine banks for compliance with the economic sanctions regulations administered by OFAC.

The Bank has implemented policies and procedures to comply with the foregoing requirements.

Data Privacy and Cybersecurity

The federal bank regulatory agencies have adopted guidelines for safeguarding confidential, personal, non-public customer information. These guidelines require each financial institution, under the supervision and ongoing oversight of its board of directors or an appropriate committee thereof, to create, implement, and maintain a comprehensive written information security program designed to ensure the security and confidentiality of customer information, protect against any anticipated threats or hazard to the security or integrity of such information, and protect against unauthorized access to or use of such information that could result in substantial harm or inconvenience to any customer. We have adopted a customer information security program to comply with these requirements.

The GLB Act requires financial institutions to implement policies and procedures regarding the disclosure of non-public personal information about consumers to non-affiliated third parties. The GLB Act requires disclosures to consumers on policies and procedures regarding the disclosure of such non-public personal information and, except as otherwise required by law, prohibit disclosing such information except as provided in the Bank's policies and procedures. We have implemented privacy policies addressing these restrictions that are distributed regularly to all existing and new customers of the Bank.

In March 2015, federal regulators issued two related statements regarding cybersecurity. One statement indicates that financial institutions should design multiple layers of security controls to establish lines of defense and to ensure that their risk management processes also address the risk posed by compromised customer credentials, including security measures to reliably authenticate customers accessing Internet-based services of the financial institution. The other statement indicates that a financial institution's management is expected to maintain sufficient business continuity planning processes to ensure the rapid recovery, resumption and maintenance of the institution's operations after a cyber-attack involving destructive malware. A financial institution is also expected to develop appropriate processes to enable recovery of data and business operations and address rebuilding network capabilities and restoring data if the institution or its critical

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service providers fall victim to this type of cyber-attack. If we fail to observe the regulatory guidance, we could be subject to various regulatory sanctions, including financial penalties.

In November 2021, the federal bank regulatory agencies issued a joint rule establishing computer-security incident notification requirements for banking organizations and their service providers. This rule requires new notification requirements where notifications when a banking organization experiences a computer-security incident.

State regulators have been increasingly active in implementing privacy and cybersecurity standards and regulations. Recently, several states have adopted regulations requiring certain financial institutions to implement cybersecurity programs and providing detailed requirements with respect to these programs, including data encryption requirements.

Many states have also recently implemented or modified their data breach notification and data privacy requirements. In June 2018, the California legislature passed the California Consumer Privacy Act of 2018, (the "California Privacy Act"), which took effect on January 1, 2020. The California Consumer Privacy Act of 2018, which covers businesses that obtain or access personal information on California resident consumers, grants consumers enhanced privacy rights and control over their personal information and imposes significant requirements on covered companies with respect to consumer data privacy rights. We expect this trend of state-level activity to continue, and are continually monitoring developments in the states in which we operate.

In July 2023, the SEC adopted rules requiring registrants to disclose material cybersecurity incidents experienced and describe the material aspects of their nature, scope and timing. The rules, which supersede their previously interpreted guidance published in February 2018, also require annual disclosures describing a company's cybersecurity risk management, strategy and governance. These SEC rules, and any other regulatory guidance, are in addition to notification and disclosure requirements under state and federal banking law and regulations. See Item 1A. Risk Factors for a further discussion of risks related to cybersecurity and Item 1C. Cybersecurity for a further discussion of the Company's risk management strategies and governance processes related to cybersecurity.

The Consumer Financial Protection Bureau

The Dodd-Frank Act created the Consumer Financial Protection Bureau ("CFPB"), which is an independent bureau with broad authority to regulate the consumer finance industry, including regulated financial institutions, nonbanks and others involved in extending credit to consumers. The CFPB has authority through rulemaking, orders, policy statements, guidance, and enforcement actions to administer and enforce federal consumer financial laws, to oversee several entities and market segments not previously under the supervision of a federal regulator, and to impose its own regulations and pursue enforcement actions when it determines that a practice is unfair, deceptive, or abusive. The federal consumer financial laws and all the functions and responsibilities associated with them, many of which were previously enforced by other federal regulatory agencies, were transferred to the CFPB on July 21, 2011. While the CFPB has the power to interpret, administer, and enforce federal consumer financial laws, the Dodd-Frank Act provides that the federal banking regulatory agencies continue to have examination and enforcement powers over the financial institutions that they supervise relating to the matters within the jurisdiction of the CFPB if such institutions have less than

$10 billion $10 billion in assets. The Dodd-Frank Act also gives state attorneys general the ability to enforce federal consumer protection laws.

Mortgage Loan Origination

The Dodd-Frank Act authorizes the CFPB to establish certain minimum standards for the origination of residential mortgages, including a determination of the borrower's ability to repay. Under the Dodd-Frank Act and the implementing final rule adopted by the CFPB (the ATR/ "ATR/QM Rule) Rule"), a financial institution may not make a residential mortgage loan to a consumer unless it first makes a "reasonable and good faith determination" that the consumer has a "reasonable ability" to repay the loan. In addition, the ATR/QM Rule limits prepayment penalties and permits borrowers to raise certain defenses to foreclosure if the financial institution has not complied with these requirements. The ATR/QM Rule defines a "qualified mortgage" to include a loan with a borrower debt-to-income (DTI) ratio of less than or equal to 43% or, alternatively, a loan eligible for purchase by Fannie Mae or Freddie Mac while they operate under federal conservatorship or receivership (the Fannie/ "Fannie/Freddie QM Alternative) Alternative"), and loans that comply with similar ATR/QM rules established by the Federal Housing Administration, Veterans Administration, or United States U.S. Department of Agriculture. Additionally, a qualified mortgage may not: (i) contain excess upfront points and fees; (ii) have a term greater than 30 years; or (iii) include interest only or negative amortization payments. The ATR/QM Rule specifies the types of income and assets that may be considered in the ability-to-repay determination, the permissible sources for verification, and the required methods of calculating the loan's monthly payments. The ATR/QM Rule became effective in January 2014.

The CFPB amended the ATR/QM rule in December of 2020. One of the amendments modifies the requirements for a loan to qualify as a QM qualified mortgage as well as certain other provisions in the ATR/QM Rule, and eliminates the Fannie/Freddie QM Alternative. This amendment essentially replaces the 43% DTI debt-to-income limit with an APR-based annual percentage rate-based limitation, which for most loans

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requires that the loan's loan's annual percentage rate (APR) not exceed the average prime offer rate for a comparable transaction by 2.25 percentage points or more as of the date the interest rate is set.

A second amendment creates a new class of QMs, qualified mortgages, called Seasoned QMs, "seasoned qualified mortgages,", which are essentially first-lien loans that could not be classified as QMs qualified mortgages when originated for reason only that they had DTI debt-to-income ratios above 43%, but which have been held by the original creditor (or the first purchaser) for at least 36 months, during which time the borrower had no more than two 30-day delinquencies and no delinquencies of 60 days or more.

Both of these amendments were originally slated to become effective on March 1, 2021, but the amendment eliminating the Fannie/Freddie QM Alternative was given a mandatory compliance date of July 1, 2021 (the same date that the Fannie/Freddie QM Alternative was set to expire). However, the mandatory compliance date for the elimination of the Fannie/Freddie QM Alternative was subsequently extended until October of 2022. Despite this extension, Fannie and Freddie stopped buying loans, with application dates on or after July 1, 2021, that only qualified as QMs qualified mortgages based on the Fannie/Freddie QM alternative.

Alternative.

The risks to lenders resulting from these amendments is as yet uncertain.

The Economic Growth, Regulatory Relief and Consumer Protection Act enacted in 2018 (the "Regulatory Relief Act") provides that for certain insured depository institutions and insured credit unions with less than $10 billion $10 billion in total consolidated assets, mortgage loans that are originated and retained in portfolio will automatically be deemed to satisfy the "ability to repay" requirement. To qualify for this, the insured depository institutions and credit unions must meet conditions relating to prepayment penalties, points and fees, negative amortization, interest-only features and documentation.

The Regulatory Relief Act also directs Federal federal banking agencies to issue regulations exempting certain insured depository institutions and insured credit unions with assets of $10 billion $10 billion or less from the requirement to establish escrow accounts for certain residential mortgage loans.

It also exempts insured depository institutions and insured credit unions that originated fewer than 500 closed-end mortgage loans or 500 open-end lines of credit in each of the two preceding years from a subset of disclosure requirements (recently imposed by the CFPB) under the Home Mortgage Disclosure Act, ("HMDA"), provided they have received certain minimum CRA ratings in their most recent examinations.

The Regulatory Relief Act also directs the Comptroller of the Currency OCC to conduct a study assessing the effect of the exemption described above on the amount of HMDA Home Mortgage Disclosure Act data available at the national and local level.

In addition, Section 941 of the Dodd-Frank Act amended the Securities Exchange Act of 1934, as amended (the "Exchange Act") to require sponsors of asset-backed securities ("ABS") to retain at least 5% of the credit risk of the assets underlying the securities and generally prohibits sponsors from transferring or hedging that credit risk. In October 2014, the federal banking regulatory agencies adopted a final rule to implement this requirement (the "Risk Retention Rule"). Among other things, the Risk Retention Rule requires a securitizer to retain not less than 5% of the credit risk of any asset that the securitizer, through the issuance of an ABS, asset-backed security, transfers, sells, or conveys to a third party; and prohibits a securitizer from directly or indirectly hedging or otherwise transferring the credit risk that the securitizer is required to retain. In certain situations, the final rule allows securitizers to allocate a portion of the risk retention requirement to the originator(s) of the securitized assets, if an originator contributes at least 20% of the assets in the securitization. The Risk Retention Rule also provides an exemption to the risk retention requirements for an ABS asset-backed security collateralized exclusively by Qualified Residential Mortgages, ("QRMs"), and ties the definition of a QRM Qualified Residential Mortgage to the definition of a "qualified mortgage" established by the CFPB for purposes of evaluating a consumer's ability to repay a mortgage loan. The federal banking agencies have agreed to review the definition of QRMs Qualified Residential Mortgages in 2019, following the CFPB's own review of its "qualified mortgage" regulation. For

purposes of residential mortgage securitizations, the Risk Retention Rule took effect on December 24, 2015. For all other securitizations, the rule took effect on December 24, 2016.

Other Provisions of the Dodd-Frank Act

The Dodd-Frank Act implements far-reaching changes across the financial regulatory landscape. In addition to the reforms previously mentioned, the Dodd-Frank Act also:

- requires BHCs and banks to be both well capitalized and well managed in order to acquire banks located outside their home state and requires any BHC electing to be treated as a financial holding company to be both well managed and well capitalized;

- eliminates all remaining restrictions on interstate banking by authorizing national and state banks to establish de novo branches in any state that would permit a bank chartered in that state to open a branch at that location; and

- repeals Regulation Q, the federal prohibition on the payment of interest on demand deposits, thereby permitting depository institutions to pay interest on business transaction and other accounts.

- requires bank holding companies and banks to be both well capitalized and well managed in order to acquire banks located outside their home state and requires any bank holding company electing to be treated as a financial holding company to be both well managed and well capitalized;

- eliminates all remaining restrictions on interstate banking by authorizing national and state banks to establish de novo branches in any state that would permit a bank chartered in that state to open a branch at that location; and
- repeals Regulation Q, the federal prohibition on the payment of interest on demand deposits, thereby permitting depository institutions to pay interest on business transaction and other accounts.

Although a significant number of the rules and regulations mandated by the Dodd-Frank Act have been finalized, many of the requirements called for have yet to be implemented and will likely be subject to implementing regulations over the course of several years. Given the uncertainty associated with the manner in which the provisions of the Dodd-Frank Act will be implemented by the various agencies, the full extent of the impact such requirements will have on financial institutions' operations is unclear.

Climate-Related and Other Environmental, Social and Governance Developments

In recent years, federal, state and international lawmakers and regulators have increased their focus on financial institutions' and other companies' risk oversight, disclosures and practices in connection with climate change and other environmental, social and governance matters. For example, in March 2022, the SEC issued a proposed rule on the enhancement and standardization of climate-related disclosures for investors. The proposed rule would require public issuers, including us, to significantly expand the scope of climate-related disclosures in their SEC filings. The SEC has also announced plans to propose rules to require enhanced disclosure regarding human capital management and board diversity for public issuers.

Other Laws and Regulations

Our operations are subject to several additional laws, some of which are specific to banking and others of which are applicable to commercial operations generally. For example, with respect to our lending practices, we are subject to the following laws and regulations, among several others:

- Truth-In-Lending Act, governing disclosures of credit terms to consumer borrowers;

- HMDA, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;

- Equal Credit Opportunity Act, prohibiting discrimination on the basis of race, creed, or other prohibited factors in extending credit;

- Fair Credit Reporting Act of 1978, as amended by the Fair and Accurate Credit Transactions Act, governing the use and provision of information to credit reporting agencies, certain identity theft protections, and certain credit and other disclosures;
- Fair Debt Collection Practices Act, governing how consumer debts may be collected by collection agencies;
- Real Estate Settlement Procedures Act, requiring certain disclosures concerning loan closing costs and escrows, and governing transfers of loan servicing and the amounts of escrows for loans secured by one-to-four family residential properties;
- Rules and regulations established by the National Flood Insurance Program;
- Rules and regulations of the various federal agencies charged with the responsibility of implementing these federal laws.
- Our deposit operations are subject to federal laws applicable to depository accounts, including:

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- Truth-In-Lending Act, governing disclosures of credit terms to consumer borrowers;
  - Home Mortgage Disclosure Act, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;

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- Equal Credit Opportunity Act, prohibiting discrimination on the basis of race, creed, or other prohibited factors in extending credit;

- Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records;
- Truth-In-Savings Act, requiring certain disclosures for consumer deposit accounts;
- Electronic Funds Transfer Act and Regulation E of the FRB, which govern automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of automated teller machines and other electronic banking services; and
- Rules and regulations of the various federal agencies charged with the responsibility of implementing these federal laws.
- Fair Credit Reporting Act of 1978, as amended by the Fair and Accurate Credit Transactions Act, governing the use and provision of information to credit reporting agencies, certain identity theft protections, and certain credit and other disclosures;
- Fair Debt Collection Practices Act, governing how consumer debts may be collected by collection agencies;
- Real Estate Settlement Procedures Act, requiring certain disclosures concerning loan closing costs and escrows, and governing transfers of loan servicing and the amounts of escrows for loans secured by one-to-four family residential properties;
- Rules and regulations established by the National Flood Insurance Program;
- Rules and regulations of the various federal agencies charged with the responsibility of implementing these federal laws;

- Our deposit operations are subject to federal laws applicable to depository accounts, including:
  - Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records;
  - Truth-In-Savings Act, requiring certain disclosures for consumer deposit accounts;
  - Electronic Funds Transfer Act and Regulation E of the FRB, which govern automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of automated teller machines and other electronic banking services; and
  - Rules and regulations of the various federal agencies charged with the responsibility of implementing these federal laws.

We are also subject to a variety of laws and regulations that are not limited to banking organizations. For example, in lending to commercial and consumer borrowers, and in owning and operating our own property, we are subject to regulations and potential liabilities under state and federal environmental laws. In addition, we must comply with privacy and data security laws and regulations at both the federal and state level.

The banking industry is heavily regulated by regulatory agencies at the federal and state levels. Like most of our competitors, we have faced and expect to continue to face increased regulation and regulatory and political scrutiny, which creates significant uncertainty for us, as well as for the financial services industry in general.

Enforcement Powers

The federal regulatory agencies have substantial penalties available to use against enforce relative to depository institutions and certain "institution-affiliated parties." Institution-affiliated parties primarily include management, employees, and agents of a financial institution, as well as independent contractors and consultants, such as attorneys, accountants and others who participate in the conduct of the financial institution's affairs. An institution can be subject to an enforcement action due to the failure to timely file required reports, the filing of false or misleading information, or the submission of inaccurate reports or engaging in other unsafe or unsound banking practices.

The Financial Institution Reform Recovery and Enforcement Act provided regulators with greater flexibility to commence enforcement actions against institutions and institution-affiliated parties and to terminate an institution's deposit insurance. It also expanded the power of banking regulatory agencies to issue regulatory orders. Such orders may, among other things, require affirmative action to correct any harm resulting from a violation or practice, including restitution, reimbursement, indemnification or guarantees against loss. A financial institution may also be ordered to restrict its growth, dispose of certain assets, rescind agreements or contracts, or take other actions as determined by the ordering agency to be appropriate. The Dodd-Frank Act increases regulatory oversight, supervision and examination of banks, BHCs, bank holding companies and their respective subsidiaries by the appropriate regulatory agency.

Federal Securities Laws

The shares of the Company's common stock are registered with the SEC under Section 12(b) of the Act and listed on the NASDAQ Global Select Market. The Company is subject to information reporting requirements, proxy solicitation requirements, insider trading restrictions and other requirements of the Exchange Act, including the requirements imposed under the Sarbanes-Oxley Act of 2002 and the rules of The NASDAQ Stock Market, LLC. Among other things, loans to and other transactions with insiders are subject to restrictions and heightened disclosure, directors and certain committees of the Board must satisfy certain independence requirements, and the Company is generally required to comply with certain corporate governance requirements.

Governmental Monetary and Credit Policies and Economic Controls

The earnings and growth of the banking industry and ultimately of the Company are affected by the monetary and credit policies of governmental authorities, including the FRB. An important function of the FRB is to regulate the national

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supply of bank credit in order to control recessionary and inflationary pressures. Among the instruments of monetary policy used by the FRB to implement these objectives are open market operations in U.S. Government securities, changes in the federal funds rate, changes in the discount rate of member bank borrowings and changes in reserve requirements against member bank deposits. These means are used in varying combinations to influence overall growth of bank loans, investments and deposits and may also affect interest rates charged on loans or paid for deposits. The FRB's monetary policies of the FRB authorities have had a significant effect on the operating results of commercial banks in the past and are expected to continue to have such an effect in the future. In view of changing conditions in the national economy and in the money markets, as well as the effect of actions by monetary and fiscal authorities, including the FRB, no prediction can be made as to possible future changes in interest rates, deposit levels, loan demand or their effect on the business and earnings of the Company and its subsidiaries.

AVAILABLE INFORMATION

The Company maintains an Internet site at www.shorebancshares.com on which it makes available, free of charge, its Annual Report Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and all amendments to the foregoing as soon as reasonably practicable after these reports are electronically filed with, or furnished to, the SEC. In addition, stockholders may access these reports and documents on the SEC's website at www.sec.gov . www.sec.gov. The information on, or accessible through, our website or any other website cited in this Annual Report on Form 10-K is not part of, or incorporated by reference into, this Annual Report on Form 10-K and should not be relied upon in determining whether to make an investment decision.

Item 1A. RISK FACTORS.

FACTORS

An investment in our common stock involves significant risks. You should consider carefully the risk factors included below together with all of the information included in or incorporated by reference into this annual report, Annual Report on Form 10-K, as the same may be updated from time to time time-to-time by our future filings with the SEC under the Exchange Act, before making a decision to invest in our common stock. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also have a material adverse effect on our business, financial condition and results of operations. If any of the matters included in the following information about risk factors were to occur, our business, financial condition, results of operations, cash flows or prospects could be materially and adversely affected. In such case, you may lose all or a substantial part of your investment. To the extent that any of the information contained in this document constitutes forward-looking statements, the risk factors below should be reviewed as cautionary statements identifying important factors that could cause actual results to differ materially from those expressed in any forward-looking statements made by us or on our behalf. See "Cautionary note regarding forward-looking statements."

Risks Relating to Our Business

Our business is adversely affected by unfavorable economic, market, and political conditions.

In the event of an economic recession, our operating results could be adversely affected because we could experience higher loan and lease charge-offs and higher operating costs. Global economic conditions also affect our operating results because global economic conditions directly influence the U.S. economic conditions. Sources of global economic and market instability include, but are not limited to, the potential economic slowdown in United Kingdom, Europe and the United States, the impact of trade negotiations, economic conditions in China, including the global economic impacts of the Chinese economy, China's regulation of commerce, escalating military tensions the war between Russia and Ukraine, the war in Europe as a result of Russia's invasion of Ukraine, the Middle East and the effects of the recent pandemic or other health crises. Various market conditions also affect our operating results. Certain changes in interest rates, inflation, or the financial markets could affect demand for our products. Real estate market conditions directly affect performance of our loans secured by real estate. Debt markets affect the availability of credit which impacts the rates and terms at which we offer loans and leases. Stock market downturns often signal broader economic deterioration and/or a downward trend in business earnings which may adversely affect businesses' ability to raise capital and/or service their debts. Political and electoral changes, developments, conflicts, and conditions have in the past introduced, and may in the future introduce, additional uncertainty which may also affect our operating results.

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Our performance could be negatively affected to the extent there is deterioration in business and economic conditions, including persistent inflation, supply chain issues or labor shortages, which have direct or indirect material adverse impacts on us, our customers, and our counterparties. These conditions could result in one or more of the following:

- a decrease in the demand for our loans and leases and other products and services offered by us;

- a decrease in our deposit balances due to overall reductions in the accounts of customers;
- a decrease in the value of collateral securing our loans and leases;
- an increase in the level of nonperforming and classified loans and leases;
- an increase in provisions for credit losses and loan and lease charge-offs;
- a decrease in net interest income derived from our lending and deposit gathering activities;
- a decrease in the Company's Company’s stock price;
- a decrease in our ability to access the capital markets; or
- an increase in our operating expenses associated with attending to the effects of certain circumstances listed above.

Continued inflation poses risk to the economy overall, and could indirectly pose challenges to our clients and to our business. Elevated inflation can impact our business customers through the loss of purchasing power for their customers, leading to lower sales. Rising inflation can also increase input and inventory costs for our customers, forcing them to raise their prices or lower their profitability. Supply chain disruption, also leading to inflation, can delay our customers’ shipping ability, or timing on receiving inputs for their production or inventory. Inflation can lead to higher wages for our business customers, increasing costs. All of these inflationary risks for our business customer base can be financially detrimental, leading to increased likelihood that the customer may default on a loan. In addition, sustained inflationary pressures have resulted in the FRB increasing interest rates by 475 525 basis points since January 1, 2022 with current federal funds rate range of between 4.75% 5.25% to 5.00% 5.50%. To the extent such conditions exist or worsen, we could experience adverse effects on our business, financial condition, and results of operations.

Interest rates and other economic conditions will impact our results of operations.

Our results of operations may be materially and adversely affected by changes in prevailing economic conditions, including declines in real estate values, rapid changes in interest rates and the monetary and fiscal policies of the federal government. Our results of operations are significantly impacted by the spread between the interest rates earned on assets and the interest rates paid on deposits and other interest-bearing liabilities, including advances from the FHLB of Atlanta. Interest rate risk arises from mismatches (i.e., the interest sensitivity gap) between the dollar amount of repricing or maturing of assets and liabilities. If more assets reprice or mature than liabilities during a falling interest rate environment, then our earnings could be negatively impacted. Conversely, if more liabilities reprice or mature than assets during a rising interest rate environment, then our earnings could be negatively impacted.

Changes in market interest rates are affected by many factors beyond our control, including inflation, unemployment, money supply, international events and events in world financial markets. In response to inflationary pressures, the FRB has increased interest rates by 525 basis points since January 1, 2022 with a current federal funds rate range of between 5.25% to 5.50%. Although the FRB left its benchmark rates steady in September and November of 2023 and January of 2024, the FRB suggested that additional rate increases in the future may be necessary to mitigate inflationary pressures. Increases in interest rates could adversely affect borrowers' ability to pay the principal or interest on existing loans or reduce their desire to borrow more money. This may lead to an increase in our nonperforming assets, a decrease in loan originations, or a reduction in the value of and income from our loans, any of which could have a material and negative effect on our results of operations.

Adverse developments affecting financial institutions or the financial services industry generally, such as actual events or concerns involving liquidity, defaults or non-performance, could adversely affect our operations and lidquidity.

liquidity.

Actual events involving limited liquidity, defaults, non-performance or other adverse developments that affect financial institutions for the financial services industry generally, or concerns or rumors about any events of these kinds, including the resulting media coverage, have in the past and may in the future lead to market-wide liquidity problems. problems and erode customer confidence in the banking system. For example, on March 10, 2023, Silicon Valley Bank ("SVB") was closed by the California Department of Financial Protection and Innovation, which appointed the FDIC as receiver. Similarly, on March 12, 2023, Signature Bank was placed into receivership. Despite subsequent actions taken closed by the U.S. New York State Department of Financial Services and on May 1, 2023, First Republic Bank was closed by the California Department of Financial Protection and Innovation, and in each case the FDIC was appointed as receiver for the failed institution. These banks had elevated levels of uninsured deposits, which may be less likely to remain at the bank over time and less stable as a source of funding than insured deposits. These failures led to volatility and declines in the market for bank stocks and questions about depositor confidence in depository institutions.

These events have led to a greater focus by institutions, investors and regulators on the on-balance sheet liquidity of and funding sources for financial institutions, the composition of their deposits, including the amount of uninsured deposits, the amount of accumulated other comprehensive loss, capital levels and interest rate risk management.

In connection with high-profile bank failures, uncertainty and concern has been, and may in the future be further, compounded by advances in technology that increase the speed at which deposits can be moved, as well as the speed and reach of media attention, including social media, and its ability to disseminate concerns or rumors, in each case potentially exacerbating liquidity concerns. While the Department of the Treasury, the U.S. Federal Reserve FRB, and the FDIC to ensure have made statements ensuring that all depositors of SVB had recently failed banks would have access to all their deposits, including uninsured deposit accounts, there is no guarantee that such actions will be successful in restoring customer confidence in regional banks and the bank system more broadly. In addition, the banking operating environment and public trading prices of banking institutions can be highly correlated, in particular during times of stress, which could materially and adversely impact the trading prices of our common stock and potentially our results of operations.

Additionally, negative news about us or the banking industry in general could negatively impact market and/or customer perceptions of our company, which could lead to a loss of depositor confidence and an increase in deposit withdrawals, particularly among those with uninsured deposits. Furthermore, the failure of other financial institutions may cause deposit outflows as customers spread deposits among several different banks so as to maximize their cash amount of FDIC insurance, move deposits following to banks deemed "too big to fail" or remove deposits from the closure of SVB, uncertainty remains with respect to the health of the U.S. banking system particularly around entirely. As of December 31, 2023, approximately $1.0 billion of our deposits were uninsured and we rely on these deposits for liquidity. A failure to maintain adequate liquidity uninsured deposits could have a material adverse effect on our business, financial condition and deposit concentration.

results of operations.

Inflation and rapid increases in interest rates have led to a decline in the fair value of securities portfolios with yields below current market interest rates. The U.S. Federal Reserve Board FRB announced a program to provide up to $25 billion of loans to financial institutions secured by such government securities held by financial institutions to mitigate the risk of potential losses on the sale of such instruments. However, widespread demands for customer withdrawals or other needs of financial institutions for immediate liquidity may exceed the capacity of such program. There is no guarantee that the U.S. Department of Treasury, the U.S. Federal Reserve FRB and the FDIC will provide access to uninsured funds in the future in the event of the closure of other banks or financial institutions in a timely fashion or at all.

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If such levels of market disruption and volatility continue, there can be no assurance that we will not experience adverse effects, which may materially affect the market price of our common stock and/or our liquidity, financial condition and profitability.

A majority of our business is concentrated in Maryland, Delaware and Delaware, Virginia, a significant amount of which is concentrated in real estate lending, so a decline in the local economy and real estate markets could adversely impact our financial condition and results of operations.

Because most of our loans are made to customers who reside in Maryland, Delaware and Delaware, Virginia, a decline in local economic conditions may have a greater effect on our earnings and capital than on the earnings and capital of larger financial institutions whose loan portfolios are geographically diverse. Further, a significant portion of our loan portfolio is secured by real estate, including construction and land development loans, all of which are in greater demand when interest rates are low and economic conditions are good. Accordingly, a decline in local economic conditions would likely have an adverse impact on our financial condition and results of operations, and the impact on us would likely be greater than the impact felt by larger financial institutions whose loan portfolios are geographically diverse. We cannot guarantee that any risk management practices that we implement to address our geographic and loan concentrations will be effective in preventing losses relating to our loan portfolio.

Our concentrations of commercial real estate CRE loans could subject us to increased regulatory scrutiny and directives, which could force us to preserve or raise capital and/or limit our future commercial lending activities.

The FRB and the FDIC, along with the other federal banking regulators, issued guidance in December 2006 entitled "Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices" directed at institutions that have particularly high concentrations of commercial real estate CRE loans within their lending portfolios. This guidance suggests that these institutions face a heightened risk of financial difficulties in the event of adverse changes in the economy and commercial real estate CRE markets. Accordingly, the guidance suggests that institutions whose concentrations exceed certain percentages of capital should implement heightened risk management practices appropriate to their concentration risk. Federal bank regulatory guidelines identify institutions potentially exposed to commercial real estate CRE concentration risk as those that have (i) experienced rapid growth in commercial real estate CRE lending, (ii) notable exposure to a specific type of commercial real estate, CRE, (iii) total reported loans for construction, land development and other land loans representing 100% or more of the institution's capital or (iv) total commercial real estate CRE loans representing 300% or more of the institution's capital if the outstanding balance of the institution's commercial real estate CRE loan portfolio has increased 50% or more during the prior 36 months. The guidance provides that banking regulators may require such institutions to reduce their concentrations and/or maintain higher capital ratios than institutions with lower concentrations in commercial real estate. CRE. Due to our emphasis on commercial real estate CRE and construction lending, as of December 31, 2022 December 31, 2023, non-owner-occupied commercial real estate CRE loans (including construction, land and land development loans) represented 290.4% 382.57% of total risk-based capital. the Bank's Tier 1 Capital + the allowance for credit losses ("ACL"). Construction, land and land development loans represent 69.8% 56.68% of total risk-based capital. The commercial real estate the Bank's Tier 1 Capital + ACL. Due primarily from the Company's merger with TCFC on July 1, 2023, the CRE portfolio has increased 117.7% 362.14% during the prior 36 months. We may be subject to heightened supervisory scrutiny during future examinations and/or 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, and may adversely affect shareholder returns. Management cannot predict the extent to which this guidance will impact our operations or capital requirements. Further, we cannot guarantee that any risk management practices we implement will be effective in preventing losses resulting from concentrations in our commercial real estate CRE portfolio.

Interest rates and other economic conditions will impact our results of operations.

Our results of operations may be materially and adversely affected by changes in prevailing economic conditions, including declines in real estate values, rapid changes in interest rates and the monetary and fiscal policies of the federal government. Our results of operations are significantly impacted by the spread between the interest rates earned on assets and the interest rates paid on deposits and other interest-bearing liabilities (i.e., net interest income), including advances from the Federal Home Loan Bank (the "FHLB") of Atlanta. Interest rate risk arises from mismatches (i.e., the interest sensitivity gap) between the dollar amount of repricing or maturing assets and liabilities. If more assets reprice or mature than liabilities during a falling interest rate environment, then our earnings could be negatively impacted. Conversely, if more liabilities reprice or mature than assets during a rising interest rate environment, then our earnings could be negatively impacted.

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Changes in market interest rates are affected by many factors beyond our control, including inflation, unemployment, money supply, international events, and events in world financial markets. In response to inflationary pressures, the FRB has increased interest rates by 475 basis points since January 1, 2022 with a current federal funds rate range of between 4.75% to 5.00%. Increases in interest rates could adversely affect borrowers' ability to pay the principal or interest on existing loans or reduce their desire to borrow more money. This may lead to an increase in our nonperforming assets, a decrease in loan originations, or a reduction in the value of and income from our loans, any of which could have a material and negative effect on our results of operations.

The Bank may experience credit losses in excess of its allowances, which would adversely impact our financial condition and results of operations.

The risk of credit losses on loans varies with, among other things, general economic conditions, the type of loan being made, the creditworthiness of the borrower over the term of the loan and, in the case of a collateralized loan, the value and marketability of the collateral for the loan. Management at the Bank bases the allowance for credit losses upon, among other things, historical experience, an evaluation of economic conditions and regular reviews of delinquencies and loan portfolio quality. If management's assumptions and judgments prove to be incorrect and the allowance for credit losses is inadequate to absorb future losses, or if the bank regulatory authorities, as a part of their examination process, require the Bank to increase its allowance for credit losses, our earnings and capital could be significantly and adversely affected. We estimate losses inherent in our loan portfolio, the adequacy of our allowance for credit losses and the values of certain assets by using estimates based on difficult, subjective, and complex judgments, including estimates as to the effects of economic conditions and how those economic conditions might affect the ability of our borrowers to repay their loans or the value of assets. Material additions to the allowance for credit losses at the Bank would result in a decrease in the Bank's net income and capital and could have a material adverse effect on our financial condition.

Our investment securities portfolio is subject to credit risk, market risk and liquidity risk.

As of December 31, 2022 December 31, 2023, we had classified 12.9% 17.7% of our debt securities as available-for-sale pursuant to the Accounting Standards Codification ("ASC") Topic 320 ("ASC 320") of the Financial Accounting Standards Board ("FASB") FASB relating to accounting for investments. ASC 320 requires that unrealized gains and losses in the estimated value of the available-for-sale portfolio be "marked to market" and reflected as a separate item in stockholders' equity (net of tax) as accumulated other comprehensive income AOCI (loss). The remaining debt securities are classified as held-to-maturity in accordance with ASC 320 and are stated at amortized cost. Equity securities with readily determinable fair values are recorded at fair value with changes in fair value recorded in earnings. Stockholders' equity will continue to reflect the unrealized gains and losses (net of tax) of these investments. At December 31, 2022 December 31, 2023, the Company's accumulated other comprehensive loss amounted to $9.0 million $7.5 million. There can be no assurance that the market value of our investment portfolio will not continue to decline, causing a corresponding decline in stockholders' equity.

The Bank is a member of the FHLB of Atlanta and our investments include stock issued by the FHLB of Atlanta. These investments could be subject to future impairment charges and there can be no guaranty of future dividends.

Management believes that several factors will affect the market values of our investment portfolio. These risk factors include, but are not limited to, changes in interest rates, rating agency downgrades of the securities, defaults of the issuers of the securities, lack of market pricing of the securities, and instability in the credit markets. Lack At times,a lack of market activity with respect to some securities has, in certain circumstances, required us to base our fair market valuation on unobservable inputs. inputs ("Level 3" in fair value hierarchy). At December 31, 2023, the Bank had no Level 3 securities. Any changes in these risk factors, in current accounting principles or interpretations of these principles could impact our assessment of fair value and thus the determination of other-than-temporary impairment credit losses of the securities in the investment securities portfolio. Write-downs of investment securities would negatively affect our earnings and regulatory capital ratios.

Impairment of investment securities, goodwill, other intangible assets, or deferred tax assets could require charges to earnings, which could result in a negative impact on our results of operations.

We are required to record establish a non-cash charge to earnings reserve in the allowance for credit loss (ACL) when management determines that an investment security is other-than-temporarily impaired. impaired due to a credit loss. 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, is recorded in the ACL. 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 of debt securities AFS not resulting from credit losses are recorded in other comprehensive income (loss). In assessing whether the impairment of an investment security is other-than-temporary,

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a credit loss or other market factors, management considers the length of time and extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, and the intent and ability to retain our investment in the security for a period of time sufficient to allow for any anticipated recovery in fair value in the near term.

Under current accounting standards, goodwill is not amortized but, instead, is subject to impairment tests on at least an annual basis or more frequently if an event occurs or circumstances change that reduce the fair value of a reporting unit below its carrying amount. Intangible assets other than goodwill are also subject to impairment tests at least annually. A decline in the price of the Company's common stock or occurrence of a triggering event following any of our quarterly earnings releases and prior to the filing of the periodic report for that period could, under certain circumstances, cause us to perform goodwill and other intangible assets impairment tests and result in an impairment charge being recorded for that period which was not reflected in such earnings release. In the event that we conclude that all or a portion of our goodwill or other intangible assets may be impaired, a non-cash charge for the amount of such impairment would be recorded to earnings. At December 31, 2022 December 31, 2023, we had recorded goodwill of $63.3 million and other intangible assets of $5.5 million $48.1 million, representing approximately 17.4% 12.4% and 1.5% 9.4% of stockholders' equity, respectively.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. Assessing the need for, or the sufficiency of, a valuation allowance requires management to evaluate all available evidence, both negative and positive, including the recent trend of quarterly earnings. Positive evidence necessary to overcome the negative evidence includes whether future taxable income in sufficient amounts and character within the carryback and carryforward periods is available under the tax law, including the use of tax planning strategies. When negative evidence (e.g., cumulative losses in recent years, history of operating loss or tax credit carry forwards expiring unused) exists, more positive evidence than negative evidence will be necessary. At December 31, 2022 December 31, 2023, our gross deferred tax assets were approximately $15.1 million $67.8 million. There was a valuation allowance of deferred taxes of $791 thousand $1.0 million recorded at December 31, 2022 December 31, 2023 as management believes it is more likely than not that net operating losses for the parent holding company only will not be realized for state income tax purposes. The holding company files a separate return with the state of Maryland and does not expect that the holding company will generate sufficient taxable income to utilize its deferred tax assets. No valuation allowance is currently recorded for state deferred income taxes of the Company's subsidiaries or at the Federal level where the Company files consolidated tax return.

Changes in accounting standards or interpretation of new or existing standards may affect how we report our financial condition and results of operations.

From time to time the FASB and the SEC change accounting regulations and reporting standards that govern the preparation of the Company's financial statements. In addition, the FASB, SEC, bank regulators and the outside independent auditors may revise their previous interpretations regarding existing accounting regulations and the application of these accounting standards. These changes can be hard to predict and can materially impact how to record and report our financial condition and results of operations. In some cases, there could be a requirement to apply a new or revised accounting standard retroactively, resulting in the restatement of prior period financial statements.

Our future success will depend on our ability to compete effectively in the highly competitive financial services industry.

We face substantial competition in all phases of our operations from a variety of different competitors. We compete with commercial banks, credit unions, savings and loan associations, mortgage banking firms, consumer finance companies, securities brokerage firms, money market funds and other mutual funds, as well as other local and community, super-regional, national and international financial institutions that operate offices in our primary market areas and elsewhere. Our future growth and success will depend on our ability to compete effectively in this highly competitive financial services environment. Failure to compete effectively to attract new or to retain existing, clients may reduce or limit our net income and our market share and may adversely affect our results of operations, financial condition and growth.

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Our funding sources may prove insufficient to replace deposits and support our future growth.

We rely on customer deposits, advances from the FHLB, and lines of credit at other financial institutions to fund our operations. Although we have historically been able to replace maturing deposits and advances if desired, no assurance can be given that we would be able to replace such funds in the future if our financial condition or the financial condition of the FHLB or market conditions were to change. Our financial flexibility will be severely constrained and/or our cost of funds will increase if we are unable to maintain our access to funding or if financing necessary to accommodate future growth is not available at favorable interest rates. Finally, if we are required to place greater reliance on more expensive funding sources to support future growth, our revenues may not increase proportionately to cover our costs. In this case, our profitability would be adversely affected.

The cost savings that we estimate for mergers and acquisitions may not be realized.

The success of our mergers and acquisitions may depend, in part, on the ability to realize the estimated cost savings from combining the acquired businesses with our existing operations. It is possible that the potential cost savings could turn out to be more difficult to achieve than anticipated. The cost savings estimates also depend on the ability to combine the businesses in a manner that permits those cost savings to be realized. If the estimates turn out to be incorrect or there is an inability to combine successfully, the anticipated cost savings may not be realized fully or at all or may take longer to realize than expected.

Combining acquired businesses may be more difficult, costly, or time-consuming than expected, or could result in the loss of customers.

It is possible that the process of merger integration of acquired companies could result in the loss of key employees, the disruption of ongoing business or inconsistencies in standards, controls, procedures and policies that adversely affect the ability to maintain relationships with clients and employees or to achieve the anticipated benefits of the merger or acquisition. There also may be disruptions that cause the Bank to lose customers or cause customers to withdraw their deposits. Customers may not readily accept changes to their banking arrangements or other customer relationships after the merger or acquisition.

The loss of key personnel could disrupt our operations and result in reduced earnings.

Our growth and profitability will depend upon our ability to attract and retain skilled managerial, marketing and technical personnel. Competition for qualified personnel in the financial services industry is intense, and there can be no assurance that we will be successful in attracting and retaining such personnel.

Our lending activities subject us to the risk of environmental liabilities.

A significant portion of our loan portfolio is secured by real property. During the ordinary course of business, we may foreclose on and take title to properties securing certain loans. In doing so, there is a risk that hazardous or toxic substances could be found on these properties. If hazardous or toxic substances are found, we may be liable for remediation costs, as well as for personal injury and property damage.

Environmental laws may require us to incur substantial expenses and may materially reduce the affected property’s value or limit our ability to use or sell the affected property. In addition, future laws or more stringent interpretations of enforcement policies with respect to existing laws may increase our exposure to environmental liability. Although we have policies and procedures to perform an environmental review before initiating any foreclosure action on real property, these reviews may not be sufficient to detect all potential environmental hazards. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on our financial condition and results of operations.

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Income from mortgage-banking operations is volatile and we may incur losses with respect to our mortgage-banking operations that could negatively affect our earnings.

One component of our strategy is to sell on the secondary market the longer term, conforming fixed-rate residential mortgage loans that we originate, earning noninterest income in the form of gains on the sale of the loans. When interest rates rise, as they have since the first quarter of 2022, the demand for mortgage loans tends to fall and may reduce the number of loans we can originate for sale. Weak or deteriorating economic conditions also tend to reduce loan demand. Although we sell, and intend to continue selling, most loans in the secondary market with limited or no recourse, we are required, and will continue to be required, to give customary representations and warranties to the buyers relating to compliance with applicable law. If we breach those representations and warranties, the buyers will be able to require us to repurchase the loans and we may incur a loss on the repurchase. We have not been required to repurchase any loans as of December 31, 2022 December 31, 2023.

We provide banking services to customers who do business in the cannabis industry and the strict enforcement of federal laws regarding cannabis would likely result in our inability to continue to provide banking services to these customers and we could have legal action taken against us by the federal government.

We have deposit and loan customers that are licensed by in several states within the state of Maryland United States to do business in the cannabis industry as growers, processors, and dispensaries. While cannabis is legal in the state these states of Maryland, operation, it remains classified as a Schedule I controlled substance under the Federal Controlled Substances Act (“CSA”). Act. As such, the cultivation, use, distribution, and possession of cannabis is a violation of federal law that is punishable by imprisonment and fines. Moreover, the U.S. Supreme Court ruled in *USA v. Oakland Cannabis Buyers' Coop.* that the federal government has the authority to regulate and criminalize cannabis, including medical marijuana.

In January 2018, the U.S. Department of Justice (“DOJ”) rescinded the “Cole Memo” and related memoranda which characterized the enforcement of the CSA Controlled Substances Act against persons and entities complying with state regulatory systems permitting the use, manufacture and sale of medical marijuana as an inefficient use of their prosecutorial resources and discretion. The impact of the DOJ's rescission of the Cole Memo and related memoranda is unclear, but may result in the DOJ increasing its enforcement actions against the regulated cannabis industry generally.

However, as of the date of this filing we are not aware of any insured depository institution that has been prosecuted by the DOJ based on providing otherwise lawful banking products and services to the cannabis industry.

As in past years, the U.S. Congress has enacted an omnibus spending bill that includes a provision prohibiting the DOJ and the U.S. Drug Enforcement Administration from using funds appropriated by that bill to prevent states from implementing their medical-use cannabis laws. This provision was recently renewed as part of the annual federal Consolidated Appropriations Act of 2022. Act. While this provision has been re-enacted every year since 2014, and is expected to continue to be re-enacted in future federal spending bills, if Congress and the President fail to further renew the provision, then the ability of medical cannabis businesses to act in this area, and the Bank's ability to provide banking products and services to such businesses, may be impeded. Further, the U.S. Court of Appeals for the Ninth Circuit held in *USA v. McIntosh* that this provision prohibits the DOJ from spending funds from relevant appropriations acts to prosecute individuals who engage in conduct permitted by state medical-use cannabis laws and who strictly comply with such laws. There is no guarantee that the U.S. Congress will extend this provision or that U.S. Federal courts located outside the Ninth Circuit will follow the ruling in *USA v. McIntosh*. McIntosh. As of the date of filing this Annual Report on Form 10-K, we are aware of no federal or state court in or for Maryland the states in which our customers operate that has addressed the merits of the *McIntosh* ruling.

Federal prosecutors have significant discretion and there can be no assurance that the federal prosecutor for the District of Maryland any state in which our customers operate will not choose to strictly enforce the federal laws governing cannabis, including adult-use and medical-use cannabis, or that the federal courts in Maryland these states will follow the Ninth Circuit's ruling in *USA v. McIntosh*. McIntosh. Any change in the federal government's enforcement position could cause us to immediately cease providing banking services to the medical-use medical and adult-use cannabis industry in Maryland.

states within the United States.

Additionally, as the possession and use of cannabis remains illegal under the CSA, Controlled Substances Act, we may be deemed to be aiding and abetting illegal activities through the services that we provide to these customers and could have legal action taken against us by the Federal government, including imprisonment and fines. Any change in the federal government's position on adult-use cannabis enforcement, or potential action taken against us a change in federal appropriations law, could result in significant financial damage to us and our stockholders.

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The FinCEN published guidelines in 2014 for financial institutions servicing state legal cannabis business. These guidelines were issued for the explicit purpose so "that financial institutions can provide services to marijuana-related businesses in a manner consistent with their obligations to know their customers and to report possible criminal activity." The Bank has and will continue to follow this and other FinCEN guidance in the areas of cannabis banking. Any adverse change in this FinCEN guidance, any new regulations or legislation, any change in existing regulations or oversight, whether a change in regulatory policy or a change in a regulator's interpretation of a law or regulation, could have a negative impact on our interest income and noninterest income, as well as the cost of our operations, increasing our cost of regulatory compliance and of doing business, and/or otherwise affect us, which may materially affect our profitability.

We may be subject to other adverse claims.

We may from time to time be subject to claims from customers for losses due to alleged breaches of fiduciary duties, errors and omissions of employees, officers and agents, incomplete documentation, the failure to comply with applicable laws and regulations, or many other reasons. Also, our employees may knowingly or unknowingly violate laws and regulations. Management may not be aware of any violations until after their occurrence. This lack of knowledge may not insulate us or our subsidiary from liability. Claims and legal actions may result in legal expenses and liabilities that may reduce our profitability and hurt our financial condition.

We depend on the accuracy and completeness of information about customers and counterparties and our financial condition could be adversely affected if we rely on misleading information.

In deciding whether to extend credit or to enter into other transactions with customers and counterparties, we may rely on information furnished to us by or on behalf of customers and counterparties, including financial statements and other financial information, which we do not independently verify. We also may rely on representations of customers and counterparties as to the accuracy and completeness of that information and, with respect to financial statements, on reports of independent auditors. For example, in deciding whether to extend credit to customers, we may assume that a customer's audited financial statements conform with U.S. GAAP and present fairly, in all material respects, the financial condition, results of operations and cash flows of the customer. Our financial condition and results of operations could be negatively impacted to the extent we rely on financial statements that do not comply with GAAP or are materially misleading.

Our exposure to operational, technological and organizational risk may adversely affect us.

We are exposed to many types of operational risks, including reputation, legal and compliance risk, the risk of fraud or theft by employees or outsiders, unauthorized transactions by employees or operational errors, clerical or record-keeping errors, and errors resulting from faulty or disabled computer or telecommunications systems.

Certain errors may be repeated or compounded before they are discovered and successfully rectified. Our necessary dependence upon automated systems to record and process transactions may further increase the risk that technical system flaws or employee tampering or manipulation of those systems will result in losses that are difficult to detect. We may also be subject to disruptions of our operating systems arising from events that are wholly or partially beyond our control (for example, computer viruses or electrical or telecommunications outages), which may give rise to disruption of service to customers and to financial loss or liability. We are further exposed to the risk that our external vendors may be unable to fulfill their contractual obligations (or will be subject to the same risk of fraud or operational errors by their respective employees as are we) and to the risk that our (or our vendors') business continuity and data security systems prove to be inadequate.

Our information systems may experience an interruption or breach in security.

We rely heavily on communications and information systems to conduct our business. We, our customers, and other financial institutions with which we interact, are subject to ongoing, continuous attempts to penetrate key systems by individual hackers, organized criminals, and in some cases, state-sponsored organizations. Any failure, interruption or breach in security of these systems could result in failures or disruptions in our customer relationship management, general ledger, deposit, loan and other systems, misappropriation of funds, and theft of proprietary Company or customer data. The occurrence of any failure, interruption or security breach of our information systems could damage our reputation,

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result in a loss of customer business, subject us to additional regulatory scrutiny, or expose us to civil litigation and possible financial liability.

Security breaches and other disruptions could compromise our information and expose us to liability, which would cause our business and reputation to suffer.

In the ordinary course of our business, we collect and store sensitive data, including intellectual property, our proprietary business information and that of our customers, suppliers and business partners, and personally identifiable information of our customers and employees, in our data centers and on our networks. The secure processing, maintenance and transmission of this information is critical to our operations and business strategy. Despite our security measures, our information technology and infrastructure may be vulnerable to attacks by hackers or breached due to employee error, malfeasance or other disruptions. Any such breach could compromise our networks and the information stored there could be accessed, publicly disclosed, lost or stolen. Any such access, disclosure or other loss of information could result in legal claims or proceedings, liability under laws that protect the privacy of personal information, and regulatory penalties, disrupt our operations and the services we provide to customers, damage our reputation, and cause a loss of confidence in our products and services, which could adversely affect our business, revenues and competitive position.

Our reliance on third party vendors could expose us to additional cyber risk and liability.

The operation of our business involves outsourcing of certain business functions and reliance on third-party providers, which may result in transmission and maintenance of personal, confidential and proprietary information to and by such vendors. Although we require third-party providers to maintain certain levels of information security, such providers remain vulnerable to breaches, unauthorized access, misuse, computer viruses or other malicious attacks that could ultimately compromise sensitive information possessed by our company. Although we contract to limit our liability in connection with attacks against third-party providers, we remain exposed to risk of loss associated with such vendors.

We outsource certain aspects of our data processing to certain third-party providers which may expose us to additional risk.

We outsource certain key aspects of our data processing to certain third-party providers. While we have selected these third-party providers carefully, we cannot control their actions. If our third-party providers encounter difficulties, including those which result from their failure to provide services for any reason or their poor performance of services, or if we have difficulty in communicating with them, our ability to adequately process and account for customer transactions could be affected, and our business operations could be adversely impacted. Replacing these third-party providers could also entail significant delay and expense.

Our third-party providers may be vulnerable to unauthorized access, computer viruses, phishing schemes and other security breaches. Threats to information security also exist in the processing of customer information through various other third-party providers and their personnel. We may be required to expend significant additional resources to protect against the threat of such security breaches and computer viruses, or to alleviate problems caused by such security breaches or viruses. To the extent that the activities of our third-party providers or the activities of our customers involve the storage and transmission of confidential information, security breaches and viruses could expose us to claims, regulatory scrutiny, litigation and other possible liabilities.

We are dependent on our information technology and telecommunications systems and third-party servicers, and systems failures, interruptions or breaches of security could have an adverse effect on our financial condition and results of operations.

Our business is highly dependent on the successful and uninterrupted functioning of our information technology and telecommunications systems and third-party servicers. We outsource many of our major systems, such as data processing-processing and deposit processing-processing systems. The failure of these systems, or the termination of a third-party software license or service agreement on which any of these systems is based, could interrupt our operations. Because our information technology and telecommunications systems interface with and depend on third-party systems, we could experience service denials if demand for such services exceeds capacity, or such third-party systems fail or experience interruptions. If sustained or

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repeated, a system failure or service denial could result in a deterioration of our ability to provide customer service, compromise our ability to operate effectively, damage our reputation, result in a loss of customer business and/or subject us to additional regulatory scrutiny and possible financial liability, any of which could have a material adverse effect on our financial condition and results of operations.

In addition, we provide our customers the ability to bank remotely, including online over the Internet. The secure transmission of confidential information is a critical element of remote banking. Our network could be vulnerable to unauthorized access, computer viruses, phishing schemes, spam attacks, human error, natural disasters, power loss and other security breaches. We may be required to spend significant capital and other resources to protect against the threat of security breaches and computer viruses, or to alleviate problems caused by security breaches or viruses. Further, we outsource some of the data processing functions used for remote banking, and accordingly we are dependent on the expertise and performance of our third-party providers. To the extent that our activities, the activities of our customers, or the activities of our third-party service providers involve the storage and transmission of confidential information,

security breaches and viruses could expose us to claims, litigation and other possible liabilities. Any inability to prevent security breaches or computer viruses could also cause existing customers to lose confidence in our systems and could adversely affect our reputation, results of operations and ability to attract and maintain customers and businesses. In addition, a security breach could also subject us to additional regulatory scrutiny, expose us to civil litigation and possible financial liability and cause reputational damage.

Technological changes affect our business, and we may have fewer resources than many competitors to invest in technological improvements.

Our future success will depend, in part, upon our ability to use technology to provide products and services that provide convenience to customers and to create additional efficiencies in operations. We may need to make significant additional capital investments in technology in the future, and we may not be able to effectively implement new technology-driven products and services.

The replacement of the LIBOR benchmark interest rate may have an impact on our business, financial condition, or results of operations.

Certain loans made by us were made at variable rates that use LIBOR as a benchmark for establishing the interest rate. In addition, we also have investments, debt instruments and interest rate derivatives that reference LIBOR. On July 27, 2017, the United Kingdom’s Financial Conduct Authority (“FCA”) announced that it intends to stop persuading or compelling banks to submit LIBOR rates after 2021. On November 30, 2020 to facilitate an orderly LIBOR transition, the OCC, the FDIC, and the Federal Reserve jointly announced that entering into new contacts using LIBOR as a reference rate after December 31, 2021 would create a safety and soundness risk. On March 5, 2021, the FCA announced that all LIBOR settings will either cease to be provided by any administrator or no longer be representative immediately after December 31, 2021, in the case of 1-week and 2-month U.S. dollar LIBOR, and immediately after June 30, 2023, in the case of the remaining U.S. dollar LIBOR settings. In the United States, efforts to identify a set of alternative U.S. dollar reference interest rates are ongoing, and the Alternative Reference Rate Committee (“ARRC”) has recommended the use of SOFR. SOFR is different from LIBOR in that it is a backward-looking secured rate rather than a forward-looking unsecured rate. These differences could lead to a greater disconnect between the Bank’s costs to raise funds for SOFR as compared to

LIBOR. For cash products and loans, the ARRC has also recommended Term SOFR, which is a forward-looking SOFR based on SOFR futures and may in part reduce differences between SOFR and LIBOR. To further reduce differences between replacement indices and substitute indices, market practitioners have also gravitated towards credit sensitive rates, the leading among them being the Bloomberg Short-Term Bank Yield Index ("BSBY"). The ARRC announced on October 21, 2020 that they are not well positioned to adjudicate the development of a credit sensitive rate and will not criticize firms solely for using reference rates other than SOFR, such as BSBY. After an extended analysis by a multidisciplinary project team to identify operational and contractual best practices, assess our risks, and identify the detailed list of all financial instruments impacted, we adopted the SOFR family of interest rates for our financial instruments going forward. Under the oversight of our Enterprise Risk Committee, we are managing the transition, facilitating communication with our customers and counterparties, and monitoring the impacts of this transition.

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There are also operational issues which may create a delay in the transition to SOFR or other substitute indices, leading to uncertainty across the industry. The implementation of a substitute index or indices for the calculation of interest rates under our loan agreements with our borrowers may incur significant expenses in effecting the transition, may result in reduced loan balances if borrowers do not accept the substitute index or indices, and may result in disputes or litigation with customers over the appropriateness or comparability to LIBOR of the substitute index or indices, which could have an adverse effect on our results of operations. The transition from LIBOR could create considerable costs and additional risk. The discontinuance of LIBOR and related uncertainty may adversely affect the market value of, the return on, or the expenses associated with our financial assets and liabilities that are based on or are linked to LIBOR. In addition, the market transition away from LIBOR could prompt inquiries or other actions from regulators in respect of our preparation and readiness for the replacement of LIBOR with an alternative reference rate. Although we are currently unable to assess the ultimate impact of the transition from LIBOR, the failure to adequately manage the transition could have a material adverse effect on our business, financial condition, and results of operations.

Climate change manifesting as physical or transition risks could adversely affect our operations, businesses and customers.

There is an increasing concern over the risks of climate change and related environmental sustainability matters. The physical risks of climate change include discrete events, such as flooding and wildfires, and longer-term shifts in climate patterns, such as extreme heat, sea level rise, and more frequent and prolonged drought. Under medium or longer-term scenarios, such events, if uninterrupted or unaddressed, could disrupt our operations or those of our customers or third parties on which we rely, including through direct damage to assets and indirect impacts from supply chain disruption and market volatility. Additionally, transitioning to a low-carbon economy may entail extensive policy, legal, technology and market initiatives. Transition risks, including changes in consumer preferences and additional regulatory requirements or supervisory expectations or taxes, could increase our expenses and undermine our strategies. In addition, our reputation and client relationships may be damaged as a result of our practices related to climate change, including our involvement, or our customers' involvement, in certain industries or projects, in the absence of mitigation and/or transition measures, associated with causing or exacerbating climate change, as well as any decisions we make to continue to conduct or change our activities in response to considerations relating to climate change. As climate risk is interconnected with all key risk types, we have developed and continue to enhance processes to embed climate risk considerations into our risk management strategies established for risks such as market, credit and operational risks; however, because the timing and severity of climate change may not be predictable, our risk management strategies may not be effective in mitigating climate risk exposure.

Failure to maintain effective systems of internal and disclosure control could have a material adverse effect on the Company's results of operation, financial condition and stock price.

As part of our ongoing monitoring of internal and disclosure controls, we may discover material weaknesses or significant deficiencies in our internal and disclosure controls that require remediation; as we did in our current assessment of internal controls. See "Item 9A. Controls and Procedures." 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 a company's annual or interim financial statements will not be prevented or detected on a timely basis.

Any failure to maintain effective internal and disclosure controls or to timely implement any necessary improvement of our internal and disclosure controls, or to effect remediation of any material weakness or significant deficiency, could, among other things, result in losses from fraud or error, harm our reputation, or cause investors to lose confidence in our reported financial information, all of which could have a material adverse effect on our results of operation, financial condition or stock price.

Risks Relating to the Regulation of our Industry

We operate in a highly regulated environment, which could restrain our growth and profitability.

Banking is highly regulated under federal and state law. As such, we are subject to extensive regulation, supervision and legal requirements that govern almost all aspects of our operations. Compliance with laws and regulations can be difficult and costly, and changes to laws and regulations, including potential changes in federal policy and at regulatory agencies as a result of the upcoming 2024 presidential election, often impose additional operating costs. Our failure to comply with these laws and regulations, even if the failure follows good faith effort or reflects a difference in interpretation, could subject us to restrictions on our business activities, enforcement actions and fines and other penalties, any of which could adversely affect our results of operations, regulatory capital levels and the price of our securities. Further, any new laws, rules and regulations, such as the Dodd-Frank Act, could make compliance more difficult or expensive or otherwise adversely affect our business, financial condition and results of operations.

In addition, we anticipate increased regulatory scrutiny, in the course of routine examinations and otherwise, and new regulations in response to recent negative developments in the banking industry, which may increase our cost of doing business and reduce our profitability. Among other things, there may be increased focus by both regulators and investors on deposit composition, the level of uninsured deposits, brokered deposits, unrealized losses in securities portfolios, liquidity, CRE loan composition and concentrations, and capital as well as general oversight and control of the foregoing. We could face increased scrutiny or be viewed as higher risk by regulators and/or the investor community, which could have a material adverse effect on our business, financial condition and results of operations.

Federal regulators periodically examine our business, and we may be required to remediate adverse examination findings.

The FRB and the OCC periodically examine our business, including our compliance with laws and regulations. If, as a result of an examination, the FRB or the OCC were to determine that our financial condition, capital resource, asset quality, earnings prospects, management, liquidity or other aspects of any of our operations had become unsatisfactory, or that we were in violation of any law or regulation, it may take a number of different remedial actions as it deems appropriate. Any

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regulatory action against us could have a material adverse effect on our business, financial condition and results of operations.

Our FDIC deposit insurance premiums and assessments may increase.

The deposits of the Bank are insured by the FDIC up to legal limits and, accordingly, subject to the payment of FDIC deposit insurance assessments. The Bank's regular assessments are determined by its risk classifications, which are based on its regulatory capital levels and the level of supervisory concern that it poses. Further increase in assessment rates or special assessments may occur in the future, especially if there are significant additional financial institution failures. Any future special assessments, increases in assessment rates or required prepayments in FDIC insurance premiums could reduce our profitability or limit our ability to pursue certain business opportunities, which could have a material adverse effect on our business, financial condition and results of operations.

We are subject to numerous laws designed to protect consumers, including the Community Reinvestment Act CRA and fair lending

laws, and failure to comply with these laws could lead to a wide variety of sanctions.

The CRA, the Equal Credit Opportunity Act, the Fair Housing Act and other fair lending laws and regulations impose nondiscriminatory lending requirements on financial institutions. The Department of Justice DOJ and other federal agencies are responsible for enforcing these laws and regulations. A successful regulatory challenge to an institution's performance under the CRA or fair lending laws and regulations could result in a wide variety of sanctions, including damages and civil money penalties, injunctive relief, restrictions on mergers and acquisition activity, restrictions on expansion and restrictions on entering new business lines. Private parties may also have the ability to challenge an institution's performance under fair lending laws in private class action litigation. Such actions could have a material adverse effect on our business, financial condition and results of operations.

We are subject to evolving and extensive regulations and requirements. Our failure to adhere to these requirements or the failure or circumvention of our controls and procedures could seriously harm our business.

We are subject to extensive regulation as a financial institution and are also required to follow the corporate governance and financial reporting practices and policies required of a company whose stock is registered under the Exchange Act and listed on the NASDAQ Global Select Market. Compliance with these requirements means we incur significant legal, accounting and other expenses. Compliance also requires a significant diversion of management time and attention, particularly with regard to disclosure controls and procedures and internal control over financial reporting. Although we have reviewed, and will continue to review, our disclosure controls and procedures in order to determine whether they are effective, our controls and procedures may not be able to prevent errors or frauds in the future.

Faulty judgments, simple errors or mistakes, or the failure of our personnel to adhere to established controls and procedures may make it difficult for us to ensure that the objectives of the control system will be met. A failure of our controls and procedures to detect other than inconsequential errors or fraud could seriously harm our business and results of operations.

We face a risk of noncompliance and enforcement action with the BSA and other anti-money laundering statues and regulations.

The BSA, the USA PATRIOT Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 and other laws and regulations require financial institutions, among other duties, to institute and maintain an effective anti-money laundering program and file suspicious activity and currency transaction reports as appropriate. The federal Financial Crimes Enforcement Network FinCEN is authorized to impose significant civil money penalties for violations of those requirements and has recently engaged in coordinated enforcement efforts with the individual federal banking regulators, as well as the U.S. Department of Justice, DOJ, Drug Enforcement Administration and Internal Revenue Service. We are also subject to increased scrutiny of compliance with the rules enforced by the Office of Foreign Assets Control. OFAC. If our policies, procedures and systems are deemed deficient, we would be subject to liability, including fines and regulatory actions, which may include restrictions on our ability to pay dividends and the necessity to obtain regulatory approvals to proceed with certain aspects of our business plan, including our acquisition plans. Failure to maintain and implement adequate programs to combat money laundering and terrorist financing could also have serious reputational consequences for us. Any of these results could have a material adverse effect on our business, financial condition and results of operations.

Risks Relating to the Company's Securities

Our common stock is not insured by any governmental entity.

Our common stock is not a deposit account or other obligation of any bank and is not insured by the FDIC or any other governmental entity. Investment in our common stock is subject to risk, including possible loss.

Our ability to pay dividends is limited by law and contract.

The continued ability to pay dividends to shareholders depends in part on dividends from the Bank. The amount of dividends that the Bank may pay to the Company is limited by federal laws and regulations. The ability of the Bank to pay dividends is also subject to its profitability, financial condition and cash flow requirements. There is no assurance that the Bank will be able to pay dividends to the Company in the future. The decision may be made to limit the payment of dividends even when the legal ability to pay them exists, in order to retain earnings for other uses.

Our 2035 Debentures subordinated debentures contain restrictions on our ability to declare and pay dividends on or repurchase our common stock.

Under the terms of our Junior Subordinated Debt Securities due 2035 (the "2035 Debentures"), subordinated debentures, if (i) there has occurred and is continuing an event of default; (ii) we are in default with respect to payment of any obligations under the related guarantee; or (iii) we have given notice of our election to defer payments of interest on the 2035 Debentures subordinated debentures by extending the interest distribution period as provided in the indenture indentures governing the 2035 Debentures subordinated debentures and such period, or any extension thereof, has commenced and is continuing, then we may not, among other things, declare or pay any dividends or distributions on, or redeem, purchase, acquire, or make a liquidation payment with respect to, any of our

capital stock, including our common stock. As of December 31, 2022 December 31, 2023, we were current on all interest due on the 2035 Debentures.

The shares of our common stock are not heavily traded.

Shares of our common stock are listed on the NASDAQ Global Select Market, but are not heavily traded. Securities that are not heavily traded can be more volatile than stock trading in an active public market. Stock price volatility may make it more difficult for you to resell your common stock when you want and at prices you find attractive.

Our stock price can fluctuate significantly and may decline in response to a variety of factors.

Management cannot predict the extent to which an active public market for the shares of the common stock will develop or be sustained in the future. Accordingly, holders of shares of our common stock may not be able to sell them at the volumes, prices, or times that they desire. General market fluctuations, industry factors and general economic and political conditions and events, such as economic slowdowns or recessions, interest rate changes or credit loss trends, could also cause our stock price to decrease regardless of operating results. We urge you to obtain current market quotations for our common stock when you consider investing in our common stock.

outstanding subordinated debentures.

Future sales of our common stock or other securities may dilute the value and adversely affect the market price of our common stock.

In many situations, the board of directors has the authority, without any vote of our shareholders, to issue shares of authorized but unissued stock, including shares authorized and unissued under our equity incentive plans. In the future, additional securities may be issued, through public or private offerings, in order to raise additional capital. Any such issuance would dilute the percentage of ownership interest of existing shareholders and may dilute the per share book value of our common stock. In addition, option holders may exercise their options at a time when we would otherwise be able to obtain additional equity capital on more favorable terms.

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Provisions in our governing documents and Maryland law may have an anti-takeover effect, and there are substantial regulatory limitations on changes of control of bank holding companies.

Our corporate organizational documents and provisions of federal and state law to which we are subject contain certain provisions that could have an anti-takeover effect and may delay, make more difficult or prevent an attempted acquisition that you may favor or an attempted replacement of our board of directors or management.

In addition, certain provisions of Maryland law may delay, discourage or prevent an attempted acquisition or change in control. Furthermore, banking laws impose notice, approval, and ongoing regulatory requirements on any shareholder or other party that seeks to acquire direct or indirect “control” of an FDIC-insured depository institution or its holding company. These laws include the BHC Act and the Change in Bank Control Act. These laws could delay or prevent an acquisition.

We may issue debt and equity securities that are senior to the common stock as to distributions and in liquidation, which could negatively affect the value of the common stock.

In the future, we may increase our capital resources by entering into debt or debt-like financing or issuing debt or equity securities, which could include issuances of senior notes, subordinated notes, preferred stock or common stock. In the event of our liquidation, our lenders and holders of our debt or preferred securities would receive a distribution of our available assets before distributions to the holders of our common stock. Our decision to incur debt and issue securities in future offerings will depend on market conditions and other factors beyond our control. We cannot predict or estimate the amount, timing or nature of its future offerings and debt financings. Future offerings could reduce the value of shares of our common stock and dilute a stockholder's interest in us.

Risks related to the Proposed Merger

We expect to continue to incur substantial costs related to the Mergerand integration.

We have incurred and will continue to incur substantial costs in connection with the proposed Merger. These costs include legal, financial advisory, accounting, consulting and other advisory fees, retention, severance and employee benefit-related costs, public company filing fees and other regulatory fees, financial printing and other printing costs, closing, integration and other related costs. While we have attempted to accurately forecast these costs, factors that are beyond our control or that we have failed to accurately estimate could result in us incurring future charges in excess of our current estimates. These charges could be material and could materially adversely affect our future earnings. If the merger is not completed, we would have incurred these expenses without realizing the expected benefits of the Merger.

Failure to complete the proposed Merger could negatively impact Shore.

If the Merger with TCFC is not completed for any reason there may be various adverse consequences and we may experience negative reactions from the financial markets and from our customers and employees. For example, our business may have been impacted adversely by the failure to pursue other beneficial opportunities due to the focus of management on the Merger, the benefits from which may not be realized. Additionally, if the merger agreement is terminated, the market price of our common stock could decline to the extent that current market prices reflect a market assumption that the Merger will be beneficial and will be completed. We also could be subject to litigation related to any failure to complete the Merger or to proceedings commenced against us to perform obligations under the merger agreement. If the merger agreement is terminated under certain circumstances, we may be required to pay a termination fee of $10.5 million to TCFC.

The proposed integration of Shore and TCFC may be more difficult, costly or time consuming than expected and Shore may fail to realize the anticipated benefits of the proposed Merger.

The success of the proposed Merger will depend, in part, on the ability to realize the anticipated growth opportunities and cost savings from combining the businesses of Shore and TCFC. To realize the anticipated benefits and cost savings from

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the proposed Merger, we must successfully integrate and combine the businesses of Shore and TCFC in a manner that permits those cost savings to be realized. If we are not able to successfully achieve these objectives, or if we have failed to accurately estimate the anticipated benefits of the proposed Merger, the anticipated benefits may not be realized fully or at all, they may take longer to realize than expected, and we may incur additional unforeseen expenses.

The integration process could result in the loss of key employees, diversion of management attention and resources, the disruption of the combined company's ongoing businesses or inconsistencies in standards, controls, procedures and policies that adversely affect the combined company's ability to maintain relationships with clients, customers, depositors and employees.

Furthermore, the board of directors and executive leadership of the combined company will consist of former directors and executive officers from each of Shore and TCFC. Combining the boards of directors and management teams of each company into a single board and a single management team could require the reconciliation of differing priorities and philosophies.

We will be subject to business uncertainties and contractual restrictions while the proposed Merger with TCFC is pending.

Uncertainty about the effect of the Merger on employees and customers may have an adverse effect on Shore. These uncertainties may impair our ability to attract, retain and motivate key personnel until the Merger is completed, and could cause customers and others that deal with us to seek to change existing business relationships with Shore. In addition, subject to certain exceptions, we have agreed to operate our business in the ordinary course in all material respects and to refrain from taking certain actions that may adversely affect our ability to consummate the transactions contemplated by the merger agreement on a timely basis without the consent of TCFC. These restrictions may prevent us from pursuing attractive business opportunities that may arise prior to the completion of the Merger.

Our future results may suffer if we do not effectively manage our expanded operations.

As a result of the proposed Merger, the size, scope, and complexity of our business would increase significantly beyond that of either Shore's or TCFC's business prior to the proposed Merger. Our future success will depend, in part, upon our ability to

manage and achieve the benefits we have anticipated will be associated with this expanded business, challenges, including challenges related to the management and monitoring of new operations, and the associated increased costs and complexity. There can be no assurances that we will be successful or that we will realize the expected operating efficiencies, cost savings, growth opportunities, revenue enhancements or other benefits currently anticipated.

Item 1B. Unresolved Staff Comments.

None.

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None.

Item 1C. Cybersecurity

Table Cybersecurity Risk Management and Strategy

The Company recognizes the security of Contents

our banking operations is essential to protecting our customers, maintaining our reputation, and preserving the value of the Company. The Board of Directors, through the Board Risk Oversight Committee, provides direction and oversight of the enterprise-wide risk management framework of the Company, and cybersecurity represents a component of the Company's overall approach to enterprise-wide risk management. The Enterprise Risk Management Program establishes policies and procedures for assessing the effectiveness and efficiency of information security controls related to both design and operations. The Company leverages the following guidelines and frameworks to develop and maintain its Information Security Program including its cybersecurity risk management program: Federal Financial Institutions Examination Counsel Cybersecurity Assessment Tools and GLB Act and regulations. In general, the Company seeks to address cybersecurity risks through a comprehensive, cross-functional approach focused on the confidentiality, security and availability of the information that the Company collects and stores by identifying, preventing, and mitigating cybersecurity threats and effectively responding to cybersecurity incidents that may occur.

As one of the elements of the Company's overall enterprise-wide risk management approach, the Enterprise Risk Management Program is focused on the following key areas:

- **Security Operation and Governance**: As discussed in more detail under the section titled "Governance," the Board Risk Oversight Committee has delegated to senior management responsibility for managing the Enterprise Risk Management Program. Senior management carries out this mandate through the Strategic Initiatives and Board Risk Oversight Committees. To maintain alignment and appropriate insight regarding information security activities, a bi-weekly operational committee provides general program insight.

- **Collaborative Approach**: The Company has implemented a cross-functional approach to identifying, assessing, preventing and mitigating cybersecurity threats and incidents, while also implementing controls and procedures that provide for the escalation of certain cybersecurity incidents so that decisions regarding the public disclosure and reporting of such incidents can be made by management.

- **Security Competencies**: The organization oversees a program of security competencies and tools designed to evaluate security risks and to protect the confidentiality, integrity and availability of our information systems and data. These assets represent a blend of various management (e.g., policies), operational (e.g., standards and processes), and technical controls (e.g., tools and configurations).

- **Cyber Defense and Incident Response Plan**: The Company utilizes sophisticated security monitoring and detection tools for continuous monitoring of our information systems 24 hours per day, seven days per week. The Company utilizes third-party tools and solutions to actively deliver threat analysis, vulnerability management, intrusion detection, intrusion hunting and red team exercises. We also receive the latest cybersecurity alerts and threat intelligence from government agencies and information sharing and analysis centers. The Company's Incident Response Plan helps reduce the risks related to security incidents by providing guidance on our response to incidents by focusing on the coordination of personnel, policies, and procedures to ensure incidents are detected, analyzed and managed.

- **Third-Party Risk Management**: Management of the Company's third parties, including vendors and service providers, is conducted through a risk-based approach and the level of due diligence is driven by risk factors established by the Vendor Management Program. The process provides awareness and collaboration across all internal teams including Information Technology and Risk Management. A review process is conducted on new or significantly changed key third parties, to ensure certain cybersecurity baseline requirements are met and cybersecurity incidents are appropriately disclosed. This process is aimed at advocating for appropriate standards and controls, based on risk factors, to secure the third parties' information systems, and to ensure the third parties have recovery plans in place.

- **Security Awareness and Education**: The Company provides annual, mandatory training for personnel regarding security awareness as a means to equip the Company's personnel with the understanding of how to properly use and protect the computing resources entrusted to them, and to communicate the Company's information security policies, standards, processes and practices.

The Company leverages continuous monitoring and regular risks assessments to identify the Company's current and potential cybersecurity risks. Technical vulnerabilities are identified using automated vulnerability scanning tools, penetration testing, and system management tools, whereas non-technical vulnerabilities are identified via process or procedural reviews. The Company conducts a variety of assessments throughout the year, both internally and through third parties. Vulnerability assessment and penetration tests are performed on a regular basis to provide the Company with an unbiased view of its environment and controls. Vulnerabilities identified during these assessments are inventoried in a centralized tracking system and reported to management on a regular basis. A multi-step approach is applied to identify, report and remediate these vulnerabilities, and the Company adjusts its information security policies, standards, processes and practices as necessary based on the information provided by these assessments. The results of key assessments are reported in summary to the Board Risk Oversight Committee.

The Company engages third parties on a regular basis to assess, test and assist with the implementation of our cybersecurity program to detect and manage cybersecurity risks, including but not limited to third parties who assist with monitoring our information security systems and auditors who assist with conducting penetration tests.

Cybersecurity Governance

The Board of Directors, through the Board Risk Oversight Committee, provides direction and oversight of the enterprise-wide risk management framework of the Company, including the management of risks arising from cybersecurity threats. The Board Risk Oversight Committee reviews and approves the Information Security Policy, which includes the Company's cybersecurity risk management program. The Board of Directors receives regular presentations and updates on cybersecurity risks, including the threat environment, evolving standards, projects and initiatives, risk and vulnerability assessments, independent audit reviews, and technological trends. The Board of

Directors also receives information regarding any cybersecurity incident that meets established reporting thresholds, as well as ongoing updates regarding any such incident until it has been addressed. On an annual basis, the full board of directors discusses the Company's approach to cybersecurity risk management.

The Information Security Officer, under the guidance of our Chief Risk Officer and Operational Risk Manager, works collaboratively across the Company to implement a program designed to protect the Company's information systems and data from cybersecurity risks. The Information Security Officer is responsible for assessing and managing cybersecurity risks, responding to any cybersecurity incidents in accordance with the Company's Incident Response Plan and Business Continuity Plan, and reporting incidents to appropriate personnel at the Company in accordance with the Incident Response Plan. To facilitate the success of the Company's cybersecurity risk management program, multidisciplinary teams throughout the Company are deployed to address cybersecurity threats and to respond to cybersecurity incidents. The Information Technology and the Operational Risk Management teams monitor the prevention, detection, mitigation and remediation of cybersecurity threats and incidents and report such threats and incidents to the Information Security Officer and Chief Information Officer and ultimately the Board Risk Oversight Committee when appropriate. The Information Security Department has over three decades of experience in managing Information Security and Cybersecurity programs at financial institutions. The Information Security Officer holds the Certified Information Security Manager Certification and is supported by additional team members with extensive backgrounds in cybersecurity and related fields.

Notwithstanding our efforts at cybersecurity, the Company cannot guarantee that it will be successful in preventing or mitigating a cybersecurity incident that could have a material adverse effect on it. To our knowledge, cybersecurity threats, including as a result of any previous cybersecurity incidents, have not materially affected the Company, including its business strategy, results of operations or financial condition. With regard to the possible impact of future cybersecurity threats or incidents, see Item 1A, Risk Factors – Risks Related to Our Business.

Item 2. Properties.

Our officesoffices are listed in the tables below. The address of the Company and Bank's main office is 18 East Dover Street in Easton, Maryland. The Company owns the real property at 28969 Information Lane in Easton, Maryland, which also houses the Operations, Information Technology, and Human Resources departments of the Company and its subsidiaries.

Shore United Bank, N.A. Maryland Branch Locations

	Branches			
Main Office (1)	Chester Branch (1)		Crofton Branch (2)	
Main Office (1) 18 East Dover Street	300 Castle Marina Road	**Elliott Road Branch (1)**	2151 Defense Highway	
Easton, Maryland 21601	Chester, Maryland 21619		Crofton, Maryland 21114	
Tred Avon Square Branch (1)	Washington Square Branch (1)		Waldorf Branch (1)	
18 East Dover Street	**8275 Elliott Road**	**212 Marlboro Road**	899 Washington Avenue	3035 Leonardtown Road

Easton, Maryland 21601	Chestertown, Maryland 21620	**Easton,**	Waldorf, Maryland 21601	**Easton, Maryland 21601**
St. Michaels Branch (2)	Arbutus Branch (1)	**Sunburst**	Leonardtown Branch (1)	**Centreville Branch (1)**
1013 South Talbot Street	1101 Maiden Choice Lane		25395 Point Lookout Road	
St. Michaels, Maryland 21663	Baltimore, Maryland 21229		Leonardtown, Maryland 20650	
Elliott Road Branch (1)	Elkridge Branch (1)		Bryan’s Road Branch (1)	
8275 Elliott Road	6050 Marshalee Drive		8010 Matthews Road	
Easton, Maryland 21601	Elkridge, Maryland 21075		Bryans Road, MD 20616	
Sunburst Branch (1)	Owings Mills Branch (1)		Dunkirk Branch (2)	
424 Dorchester Avenue	9612 Reisterstown Road		10321 Southern Maryland Blvd	
Cambridge, Maryland 21613	Owings Mills, Maryland 21117		Dunkirk, Maryland 20754	
West Ocean City Branch (2)	Annapolis Branch (1)		Lexington Park Branch (1)	
12905-B Ocean Gateway	1917 West Street		22730 Three Notch Road	
Ocean City, Maryland 21842	Annapolis, Maryland 21401		California, Maryland 20619	
Ocean City Branch (2)	Edgewater Branch (2)		La Plata Branch (1)	
3409 Coastal Highway	3083 Solomon’s Island Road		101 Drury Drive	
Ocean City, Maryland 21842	Edgewater, Maryland 21037		La Plata, Maryland 20646	
Centreville Branch (1)	Westgate Branch (1)		Charlotte Hall Branch (1)	
109 North Commerce Street	200 Westgate Circle		30165 Three Notch Road	
St. Michaels, Maryland 21663	**Cambridge, Maryland 21613**	**Centreville, Maryland 21617**	Annapolis, Maryland 21401	Charlotte Hall, Maryland 20622
Stevensville	Glen Burnie		Prince	(2)

Branch (1)	Branch (1)		Frederick Branch	
408 Thompson Creek Road	413 Crain Highway, S.E.		200 Market Square Drive	
Stevensville, Maryland 21666	Glen Burnie, Maryland 21061		Prince Frederick, Maryland 20678	
Tuckahoe Branch (1)	Severna Park Branch (2)		Lusby Branch (2)	
22151 Wes Street	598 Benfield Road		11725 Rousby Hall Road	
Ridgely, Maryland 21660	Severna Park, Maryland 21146		Lusby, Maryland 20657	
Route 213 South Branch (1)	Lothian Branch (2)	**Chester**	La Plata Downtown Branch (1)	**Denton Branch (1)**
2609 Centreville Road	5401 Southern Maryland Blvd	**300 Castle Marina Road**	202 Centennial Street	
Centreville, Maryland 21617	Lothian, Maryland 20711		La Plata, Maryland 20646	
Denton Branch (1)				
850 South 5th Avenue				
Centreville, Maryland 21617	**Chester, Maryland 21619**	**Denton, Maryland 21629**		

Delaware Branch Locations

Felton Branch (2)

Camden Branch (1)

Rehoboth Beach Branch (2)

Grasonville Branch (1)

Stevensville Branch (1)

Tuckahoe Branch (1)

202 Pullman Crossing Grasonville, Maryland 21638

408 Thompson Creek Road Stevensville, Maryland 21666

22151 WES Street Ridgely, Maryland 21660

Washington Square Branch (1)

Felton Branch (2)

Milford Branch (2)

899 Washington Avenue

120 West Main Street

4580 South DuPont Highway

19358 Miller Road

Felton, Delaware 19943

Camden, Delaware 19934

Rehoboth Beach, Delaware 19971

Milford Branch (2)

Governors Ave Branch (1)

698-A North Dupont Boulevard

800 South Governors Avenue

Chestertown, Maryland 21620

Felton, Delaware 19943

Milford, Delaware 19963

Camden Branch (1)

Dover Branch (1)

Arbutus Branch (1)

4580 South DuPont Highway

800 S. Governors Avenue

1101 Maiden Choice Lane

Camden, Delaware 19934

Dover, Delaware 19904

Virginia Branch Locations

Baltimore, MD 21229

Onley Branch (2)

Fredericksburg Downtown Branch (1)

Fredericksburg Branch (1)

Elkridge Branch (1)

Owings Mills Branch (1)

Onley Branch (2)

6050 Marshalee Drive

9612 Reisterstown Road

25306 Lankford Highway

425 William Street

5831 Plank Road

Elkridge, MD 21075

Onley, Virginia 23418

Fredericksburg, Virginia 22401

Owings Mills, MD

Fredericksburg, Virginia 22407

Onley, VA 23418

			MD 21117

West Ocean City Branch (2)	Westgate Branch (1)	Annapolis Branch (1)
12905B Ocean Gateway Ocean City, MD 21842	200 Westgate Circle Annapolis, MD 21401	1917 West Street Annapolis, MD 21401
Crofton Branch (2)	Edgewater Branch (2)	Glen Burnie Branch (1)
2151 Defense Highway Crofton, MD 21114	3083 Solomon's Island Road Edgewater, MD 21037	413 Crain Highway, S.E. Glen Burnie, MD 21061
Lothian Branch (2)	Severna Park Branch (2)	Ocean City Branch (2)
5401 Southern Maryland B Lothian, MD 20711	598 Benfield Road Severna Park, MD 21146	3409 Coastal Highway Ocean City, MD 21842
Rehoboth Beach Branch (2)		
19358 Miller Road Rehoboth Beach, DE 19971		

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ATMs (standalone)

University of Maryland Shore Medical Center at Easton
219 South Washington Street
Easton, Maryland 21601

Offices

Administrative Office (1)	Administrative Office (1)	Administrative Office (2)	
28969 Information Lane	23 South Harrison Street	Offices	405 West Bell Road, Unit 4 and 5
Easton, Maryland 21601	Easton, Maryland 21601	Ridgely, Maryland 21660	
Commercial Lending Office (2) Charlottesville	Commercial Lending Office (2) Fredericksburg	Commercial Lending Office (2) Middletown	
1434 Rolkin Court, Suite 301	10 Chatham Heights Road, Suite 104	102 Sleepy Hollow, Unit 204	
Charlottesville, Virginia 22911	Fredericksburg, Virginia 22405	Middletown, Delaware 19709	
Commercial Lending Office (2) Prince Frederick	Mortgage Loan Office (2) Frederick	Division Office - Wye Financial Partners (2)	
995 N. Prince Frederick Blvd, Suite 105	5291 Corporate Drive, Suite 202	16 North Washington Street, Suite 1	
Prince Frederick, Maryland 20678	Frederick, Maryland 21703	Easton, Maryland 21601	Loan Production Office – Middletown (2) 102 Sleepy Hollow Unit 204 Middletown, Delaware 19709

Administrative Office (1) – 28969

Administrative Office (1) – 23 South

Information Lane Easton, Maryland 21601	Harrison Street Easton, Maryland 21601	
Mortgage Loan Office (2) – Greenbelt 5411 Ivy Lane Suite 5056 Greenbelt, MD 20770	Mortgage Loan Office (2) – Frederick 5291 Corporate Drive Suite 202 Frederick, MD 21703	Mortgage Loan Office (2) – Rehoboth Beach 19716 Sea Air Ave#3 Rehoboth Beach, DE 19971

(1) Branch/Office is owned by Company.
(2) Branch/Office is leased by Company.
(1) Branch/Office is owned by Company
(2) Branch/Office is leased by Company

For information about rent expense for all leased premises, see Note 57 to the Consolidated Financial Statements appearing in Item 8 of Part II of this annual report.

Item 3. Legal Proceedings.

We are at times, in the ordinary course of business, subject to legal actions. Management, upon the advice of counsel, believes that losses, if any, resulting from current legal actions will not have a material adverse effect on our financial condition or results of operations.

Item 4. Mine Safety Disclosures.

This item is not applicable.

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PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

MARKET INFORMATION, HOLDERS AND CASH DIVIDENDS

The shares of the Company's common stock are listed on the NASDAQ Global Select Market under the symbol "SHBI". As of March 1, 2023 March 12, 2024, the Company had approximately 1,916 1,827 registered holders of record.

The high and low sales prices for the shares of common stock of the Company, as reported on the NASDAQ Global Select market, and the cash dividends declared on those shares for each quarterly period of 2023 and 2022 are set forth in the table below.

	2023			2022		
	Price Range		Dividends	Price Range		Dividends
	High	Low	Paid	High	Low	Paid
1st Quarter	$ 18.15	$ 14.00	$ 0.12	$ 21.41	$ 19.34	$ 0.12
2nd Quarter	14.45	10.65	0.12	21.21	17.91	0.12
3rd Quarter	13.37	10.27	0.12	20.50	17.29	0.12
4th Quarter	14.51	9.66	0.12	20.85	17.04	0.12
			$ 0.48			$ 0.48

Shareholders received quarterly cash dividends on shares of common stock totaling $12.7 million in 2023 and $9.5 million in 2022 and $6.6 million in 2021. Dividends 2022. Quarterly dividends remained at $0.12 for the entire year of 2022. 2023. As a general matter, the payment of dividends is at the discretion of the Company's Board of Directors, based on such factors as operating results, financial condition, capital adequacy, regulatory requirements, and stockholder return. The Company anticipates continuing a regular quarterly cash dividend, although future dividend increases must be approved by TCFC prior to the planned merger in accordance with agreement and plan Shore Bancshares Board of merger signed December 14, 2022. Directors. However, we have no obligation to pay dividends and we may change our dividend policy at any time without notice to shareholders. Any future determination to pay dividends to holders of our common stock will depend on our results of operations, financial condition, capital requirements, banking regulations, contractual restrictions and any other factors that our board of directors may deem relevant.

The transfer agent for the Company's common stock is:

Broadridge

Corporate Issuer Solutions, Inc.

51 Mercedes Way

Edgewood, NY 11717

Investor Relations: 1-800-353-0103

+1 (800) 353-0103

E-mail for investor inquiries: shareholder@broadridge.com .

www.broadridge.com

Stock Performance Graph

The following graph and table show the cumulative total return on the common stock of the Company over the last five years, compared with the cumulative total return of a broad stock market index (the NASDAQ Composite Index), and a narrower index of the NASDAQ Bank Index and S&P SmallCap Banks Index. Cumulative total return on the stock or the index equals the total increase in value since December 31, 2018 assuming reinvestment of all dividends paid into the stock or the index.

The graph and table were prepared assuming that $100 was invested on December 31, 2018, in the common stock and the securities included in the indexes.

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Source: S&P Global Market Intelligence	**Period Ending**					
Index	**12/31/2018**	**12/31/2019**	**12/31/2020**	**12/31/2021**	**12/31/2022**	**12/31/2023**
Shore Bancshares, Inc.	$ 100.00	$ 122.62	$ 107.59	$ 158.03	$ 135.34	$ 114.94

NASDAQ Composite Index	$	100.00	$	136.69	$	198.10	$	242.03	$	163.28	$	236.17
KBW NASDAQ Bank Index	$	100.00	$	136.13	$	122.09	$	168.88	$	132.75	$	131.57
S&P U.S. SmallCap Banks Index	$	100.00	$	125.46	$	113.94	$	158.62	$	139.85	$	140.55

EQUITY COMPENSATION PLAN INFORMATION

The following table provides information as of December 31, 2022 December 31, 2023, with respect to options outstanding and shares available for future awards under the Company's active equity incentive plans.

Plan Category

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a) outstanding options, warrants and rights (a)	Weighted-average outstanding options, warrants, and rights (b)	remaining available for future compensation plans [excluding securities reflected in column (a)] (c)	Weighted-average exercise price outstanding options, warrants, and ri
Equity compensation plans approved by security holders			—	
Equity compensation plans not approved by security holders			—	
Total			—	

All other information required by this item is incorporated herein by reference to the section of the Company's definitive proxy statement to be filed in connection with the 2023 Annual Meeting of Stockholders entitled "Beneficial Ownership of Common Stock".

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UNREGISTERED SALES OF EQUITY SECURITIES AND ISSUER PURCHASES OF EQUITY SECURITIES

There were no unregistered sales of the Company's common stock, par value $0.01 per share (Common Stock), during the fourth quarter of 2022.

year to date period ended December 31, 2023.

The Company announced a new Company's prior stock repurchase program that was approved expired on July 6, 2022. Under the new stock repurchase program, the Company is authorized to repurchase up to $5.0 million of the Company's Common Stock, representing approximately 1.4% of its issued and outstanding Common Stock based on the closing price of the Company's Common Stock on July 5, 2022. The program may be limited or terminated at any time without prior notice. The program will expire March 31, 2023. There were no purchases made by or on behalf of us or any "affiliated purchaser" (as defined in Rule 10b-18(a)(3) under the Exchange Act) of our common stock during the fourth quarter of 2022.

2023.

Item 6. Reserved

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion compares the Company's financial condition at December 31, 2022 December 31, 2023 to its financial condition at December 31, 2021 December 31, 2022 and the results of operations for the years ended December 31, 2022 December 31, 2023 and 2021. 2022. This discussion should be read in conjunction with the Consolidated Financial Statements and the Notes thereto appearing in Item 8 of Part II of this annual report.

CRITICAL ACCOUNTING POLICIES

The Company's consolidated financial statements are prepared in accordance with 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 to the Consolidated Financial Statements. These policies, along with the disclosures presented in the notes to the financial statements and in this discussion, 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 with respect to the allowance for credit losses on loans, goodwill and bargain purchase gain, accounting for loans acquired in business combinations, 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, "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 1, "Summary of Significant Accounting Policies", of the Notes to the Consolidated Financial Statements 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.

As of December 31, 2023, the Company had one reporting unit.

Loans Acquired in a Business Combination

The most significant assessment of fair value in our accounting for business combinations relates to the valuation of an acquired loan portfolio.Management made significant estimates and exercised significant judgement in accounting for the acquisition of loans acquired in our business combinations. At acquisition, loans are classified as either (i) purchase credit-deteriorated ("PCD") loans or (ii) non-PCD 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.

Fair values are determined primarily through a discounted cash flow approach which considers the acquired loans' underlying characteristics, including account types, remaining terms, annual interest rates, interest types, timing of principal and interest payments, current market rates, and remaining balances.Estimates of fair value also include estimates of default, loss severity, and estimated prepayments.

The allowance for PCD loans is determined based upon the Company's methodology for estimating the allowance under the current expected credit loss model ("CECL"), and is recorded as an adjustment to the acquired loan balance on the date of acquisition. 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. 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 the 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.

RECENT ACCOUNTING PRONOUNCEMENTS AND DEVELOPMENTS

The Notes to the Consolidated Financial Statements discuss the expected impact of accounting policies recently issued or proposed but not yet required to be adopted. To the extent the adoption of new accounting standards materially affects our financial condition, results of operations or liquidity, the impacts are discussed in the applicable section(s) of this discussion and Notes to the Consolidated Financial Statements.

2023

PERFORMANCE OVERVIEW

RECENT ACCOUNTING PRONOUNCEMENTS AND DEVELOPMENTS

The Company recorded net income of $31.2 million for 2022 and net income of $15.4 million for 2021. The basic and diluted income per share was $1.57 and $1.17 for fiscal year 2022 and 2021, respectively. When comparing net income for 2022 to 2021, earnings increased due to increases in net interest income $37.2 million and noninterest income of $9.6 million primarily offset by an increase in noninterest expense of $23.5 million related to increases in salaries and wages, employee benefits, and other loan and customer expenses primarily due to the acquisition of Severn Bancorp, Inc. (“Severn”) in the fourth quarter of 2021.

Total assets were $3.477 billion at December 31, 2022, a $17.1 million, or less than 1.0%, increase when compared to $3.460 billion at the end of 2021. During 2022, the Company shifted its asset mix by deploying cash and cash equivalents into higher yielding loans and investment securities.

Total deposits decreased $16.5 million, or less than 1%, when compared to December 31, 2021. The decrease in total deposits was due to decreases in money market and savings accounts of $85.7 million, noninterest-bearing deposits of $65.5 million and time deposits of $35.2 million, partially offset by an increase in interest bearing checking accounts of $170.0 million.

Total stockholders' equity increased $13.6 million, or 3.9%, when compared to December 31, 2021, primarily due to current year earnings, partially offset by unrealized losses on available for sale securities of $9.1 million and dividends paid to common stockholders of $9.5 million. At December 31, 2022, the ratio of total equity to total assets was 10.48% and the ratio of total tangible equity to total tangible assets was 8.67%, compared to 10.14% and 8.25% for 2021.

CRITICAL ACCOUNTING POLICIES

The Company's consolidated financial statements are prepared in accordance with 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 to the Consolidated Financial Statements. These policies, along with the disclosures presented in the notes to the financial statements and in this discussion, 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 with respect to the allowance for credit losses, accounting for loans acquired in business combinations, and goodwill 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.

Loans Acquired in a Business Combination

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

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PCI loans are those for which there is evidence of credit deterioration since origination and for which it is probable at the date of acquisition that the Company will not collect all contractually required principal and interest payments. When determining fair value, PCI loans are aggregated into pools of loans 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. The difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition is referred to as the "nonaccretable difference." Any excess of cash flows expected at acquisition over the estimated fair value is referred to as the "accretable yield" and is recognized as interest income over the remaining life of the loan when there is a reasonable expectation about the amount and timing of such cash flows.

On a quarterly basis, we evaluate our estimate of cash flows expected to be collected on PCI loans. Estimates of cash flows for PCI loans require significant judgment. Subsequent decreases to the expected cash flows will generally result in a provision for loan losses resulting in an increase to the allowance for loan losses. Subsequent significant increases in cash flows may result in a reversal of post-acquisition provision for loan losses or a transfer from nonaccretable difference to accretable yield that increases interest income over the remaining life of the loan, or pool(s) of loans. 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 PCI loan portfolio at its carrying amount.

PCI loans are not classified as nonperforming by the Company at the time they are acquired, regardless of whether they had been classified as nonperforming by the previous holder of such loans, and they will not be classified as nonperforming so long as, at quarterly re-estimation periods, we believe we will fully collect the new carrying value of the pools of loans.

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. There is no allowance for loan losses established at the acquisition date for purchased performing loans. A provision for loan losses may be required for any deterioration in these loans in future periods.

Allowance for Credit Losses

The allowance for credit losses represents management's estimate of probable credit losses inherent in the loan portfolio as of the balance sheet date. Determining the amount of the allowance for credit losses is considered a critical accounting estimate because it requires significant judgment and the use of estimates related to the amount and timing of expected future cash flows on impaired loans, estimated losses on pools of similar loans based on historical loss experience, and consideration of current economic trends and conditions and other factors impacting the loan portfolio, all of which may be susceptible to significant change. The loan portfolio also represents the largest asset type on the consolidated balance sheets. Note 1 Notes to the Consolidated Financial Statements describes discuss the methodology used expected impact of accounting policies recently issued or proposed but not yet required to determine be adopted. To the allowance for credit losses. A discussion extent the adoption of new accounting standards materially affects our financial condition, results of operations or liquidity, the allowance determination and factors driving changes impacts are discussed in the amount applicable section(s) of the allowance for credit losses is included in the Asset Quality - Provision for Credit Losses this discussion and Risk Management section below.

Goodwill Impairment

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, and 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 Notes 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. As of December 31, 2022, the Company had banking and mortgage reporting units.

Consolidated Financial Statements.

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2023

RECENT ACCOUNTING PRONOUNCEMENTS AND DEVELOPMENTS

The Notes to the Consolidated Financial Statements discuss the expected impact of accounting policies recently issued or proposed but not yet required to be adopted. To the extent the adoption of new accounting standards materially affects our financial condition, results of operations or liquidity, the impacts are discussed in the applicable section(s) of this discussion and Notes to the Consolidated Financial Statements.

2023

PERFORMANCE OVERVIEW

The Company recorded net income of $11.2 million for 2023 and net income of $31.2 million for 2022. The basic and diluted income per share was $0.42 and $1.57 for fiscal year 2023 and 2022, respectively.

Total assets were $6.0 billion at December 31, 2023, an increase of $2.5 billion or 72.9%, when compared to $3.5 billion at December 31, 2022. The aggregate increase was primarily due to the acquisition of TCFC ("the merger"), with significant increases year over year in loans held for investment of $2.1 billion, or 81.6%, and cash and cash equivalents of $316.9 million, partially offset by an increase in allowance for credit losses of $40.7 million. The ratio of the ACL to total loans increased from 0.65% at December 31, 2022, to 1.24% at December 31, 2023.The increase was due to the adoption of CECL on January 1, 2023 and the merger. Due to a lack of uniformity of historical data between the legacy banks in their respective models, beginning in the third quarter of 2023, management implemented a new post-merger model methodology. The Bank's provision for credit losses for the twelve months ended December 31, 2023 was $31.0 million and was due primarily to $20.1 million related to the acquisition of TCFC legacy loans and $7.3 million related to the change in ACL methodology on SUB legacy loans.

Total borrowings were $72.3 million at December 31, 2023, a decrease of $10.8 million, or 13.0%, when compared to $83.1 million at December 31, 2022. Total borrowings at December 31, 2023 were comprised of $43.1 million of subordinated debt and $29.2 million of trust preferred debentures. The decrease in total borrowings at December 31, 2023 when compared to December 31, 2022 was primarily due to repayment of $40.0 million in FHLB short-term advances, partially offset by an increase of $29.2 million in subordinated debt and trust preferred debentures from the merger. The Company's wholesale funding increased $4.5 million, which includes brokered deposits and FHLB advances, from $40.0 million in FHLB advances at December 31, 2022 to $44.5 million in brokered deposits at December 31, 2023. The Bank redeemed callable brokered certificates of $67.0 million during the fourth quarter of 2023.

Total deposits increased $2.4 billion, or 79.0% to $5.4 billion at December 31, 2023 when compared to December 31, 2022. The increase in total deposits when compared to December 31, 2022 was primarily due to the merger. Increases within deposits during the year consisted of increases in time deposits of $760.3 million, demand deposits of $471.4 million, money market and savings of $748.6 million and noninterest-bearing deposits of $396.0 million.

RESULTS OF OPERATIONS

Net Interest Income and Net Interest Margin

Net interest

Summary of Financial Results

The Company reported net income remains for the most significant factor affecting our results twelve months ended December 31, 2023 of operations. Net interest $11.2 million or diluted earnings per share of $0.42 compared to net income represents of $31.2 million or diluted earnings per share of $1.57 for the excess of interest and fees earned on total average earning assets (loans, investment securities, federal funds sold and interest-bearing deposits with other banks) over interest owed twelve months ended December 31, 2022. The Company's return on average interest-bearing liabilities (deposits assets, return on average common equity, and borrowings) return on average tangible common equity were 0.24%, 2.54%, and 7.74% for the twelve months ended December 31, 2023 compared to 0.90%, 8.76%, and 11.96% for the twelve months ended December 31, 2022. Tax-equivalent For additional details, see "Reconciliation of Non-GAAP Measures (Unaudited).

The decrease in net income in 2023 compared to 2022 was primarily due to merger-related expenses and increased provision for credit losses. These decreases to pretax earnings were partially offset by increased net interest income is net interest from an increased balance sheet as a result of the merger. The increase in noninterest income adjusted for was principally due to the tax-favored status bargain purchase gain recognized in the third quarter of income from certain loans and investments. 2023 of $8.8 million.

	Twelve Months Ended December 31,			
(Dollars in thousands)	2023	2022	$ Change	% Change
Interest and dividend income	**$ 214,079**	$ 113,845	$ 100,234	88.04 %

Interest expenses	**78,772**	12,543	66,229	528.02 %
Net interest income	**135,307**	101,302	34,005	33.57 %
Provision for credit loses	**30,953**	1,925	29,028	1,507.95 %
Noninterest income	**33,159**	23,086	10,073	43.63 %
Noninterest expenses	**123,329**	80,322	43,007	53.54 %
Income before income taxes	**14,184**	42,141	(27,957)	(66.34)%
Income tax expense	**2,956**	10,964	(8,008)	(73.04)%
Net income	**$ 11,228**	$ 31,177	$ (19,949)	(63.99)%

Net Interest Income

As shown in the table below, tax-equivalent net interest income increased $34.1 million to $135.6 million for 2022 was 2023 compared to $101.5 million. This represented a $37.2 million, or 57.8%, increase from 2021. for 2022. The increase in net interest income when comparing 2022 to 2021 was primarily the result of higher average balances on earnings assets of $1.04 billion, or 47.4%, partially offset by an increase in interest bearing deposits of $684.5 million, higher rates paid on interest bearing deposits of 16bps, and additional interest on subordinated debt acquired in the 4th quarter of 2021. This was the result of a full year of integration with Severn, significant loan growth, and a rising interest rate environment resulting in higher yields on loans and deposits.

Our net interest margin (i.e., tax-equivalent net interest income divided by average earning assets) is managed through loan and deposit pricing and asset/liability strategies. The net interest margin was 3.15% for 2022 and 2.94% for 2021. The net interest margin increased when comparing 2022 to 2021 primarily due to an increase in the average yield on total earning assets of 33bps, partially offset by higher interest rates paid on interest bearing deposits and borrowings. The net interest spread, which is the difference between the average yield on earning assets and the average rate paid for interest-bearing liabilities was 2.96% for 2022 and 2.80% for 2021.

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The following table sets forth the major components of net interest income, on a tax-equivalent basis, for the presented years ended December 31.

	2022			2021		
(Dollars in thousands)	Average Balance	Interest (1)	Yield/ Rate	Average Balance	Interest (1)	Yield/ Rate
Earning assets						
Loans (2), (3)	$2,293,627	$ 99,276	4.33 %	$1,568,468	$ 64,945	4.14 %
Investment securities:						
Taxable	589,729	11,507	1.95	329,890	5,006	1.52
Tax-exempt	113	7	6.19	—	—	—
Interest-bearing deposits	337,203	3,210	0.95	286,765	368	0.13
Total earning assets	3,220,672	114,000	3.54 %	2,185,123	70,319	3.21 %
Cash and due from banks	18,158			19,838		

Other assets	221,592			127,704		
Allowance for credit losses	(15,441)			(15,068)		
Total assets	$3,444,981			$2,317,597		
Interest-bearing liabilities						
Demand deposits	$ 638,105	3,869	0.61 %	$ 450,399	633	0.14 %
Money market and savings deposits	1,043,032	3,609	0.35	695,056	1,433	0.21
Certificates of deposit $100,000 or more	239,927	1,364	0.57	144,209	1,214	0.84
Other time deposits	204,536	1,141	0.56	151,429	1,181	0.78
Interest-bearing deposits	2,125,600	9,983	0.47	1,441,093	4,461	0.31
Securities sold under retail repurchase agreements and federal funds purchased	683	2	0.29	3,017	8	0.27
Advances from FHLB - short-term	1,863	72	3.86	—	—	—
Advances from FHLB - long-term	7,701	35	0.46	1,671	10	0.60
Subordinated debt	42,917	2,451	5.71	27,528	1,560	5.67
Total interest-bearing liabilities	2,178,764	12,543	0.58 %	1,473,309	6,039	0.41 %
Noninterest-bearing deposits	888,509			574,531		
Other liabilities	21,858			45,702		
Stockholders' equity	355,850			224,055		
Total liabilities and stockholders' equity	$3,444,981			$2,317,597		
Net interest spread		$101,457	2.96 %		$ 64,280	2.80 %
Net interest margin			3.15 %			2.94 %

(1) All amounts are reported on a tax-equivalent basis computed using the statutory federal income tax rate of 21% for 2022 and 2021, exclusive of nondeductible interest expense. The tax-equivalent adjustment amounts used in the above table to compute yields aggregated $155 thousand in 2022 and $150 thousand in 2021.

(2) Average loan balances include nonaccrual loans and loans held for sale.

(3) Interest income on loans includes amortized loan fees, net of costs, and accretion of discounts on acquired loans, which are included in the yield calculations.

On a tax-equivalent basis, total interest income was $114.0 million for 2022 compared to $70.3 million for 2021. of $100.2 million, or 88.0%, which included an increase in interest and fees on loans of $95.2 million, or 96.1%. The increase in interest income for 2022 compared to 2021 and fees on loans was primarily due to the increase in the average balance in earning assets of $1.04 billion which was due to both the acquisition of Severn and organic growth in 2022. The interest on loans had the most significant impact on total interest income, which increased $34.3 million in 2022, due to the increase in the average balance of loans of $725.2 million $1.3 billion, or 46.2% 58.7%, combined with and an increase in net accretion income of approximately $3.0 million $7.5 million due to the merger.

(Dollars in thousands)	Twelve Months Ended December 31, 2023	2022	$ Change	% Change
Interest and dividend income				
Loans, including fees	$ **194,339**	$ 99,122	$ 95,217	96.06 %
Interest and dividends on investment securities	**16,970**	11,513	5,457	47.40 %

Interest on deposits with banks	**2,770**	3,210	(440)	(13.71)%
Total Interest and Dividend Income	**$ 214,079**	$ 113,845	$100,234	88.04 %
Interest Expenses				
Deposits	**$ 68,800**	$ 9,983	$ 58,817	589.17 %
Short-term borrowings	**5,518**	74	5,444	7,356.76 %
Long-term debt	**4,454**	2,486	1,968	79.16 %
Total Interest Expenses	**$ 78,772**	$ 12,543	$ 66,229	528.02 %
Taxable-equivalent adjustment	253	155	98	63.23 %
Tax Equivalent Net Interest Income	**$ 135,560**	$ 101,457	$ 34,103	33.61 %

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 twelve months ended December 31, 2023 and 2022.

	Twelve Months Ended December 31, 2023			Twelve Months Ended December 31, 2022		
(Dollars in thousands)	**Average Balance**	**Interest (1),(4)**	**Yield/ Rate**	Average Balance	Interest (1),(4)	Yield/ Rate
Earning assets						
Loans (2), (3)						
Residential real estate	**$ 1,076,713**	**$ 54,583**	**5.07 %**	$ 699,192	$ 31,401	4.49 %
Commercial real estate	**2,039,153**	**110,058**	**5.40**	1,182,845	51,821	4.38
Commercial	**184,214**	**13,607**	**7.39**	194,785	7,829	4.02
Consumer	**322,033**	**15,298**	**4.75**	195,542	7,560	3.87
State and political	**1,025**	**41**	**4.00**	1,613	64	3.97
Credit Cards	**3,147**	**315**	**10.01**	—	—	—
Other	**12,773**	**678**	**5.31**	19,650	601	3.06
Total Loans	**3,639,058**	**194,580**	**5.35**	2,293,627	99,276	4.33
Investment securities:						
Taxable	**674,203**	**16,832**	**2.50**	589,729	11,507	1.95
Tax-exempt	**663**	**58**	**8.75**	113	7	6.19
Federal funds sold	**1,899**	**92**	**4.84**	—	—	—
Interest-bearing deposits	**41,032**	**2,770**	**6.75**	337,203	3,210	0.95
Total earning assets	**4,356,855**	**214,332**	**4.92**	3,220,672	114,000	3.54
Cash and due from banks	**43,555**			18,158		
Other assets	**303,906**			221,592		
Allowance for credit losses	**(40,777)**			(15,441)		
Total assets	**$ 4,663,539**			$ 3,444,981		
Interest-bearing liabilities						
Demand deposits	**$ 883,976**	**$ 20,134**	**2.28 %**	$ 638,105	$ 3,869	0.61 %

Money market and savings deposits	**1,275,088**	**20,039**	**1.57**	1,043,032	3,609	0.35
Brokered deposits	**56,101**	**2,919**	**5.20**	—	—	—
Certificates of deposit $100,000 or more	**492,226**	**16,583**	**3.37**	239,927	1,364	0.57
Other time deposits	**278,144**	**9,125**	**3.28**	204,536	1,141	0.56
Interest-bearing deposits	**2,985,535**	**68,800**	**2.30**	2,125,600	9,983	0.47
Securities sold under retail repurchase agreements and federal funds purchased	**—**	**—**	**—**	683	2	0.29
Advances from FHLB - short-term	**111,392**	**5,518**	**4.95**	1,863	72	3.86
Advances from FHLB - long-term	**—**	**—**	**—**	7,701	35	0.45
Subordinated debt and guaranteed preferred beneficial interest in junior subordinated debentures ("TRUPS")	**57,708**	**4,454**	**7.72**	42,917	2,451	5.71
Total interest-bearing liabilities	**3,154,635**	**78,772**	**2.50**	2,178,764	12,543	0.58
Noninterest-bearing deposits	**1,043,479**			888,509		
Accrued expenses and other liabilities	**23,635**			21,858		
Stockholders' equity	**441,790**			355,850		
Total liabilities and stockholders' equity	**$ 4,663,539**			$ 3,444,981		
Net interest income		**$ 135,560**			$ 101,457	

	Twelve Months Ended December 31, 2023			**Twelve Months Ended December 31, 2022**		
(Dollars in thousands)	**Average Balance**	**Interest (1),(4)**	**Yield/ Rate**	Average Balance	Interest (1),(4)	Yield/ Rate
Net interest spread			**2.42 %**			2.96 %
Net interest margin ("NIM")			**3.11 %**			3.15 %
Cost of Funds			**1.88 %**			0.41 %
Cost of Deposits			**1.71 %**			0.33 %
Cost of Debt			**5.90 %**			4.82 %

(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 accreted loan fees, net of costs and accretion of discounts on acquired loans, which are included in relation the yield calculations. There were $11.8 million and $1.5 million of accretion interest on loans for the twelve months ended December 31, 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 $(1.8) million and $0.6 million of amortization of deposits premium, and $(0.6) million and $(0.2) million of amortization of

borrowing fair value adjustment for the twelve months ended December 31, 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 acquired loans. (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.

Twelve Months Ended December 31, 2023 Compared to the Twelve Months Ended December 31, 2022			
		Due to	
	Volume	Rate	Total
Interest income from earning assets:			
Loans			
Residential real estate	$ 19,141	$ 4,041	$ 23,182
Commercial real estate	46,241	11,996	58,237
Commercial	(781)	6,559	5,778
Consumer	6,008	1,730	7,738
State and political	(23)	—	(23)
Credit Cards	315	—	315
Other	(365)	442	77
Taxable investment securities	2,112	3,213	5,325
Tax-exempt investment securities	48	3	51
Fed funds sold	92	—	92
Interest-bearing deposits	(19,992)	19,552	(440)
Total interest income	$ 52,796	$ 47,536	$ 100,332
Interest-bearing liabilities:			
Interest-bearing demand deposits	$ 5,606	$ 10,659	$ 16,265
Money market and savings deposits	3,643	12,787	16,430
Certificate of deposits	13,834	12,288	26,122
Securities sold under repurchase agreements and federal funds purchased	—	(2)	(2)
Advances from FHLB - Short-term	5,422	24	5,446
Advances from FHLB - Long-term	—	(35)	(35)
Subordinated debt and TRUPS	1,142	861	2,003
Total interest-bearing liabilities	$ 29,647	$ 36,582	$ 66,229
Net change in net interest income	$ 23,149	$ 10,954	$ 34,103

Net interest income for 2023 was $135.3 million an increase of $34.0 million, or 33.6%, when compared to 2022. The increase in net interest income was primarily due to an increase in total interest income of $100.2 million, or 88.0%, which includes an increase in interest and fees on loans of $95.2 million, or 96.1%. The increase in interest income and fees on taxable investment securities and interest-bearing deposits loans was primarily due to increases in their respective the average balances balance of $259.8 million loans of $1.3 billion, or 58.7%, largely due to the merger and $50.4 million. As a percentage of total average earning assets, loans, the increase in loan yields. Interest on investment securities increased $5.4 million, or 46.6%, primarily due to an increase in the average balance of $85.0 million, or 14.4%. Increases to interest income were partially offset by increased interest expense of $66.2 million, or 528.0%, primarily due to increases in the cost of funds and in the average balance of interest-bearing deposits were 71.2% of $859.9 million, or 40.5%, 18.3%, and 10.5%, respectively, largely due to the merger.

The Company's NIM decreased to 3.11% for 2023 from 3.15% for 2022. The comparable percentages for 2021 were 71.8%, 15.1%, and 13.1%, respectively.

Interest expense was $12.5 million for 2022 compared to $6.0 million for 2021. The increase decrease in interest expense for 2022 the NIM was primarily due to the an increase in the average rates paid on interest-bearing deposits, and a full year of interest on subordinated debt acquired from Severn. During 2022, money market/savings deposits, demand deposits and certificates

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of deposit over $100 thousand experienced significant growth with increases in the average balances of $348.0 million, $187.7 million and $95.7 million, respectively, while the average rates paid on these deposits increased 47 and 14bps on demand deposits and money market/savings deposits, respectively and decreased 27bps on certificates of deposit over $100 thousand.

The following Rate/Volume Variance Analysis identifies the portion of the changes in tax-equivalent net interest income attributable to changes in volume of average balances or to changes in the yield on earning assets balance and rates paid on interest-bearing liabilities. The rate liabilities of $975.9 million and volume variance 192 basis points, partially offset by an increase in the average balance and rates earned on total earning assets of $1.1 billion and 138 basis points. In the second half of 2023, the Company mitigated margin compression by selling the acquired AFS securities from the merger and used the proceeds to pay down more costly brokered deposits and FHLB borrowings. However,margin also compressed as the Bank's mix of average time deposit balances increased from 21% in 2022 to 26% in 2023. For the comparable periods, the cost of funds increased 147 basis points to 1.88% for each category has been allocated on a consistent basis between rate and volume variances, based on a percentage of rate, or volume, variance December 31, 2023 compared to the sum of the absolute two variances.

	2022 over (under) 2021		
	Total	Caused By	
(Dollars in thousands)	Variance	Rate	Volume
Interest income from earning assets:			
Loans	$ 34,331	$ 3,100	31,231
Taxable investment securities	6,501	1,718	4,783
Tax-exempt investment securities	7	—	7
Interest-bearing deposits	2,842	2,764	78
Total interest income	43,681	7,582	36,099
Interest expense on deposits and borrowed funds:			
Interest-bearing demand deposits	3,236	2,878	358
Money market and savings deposits	2,176	1,243	933
Time deposits	110	(862)	972
Securities sold under repurchase agreements and federal funds purchased	(6)	1	(7)
Advances from FHLB - Short-term	72	—	72
Advances from FHLB - Long-term	25	(2)	27
Subordinated debt	891	11	880
Total interest expense	6,504	3,269	3,235

Net interest income	$	37,177	$	4,313	$	32,864

0.41% for December 31, 2022. Total net accretion income for 2023 was $9.4 million, compared to $1.9 million for 2022.

Noninterest Income

Noninterest

Total noninterest income for 2023 of $33.2 million increased $9.6 million, $10.1 million or 71.0%, in 2022 when compared to 2021. 43.6% from $23.1 million for 2022. The increase in noninterest income primarily consisted of increases in revenue associated with the mortgage division of $4.3 million, service charges on deposit accounts of $2.3 million, revenue from Mid-Maryland Title of $1.1 million and other noninterest income of $1.2 million. The increase in other noninterest income was primarily due to increases the bargain purchase gain of $8.8 million and an increase of $1.8 million in rental trust and investment fee income of $1.3 million. These changes were all primarily attributable which $1.1 million related to the acquisition transition of Severn customers to a new broker of record for the Bank's wealth management division. Both the bargain purchase gain and the transition payment were the result of the merger. Additionally, interchange income increased $0.9 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 in the 4th third quarter and a decrease of 2021.

Table $0.8 million in title company revenue. Management sold virtually all of Contents

legacy CBTC's AFS investment securities soon after the merger closed on July 1, 2023. The following table summarizes our noninterest income $2.2 million loss relates to the difference in the fair values of the securities at the acquisition date compared to actual sales proceeds received. Title company revenues decreased in 2023 as real estate settlement activity declined in 2023 due to the higher interest rate environment and historically low residential loans held for the presented years ended December 31.

	Years Ended		Change from Prior Year	
			2022/ 21	
(Dollars in thousands)	2022	2021	Amount	Percent
Service charges on deposit accounts	$ 5,652	$ 3,396	$ 2,256	66.4 %
Trust and investment fee income	1,784	1,881	(97)	(5.2)
Gains on sales and calls of investment securities	—	2	(2)	(100.0)
Interchange credits	4,812	3,964	848	21.4
Mortgage-banking revenue	5,210	948	4,262	449.6
Title Company revenue	1,340	247	1,093	442.5
Other noninterest income	4,288	3,060	1,228	40.1
Total	$ 23,086	$ 13,498	$ 9,588	71.0

sale inventory.

Noninterest Expense

Noninterest

Total noninterest expense excluding merger related expenses, of $123.3 million for 2023 increased $29.9 million $43.0 million, or 62.0% 53.5%, when compared to the same period in 2021. The increase was mainly the $80.3 million for 2022. Almost all noninterest expense line items increased as a result of increases in salaries the merger and wages, employee related benefits, occupancy expense, data processing, the expanded operations of the newly combined Company. Merger-related expenses were $17.4 million for 2023, compared to $2.1 million for 2022. Excluding merger and acquisition costs and core deposit intangible amortization, of intangible assets, FDIC insurance premium expense, $23.5 million for 2023 and legal and professional fees which were all significantly impacted by adding Severn and its operations $4.1 million for the full year of 2022, as well as the addition of two new branches in 2022

The Company had 464 full-time equivalent employees at December 31, 2022, and 454 full-time equivalent employees at December 31, 2021.

The following table summarizes our noninterest expense for the years ended December 31.

	Years Ended		Change from Prior Year	
			2022/ 21	
(Dollars in thousands)	**2022**	**2021**	**Amount**	**Percent**
Salaries and wages	**$ 35,931**	$ 21,222	**$ 14,709**	**69.3 %**
Employee benefits	**9,908**	7,262	**2,646**	**36.4**
Occupancy expense	**6,242**	3,690	**2,552**	**69.2**
Furniture and equipment expense	**2,018**	1,553	**465**	**29.9**
Data processing	**6,890**	5,001	**1,889**	**37.8**
Directors' fees	**839**	620	**219**	**35.3**
Amortization of intangible assets	**1,988**	734	**1,254**	**170.8**
FDIC insurance premium expense	**1,426**	1,015	**411**	**40.5**
Other real estate owned expenses, net	**65**	4	**61**	**1,525.0**
Legal and professional fees	**2,840**	1,742	**1,098**	**63.0**
Merger related expenses	**2,098**	8,530	**(6,432)**	**(75.4)**
Other noninterest expenses	**10,077**	5,433	**4,644**	**85.5**
Total	**$ 80,322**	$ 56,806	**$ 23,516**	**41.4**

comparable periods was $99.9 million and $76.2 million, respectively. Noninterest expense as a percentage of average assets increased to 2.6% for 2023 from 2.3% for 2022. Excluding merger and acquisition costs and core deposit amortization for the comparable periods, noninterest expense as a percentage of average assets decreased to 2.1% for 2023 compared to 2.2% for 2022. As the Company continues its merger integration, a key focus of management will be to further streamline processes, unlock operational efficiencies and reduce overall noninterest expense.

Income Taxes

The Company reported an income tax expense of $11.0 million $3.0 million for 2022, compared to an 2023, and income tax expense of $5.8 million $11.0 million for 2021. 2022. The effective tax rate was 20.8% for 2023, and 26.0% for 2022 and 27.4% for 2021. 2022. The Company's primary drivers in the reduced effective tax rate decreased in for 2023 when compared to 2022, primarily were due to nondeductible expenses related to the acquisition of Severn bargain purchase gain recorded in 2021, higher pre-tax earnings the third quarter and the reapportionment of assets and revenue for state income tax purposes. Please refer to Note 18 purposes, partially offset by nondeductible merger related costs, in connection with of the Notes acquisition of TCFC. The estimated tax rate applied to Consolidated Financial Statements included in Part II net deferred tax assets of this Annual Report on Form 10-K the Bank was 26.0% and for further information.

the Parent Company 21%. As of December 31, 2023 the Company recorded deferred tax assets relating to $31.1 million and $25.0 million of gross federal and state net operating loss carryovers. These net operating loss carryovers will offset future taxable income to the Company.

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REVIEW OF FINANCIAL CONDITION

Asset and liability composition, capital resources, asset quality, market risk, interest sensitivity and liquidity are all factors that affect our financial condition. The following sections discuss each

Balance Sheet Summary

Total assets were $6.0 billion at December 31, 2023, an increase of these factors.

Assets

Interest-Bearing Deposits with Other Banks and Federal Funds Sold

The Company invests excess cash balances (i.e. $2.5 billion or 72.9%, the excess cash remaining after funding loans and investing in securities with deposits and borrowings) in interest-bearing accounts and federal funds sold offered by our correspondent banks. These liquid investments are maintained at a level that management believes is necessary when compared to meet current liquidity needs. Total interest-bearing deposits with other banks decreased $548.9 million from $566.7 million at December 31, 2021 to $17.8 million $3.5 billion at December 31, 2022. The Company principally utilized increase was primarily due to the excess liquidity to fund merger, with significant increases in both loans held for investment of $436.9 million $2.1 billion, or 81.6%, and investment securities cash and cash equivalents of $128.3 million as $316.9 million, partially offset by an increase in the ACL of $40.7 million

The ratio of the ACL to total loans increased from 0.65% at December 31, 2022, to 1.24% at December 31, 2023.The increase was due to the adoption of CECL on January 1, 2023 and the merger. In July 2023, due to a lack of uniformity of historical data between the legacy banks in their respective models, management implemented a new post merger model methodology. The Bank's provision for credit losses for the twelve months ended December 31, 2023 was $31.0 million and was due primarily to $20.1 million related to the acquisition of TCFC legacy loans and $7.3 million due to the change in ACL methodology on CBTC legacy loans.

Cash and Cash Equivalents

Cash and cash equivalents totaled $372.4 million at December 31, 2023, compared to $55.5 million at December 31, 2022. Total cash and cash equivalents fluctuate due to transactions in process and other liquidity demands. Management believes liquidity needs are satisfied by the prior year end.

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.

Investment Securities

The investment portfolio is structured to provide us with liquidity includes debt and also plays an important role in the overall management of interest rate risk. Investment equity securities. Debt securities are classified as either available for sale ("AFS") or held to maturity ("HTM"). AFS investment securities are stated at estimated fair value based on quoted prices and market prices. They represent securities which may be sold as part of the asset/liability management strategy or which may be sold in response to changing interest rates. Net unrealized holding gains and losses on available for sale debt these securities are reported net of related income taxes as accumulated other comprehensive income AOCI (loss), a separate component of stockholders' equity. Investment securities in the held to maturity HTM category are stated at cost adjusted for amortization of premiums and accretion of discounts. discounts and the ACL. We have the intent and current ability to hold such securities until maturity. At December 31, 2022 December 31, 2023, 14% 17.72% of the portfolio of debt securities was classified as available for sale AFS and 86% as held to maturity. At December 31, 2021, 23% of the portfolio 82.3% was classified as available HTM, compared to 13.0% and 87.0% respectively, at December 31, 2022. See Note 3 – "Investment Securities", in the Notes to Consolidated Financial Statements for sale additional details on the composition of our investment portfolio.

Investment securities, including restricted stock and 77% as held to maturity. Total investment equity securities, increased $128.3 million from $527.1 million totaled $647.3 million at December 31, 2021 December 31, 2023, an $8.1 million, or 1.2%, decrease compared to $655.4 million at December 31, 2022. The Bank purchased $208.1 million in debt December 31, 2022. At December 31, 2023, AFS securities, in 2022, all of which were classified as held carried at fair value, totaled $110.5 million compared to maturity. The investment strategy remained relatively consistent when comparing 2022 to 2021 due to excess liquidity, which was partially utilized to purchase securities with higher average yields than the then current overnight Fed funds rate. The larger percentage of securities designated as held to maturity reflects the amount that management believes is not needed to support our anticipated growth and liquidity needs.

Investment securities available for sale were $83.6 million at the end December 31, 2022. At December 31, 2023, AFS securities consisted of 2022 and $117.0 million at the end of 2021. The Bank did not purchase any available for sale securities in 2022 and 2021. At year-end 2022, 21.7% of the available for sale securities in the portfolio were 76.0% mortgage-backed, 18.5% U.S. Government agencies 76.0% of the securities were mortgage-backed securities and 2.3% were 5.5% corporate bonds, compared to 19.1% 76.0%, 79.2% 21.8%, and 1.7% 2.3%, respectively, at year-end 2021. Our investments 2022. At December 31, 2023, AFS securities net unrealized losses were all related to changes in interest rates and were $10.3 million, or less than 1% of total assets and 2.0% of stockholder's equity before AOCI of $518.6 million.

At December 31, 2023, HTM securities, carried at amortized cost, totaled $513.2 million compared to $559.5 million at December 31, 2022. At December 31, 2023, HTM securities consisted of 69.7% mortgage-backed, 28.0% U.S. Government agencies, 2.0% other debt securities, are and 0.3% states and political subdivisions, compared to 71.3%, 26.5%, 2.0%, and 0.3%, respectively, at year-end 2022.At December 31, 2023, HTM securities unrealized losses were all related to changes in interest rates, except for a general CECL reserve of $94,000, and were $55.4 million or less than 1% of total assets and 10.7% of stockholder's equity before AOCI of $518.6 million

At December 31, 2023 and December 31, 2022, 97.1% and 97.8%, 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.

Investment securities held to maturity amounted to $559.5 million at the end of 2022 and $404.6 million at the end of 2021. The Bank purchased $208.1 million in held to maturity securities in 2022 and $255.5 million for 2021. During 2022, the Bank purchased twenty-two mortgage-backed securities totaling $142.2 million, eleven government agency bonds totaling $62.4 million, two subordinated debt instruments from other banks amounting to $2.0 million and three community reinvestment bonds amounting to $1.5 million. In 2021, the Bank purchased thirty-two mortgage-backed securities totaling $177.1 million, fifteen government agency bonds amounting to 75.9 million and two subordinated debt instruments from other banks amounting to $2.5 million. At year-end 2022, 27.2% of the held to maturity securities in the portfolio were U.S. Government agencies, 70.4% of the securities were mortgage-backed securities, 2.1% were subordinated debt instruments and less than 1% were community reinvestment bonds. At year-end 2021, 21.5% of the held to maturity securities in the portfolio were U.S. Government agencies, 74.8% of the securities were mortgage-backed securities, 3.6% of the securities were subordinated debt instruments and less than 1% were community reinvestment bonds.

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The following tables set forth the weighted average yields by maturity category of the bond investment portfolio as of December 31.

(Dollars in thousands)	1 Year or Less Average Yield	1-5 Years Average Yield	5-10 Years Average Yield	Over 10 Years Average Yield
2022				
Available for sale:				
U.S. Government agencies	— %	4.49 %	1.53 %	— %
Mortgage-backed	1.89	2.19	2.20	1.89
Other Debt Securities	—	—	2.95	—
Total available for sale	1.89	2.34	1.82	1.89
Held to maturity:				
U.S. Government agencies	0.40 %	2.57 %	2.42 %	3.08 %
Mortgage-backed	(1.24)	0.26	3.13	2.21
States and political subdivisions1	—	4.52	—	4.63
Other Debt Securities	—	8.37	4.64	—
Total held to maturity	0.33	2.47	2.36	2.24

December 31, 2023.

(Dollars in thousands)	Under 1 Year Amortized Cost	Under 1 Year Average Yield	1 - 5 Years Amortized Cost	1 - 5 Years Average Yield	5 - 10 Years Amortized Cost	5 - 10 Years Average Yield	Over 10 Years Amortized Cost	Over 10 Years Average Yield	Total Investment Securities Amortized Cost	Total Investment Securities Fair Value
December 31, 2023										
Available for sale										
U.S. Treasury and government agencies	$ 2,447	5.36 %	$ 5,532	1.50 %	$ 14,877	1.27 %	$ 616	5.39 %	$ 23,472	$ 20,475
Mortgage-backed securities	—	— %	10,959	2.39 %	8,300	2.60 %	72,021	3.12 %	91,280	84,027
Other debt securities	—	— %	—	— %	6,080	5.85 %	—	— %	6,080	6,019
Total	$ 2,447	5.36 %	$ 16,491	2.09 %	$ 29,257	2.60 %	$ 72,637	3.14 %	$ 120,832	$110,521

[1] Yields have been adjusted to reflect a tax equivalent basis using the statutory federal tax rate of 21%.

(Dollars in thousands)	Under 1 Year Amortized Cost	Under 1 Year Average Yield	1 - 5 Years Amortized Cost	1 - 5 Years Average Yield	5 - 10 Years Amortized Cost	5 - 10 Years Average Yield	Over 10 Years Amortized Cost	Over 10 Years Average Yield	Total Investment Securities Amortized Cost	Total Investment Securities Fair Value
December 31, 2023										
Held to Maturity										
U.S. Treasury and government agencies	$ 7,000	3.50 %	$ 110,163	2.44 %	$ 15,418	1.48 %	$ 10,861	3.02 %	$ 143,442	$133,065
Mortgage-backed securities	—	— %	6,295	4.64 %	27,620	3.73 %	323,955	2.20 %	357,870	314,006
Obligations of states and political subdivisions (1)	—	— %	310	4.52 %	—	— %	1,160	4.53 %	1,470	1,508
Other debt securities	—	— %	3,000	10.35 %	7,500	4.63 %	—	— %	10,500	9,251
Total	$ 7,000	3.50 %	$ 119,768	2.76 %	$ 50,538	3.18 %	$ 335,976	2.24 %	$ 513,282	$457,830

(Dollars in thousands)	1 Year or Less Average Yield	1-5 Years Average Yield	5-10 Years Average Yield	Over 10 Years Average Yield
2021				
Available for sale:				
U.S. Government agencies	**— %**	**1.46 %**	**1.13 %**	**1.73 %**

Mortgage-backed	1.60	1.68	1.94	0.83
Other Debt Securities	—	—	2.95	—
Total available for sale	1.60	1.66	1.64	0.85
Held to maturity:				
U.S. Government agencies	— %	1.05 %	1.26 %	1.79 %
Mortgage-backed	—	(1.01)	0.43	1.54
States and political subdivisions[2]	5.20	—	—	—
Other Debt Securities	2.68	6.50	4.21	—
Total held to maturity	3.03	1.74	1.27	1.55

(1) Yields have been adjusted to reflect a tax equivalent basis using the statutory federal tax rate of 21%.

[2] Yields have been adjusted to reflect a tax equivalent basis using the statutory federal tax rate of 21%.

Loans Held for Sale

We originate residential mortgage loans for sale on the secondary market, which we have elected to carry at fair value. At December 31, 2022December 31, 2023, the fair value of loans held for sale amounted to $8.8 million compared to $4.2 million and $37.7 million at December 31, 2021 December 31, 2022.

When we sell mortgage loans we make certain representations to the purchaser related to loan ownership, loan compliance and legality, and accurate documentation, among other things. If a loan is found to be out of compliance with any of the representations subsequent to the date of purchase, we may be required to repurchase the loan or indemnify the purchaser.

The Company was not required to repurchase any loans during 2021 2023 or 2022.

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Loans Held for Investment

The loan portfolio is the primary source of our income. Loans totaled $2.6 billion at December 31, 2022, an increase of $437.0 million, or 20.6%, from year end 2021.

The following table represents the composition of summarizes the Company's loan portfolio at December 31, 2023 and December 31, 2022.

(Dollars in thousands)	December 31, 2023	%	December 31, 2022	%	$ Change	% Change
Construction	**$ 299,000**	**6.40 %**	$ 246,319	9.60 %	$ 52,681	21.40 %
Residential real estate	**1,490,438**	**32.10 %**	810,497	31.70 %	679,941	83.90 %
Commercial real estate	**2,286,154**	**49.30 %**	1,065,409	41.70 %	1,220,745	114.60 %
Commercial	**229,939**	**5.00 %**	147,856	5.80 %	82,083	55.50 %
Consumer	**328,896**	**7.10 %**	286,026	11.20 %	42,870	15.00 %
Credit Cards	**6,583**	**0.10 %**	—	— %	6,583	— %
Total loans	**$ 4,641,010**	**100.00 %**	$ 2,556,107	100.00 %	$2,084,903	81.60 %
Allowance for credit losses on loans	**(57,351)**		(16,643)		(40,708)	244.60 %
Total loans, net	**$ 4,583,659**		$ 2,539,464		$2,044,195	80.50 %

Credit Cards

In relation to the merger with TCFC, the Bank added a consumer credit card portfolio noted in the table above. The Bank has prior experience with consumer credit card lending and continued to maintain the operations and adopted the internal controls of legacy CBTC to properly manage this activity during 2023.

CRE Loan Portfolio

Our loan portfolio has a CRE loan concentration, which is generally defined as a combination of certain construction and CRE loans. The federal banking regulators have issued guidance for those institutions which are deemed to have concentrations in CRE lending. Pursuant to the supervisory criteria contained in the guidance for identifying instructions with a potential 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 CRE loans representing 300% or more of the institution's total risk-based capital and the institution's non-owner occupied CRE loan portfolio (including construction) has increased 50% or more during the prior 36 months are identified as having potential CRE concentration risk. Institutions which are deemed to have concentrations in CRE lending are expected to employ heightened levels of risk management with respect to their CRE portfolios, and may be required to hold higher levels of capital. The Bank has a concentration in CRE loans, and experienced significant growth in its CRE portfolio with its acquisition of TCFC and its wholly-owned subsidiary CBTC. Non-owner occupied CRE as a percentage of the Bank's Tier 1 Capital + ACL at December 31, 2023 and December 31, 2022 was $2.0 billion or 382.6% and $1.0 billion or 289.4%, respectively. Construction loans as a percentage of the Bank's Tier 1 Capital + ACL at December 31, 2023 and December 31, 2022 was $299.0 million or 56.7% and $246.3 million or 69.9%, respectively.

The CRE portfolio has increased significantly in the past two years. Management has extensive experience in CRE lending, and has implemented and continues to maintain heightened risk management procedures, as well as strong underwriting criteria with respect to its CRE portfolio. Monitoring practices are part of the Bank's credit and risk departments annual test plans and are adjusted as needed on a quarterly basis if external or internal conditions merit changes. The Bank's CRE monitoring plans include stress testing analysis to evaluate changes in collateral values and changes in cash flow debt service coverage ratios as a result of increasing interest rates or declines in customer net operating revenues. We may be required to maintain higher levels of capital as a result of our CRE concentrations, which could require us to obtain additional capital or be required to sell/participate portions of loans, which may adversely affect shareholder returns.

CRE Non Owner-Occupied Real Estate Loans

Non-owner occupied real estate loans (dollars in thousands)	December 31, 2023 Amount	Average Loan Size	% of Non-Owner Occupied CRE Loans	% of Total Portfolio Loans, Gross
Loan Type:				
Retail	$ 469,226	$ 2,133	23.2 %	10.1 %
Office/Office Condo	404,227	1,497	20.0 %	8.7 %
Multi-Family (5+ Units)	262,475	2,169	13.0 %	5.6 %
Motel/Hotel	213,414	3,335	10.6 %	4.6 %
Other (1)	668,910	592	33.1 %	14.4 %
Total non-owner occupied CRE loans (2)	$2,018,252	$ 1,945	100.0 %	43.4 %
Total Portfolio loans, gross (3)	$4,649,792			

(1) Other non owner-occupied CRE loans include industrial loans of $209.4 million, mini-storage loans of $74.0 million, restaurant loans of $48.9 million, and other loans of $336.6 million.

(2) The balances for our non-owner occupied commercial real estate portfolio as of December 31, 2023, 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 years ended December 31.

(Dollars in thousands)	December 31, 2022 Legacy Loans	Loans acquired from Severn acquisition	Total Loans
Construction	$ 226,908	$ 19,411	$ 246,319
Residential real estate	680,423	130,074	810,497
Commercial real estate	879,265	186,144	1,065,409
Commercial	111,826	35,843	147,669
Consumer	285,315	711	286,026
Total loans excluding PPP loans	2,183,737	372,183	2,555,920
PPP loans	187	—	187
Total loans	$ 2,183,924	$ 372,183	$ 2,556,107
Allowance for credit losses			(16,643)
Total loans, net			$ 2,539,464

(Dollars in thousands)	December 31, 2021 Legacy Loans	Loans acquired from Severn acquisition	Total Loans
Construction	$ 145,151	$ 94,202	$ 239,353
Residential real estate	469,863	184,906	654,769
Commercial real estate	679,816	216,413	896,229
Commercial	128,485	47,332	175,817
Consumer	124,496	951	125,447
Total loans excluding PPP loans	1,547,811	543,804	2,091,615
PPP loans	18,371	9,189	27,560
Total loans	$ 1,566,182	$ 552,993	$ 2,119,175
Allowance for credit losses			(13,944)
Total loans, net			$ 2,105,231

The acquisition in this table, the Company has included certain loans secured by multifamily residential properties and other investor owned 1-4 family residential properties that are reported in the residential real estate caption in other areas of Severn this report. As such, the total balance of loans presented in this table when added $584.6 million in total loans as to the balance of the acquisition date, table presented below detailing owner occupied commercial real estate may not reconcile to the commercial real estate caption included in other tables and footnotes.

(3) Includes Loans held for sale of $8.8 million.

CRE Owner-Occupied Real Estate Loans

	December 31, 2023			
Owner-occupied CRE Loans (dollars in thousands)	Amount	Average Loan Size	% of Owner-Occupied CRE Loans	% of Total Portfolio Loans, Gross
Loan Type:				
Office/Office Condo	$ 137,334	$ 505	18.0 %	3.0 %
Industrial Warehouse	106,216	610	13.9 %	2.3 %
Church	72,560	942	9.5 %	1.6 %
Marine/Boat Slip	66,112	2,449	8.7 %	1.4 %
Other(1)	381,575	784	50.0 %	8.2 %
Total owner-occupied CRE loans	$ 763,797	$ 1,058	100.0 %	16.4 %
Total Portfolio loans, gross (2)	$4,649,792			

(1) Other owner-occupied CRE loan include restaurant loans of $59.7 million, retail loans of $56.5 million, fire/CMS building loans of $42.0 million and other loans of $223.4 million.

(2) Includes Loans held for sale of $8.8 million.

Office CRE Portfolio

The Bank's office CRE portfolio, which $372.2 million in total included owner-occupied and non-owner occupied CRE loans, remained outstanding as of December 31, 2022. Excluding these loans and legacy PPP loans, total legacy loans increased $635.9 million, was $541.6 million or 41.1%, when compared to December 31, 2021. At December 31, 2022 and December 31, 2021, PPP loans accounted for $187 thousand and $27.6 million 10.6% of total loans of $4.6 billion at December 31, 2023. The Bank had only 24 office CRE loans totaling $189.8 million that were greater than $5.0 million at December 31, 2023. There were 507 loans in the office CRE portfolio with an average and median loan size of $1.0 million and $0.4 million at December 31, 2023. Loan to value estimates are less than 70% for $385.9 million or 74.0% of the office CRE portfolio and the average loan debt-service coverage ratio was 2.4x and average loan to value was 47.7% at December 31, 2023. Collateral values are based on the most recent appraisal, which varies from the initial loan boarding to interim credit reviews.

The office CRE portfolio is 74% geographically located in rural or suburban areas with limited exposure to metropolitan cities. This portfolio included $142.9 million or 26.4% with medical tenants and $75.2 million or 14.4% with government or government contractor tenants. Only 6% of the total value of the office CRE loans consists of buildings that are 5 stories or more. The maturity and repricing schedule in 2024 for the office CRE portfolio is $29.8 million and $5.8 million, respectively. Most Only $2.8 million of our loans, excluding PPP office CRE loans are secured by real estate and are classified as construction, residential special mention or commercial real estate loans. The increase in legacy loans, excluding PPP loans, was comprised substandard.

Maturity of increases in residential real estate of $210.6 million, or 44.8%, commercial real estate loans of $199.4 million, or 29.3%, consumer loans of $160.8 million, or 129.2%, and construction loans of $81.8 million, or 56.3%, offset by a decrease in commercial loans $16.7 million, or 13.0%, at December 31, 2022 compared to December 31, 2021. At December 31, 2022, the legacy loan portfolio, excluding PPP loans, was comprised of 40.3% commercial real estate, 31.2% residential real estate, 10.4% construction, 5.1% commercial and 13.1% consumer. That compares to 43.9%, 30.4%, 9.4%, 8.3% and 8.0, respectively, at December 31,

2021. At December 31, 2022, 22.9% of the loan portfolio had fixed interest rates and 77.1% had adjustable interest rates, compared to 72.6% and 27.4%, respectively, at December 31, 2021. See the discussion below under the caption "Asset Quality - Provision for Credit Losses and Risk Management" and Note 4, "Loans and Allowance for Credit Losses", in the Notes to Consolidated Financial Statements for additional information. We do not engage in foreign or subprime lending activities.

Loan Portfolio

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The following table below sets forth the maturities and interest rate sensitivity of the loan portfolio at December 31, 2023. Demand loans, loans having no stated schedule of repayments and no stated maturity, and overdrafts are reported as due in one year or less.

(Dollars in thousands)	Maturing within one year	Maturing after one but within five years	Maturing after five but within fifteen years	Maturing after fifteen years	Total
Construction	$ 188,934	$ 70,495	$ 35,664	$ 3,907	$ 299,000
Residential real estate	44,337	263,398	187,161	995,542	1,490,438
Commercial real estate	104,494	571,996	805,362	804,302	2,286,154
Commercial	8,388	100,827	61,855	58,869	229,939
Consumer	1,311	68,479	118,440	140,666	328,896
Credit Cards	6,583	—	—	—	6,583
Totals	$ 354,047	$ 1,075,195	$ 1,208,482	$ 2,003,286	$4,641,010
Rate Terms:					
Fixed-interest rate loans	$ 316,009	$ 969,513	$ 841,484	$ 471,631	$2,598,637
Adjustable-interest rate loans	38,038	105,682	366,997	1,531,656	2,042,373
Total	$ 354,047	$ 1,075,195	$ 1,208,481	$ 2,003,287	$4,641,010

Asset Quality

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

(dollars in thousands)	December 31, 2023	December 31, 2022
ASSET QUALITY		
Total portfolio loans	**$ 4,641,010**	$ 2,556,107
Classified assets	**14,851**	2,663
Allowance for credit losses on loans	**(57,351)**	(16,643)

Past due loans - 31 to 89 days	**$ 10,853**	$ 13,081
Past due loans >= 90 days	**738**	1,841
Total past due (delinquency) loans	**$ 11,591**	$ 14,922
Non-accrual loans	**$ 12,784**	$ 1,908
Accruing borrowers experiencing financial difficulty ("BEFD") modifications	**153**	4,405
Other real estate owned ("OREO")	**179**	197
Non-accrual loans, OREO and BEFD modifications	**$ 13,116**	$ 6,510

(dollars in thousands)	**December 31, 2023**	**December 31, 2022**
ASSET QUALITY RATIOS		
Classified assets to total assets	**0.25 %**	0.08 %
Classified assets to risk-based capital	**2.75 %**	0.73 %
Allowance for credit losses on loans to total portfolio loans	**1.24 %**	0.65 %
Allowance for credit losses on loans to non-accrual loans	**448.62 %**	872.27 %
Past due loans - 31 to 89 days to total portfolio loans	**0.23 %**	0.51 %
Past due loans >=90 days and non-accrual to total loans	**0.29 %**	0.15 %
Total past due and non-accrual loans to total portfolio loans	**0.53 %**	0.66 %
Non-accrual loans to total portfolio loans	**0.28 %**	0.07 %
Non-accrual loans and BEFD modifications to total loans	**0.28 %**	0.25 %
Non-accrual loans and OREO to total assets	**0.22 %**	0.06 %
Non-accrual loans and OREO to total portfolio loans and OREO	**0.28 %**	0.08 %
Non-accrual loans, OREO and BEFD modifications to total assets	**0.22 %**	0.19 %

(Dollars in thousands)	**Maturing within one year**	**Maturing after one but within five years**	**Maturing after five but within fifteen years**	**Maturing after fifteen years**	**Total**
Construction	**$ 146,613**	**$ 50,236**	**$ 38,947**	**$ 10,523**	**$ 246,319**
Residential real estate	**16,411**	**103,747**	**157,854**	**532,485**	**810,497**
Commercial real estate	**37,479**	**384,861**	**544,919**	**98,150**	**1,065,409**
Commercial	**7,588**	**83,894**	**33,250**	**23,124**	**147,856**
Consumer	**1,182**	**47,202**	**96,970**	**140,672**	**286,026**
Total	**$ 209,273**	**$ 669,940**	**$ 871,940**	**$ 804,954**	**$2,556,107**
Rate terms:					
Fixed-interest rate loans	**$ 32,900**	**$ 39,772**	**$ 109,519**	**$ 404,193**	**$ 586,384**
Adjustable-interest rate loans	**176,373**	**630,168**	**762,421**	**400,761**	**1,969,723**
Total	**$ 209,273**	**$ 669,940**	**$ 871,940**	**$ 804,954**	**$2,556,107**

(1) Classified assets consist of substandard loans and OREO. 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

trouble debt restructuring 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.

ACL and Provision for Credit Losses

The following is a breakdown of the Company's general and specific allowances as a percentage of total portfolio loans at December 31, 2023 and December 31, 2022:

Breakdown of general and specific allowance as a percentage of total portfolio loans

	December 31, 2023	December 31, 2022
General allowance	$ 56,428	$ 16,516
Specific allowance	923	127
	$ 57,351	$ 16,643
General allowance	1.22 %	0.65 %
Specific allowance	0.02 %	— %
Allowance to total gross loans	1.24 %	0.65 %
Total gross loans	$ 4,641,010	$ 2,556,107

On January 1, 2023, the Company adopted ASU 2016-13 and implemented CECL. The ACL is a valuation allowance that is deducted from loans' amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged-off against the ACL when management believes the uncollectibility of a loan balance is confirmed. Expected recoveries may not exceed the aggregate of amounts previously charged-off and expected to be charged-off.

The Bank uses data to estimate expected credit losses under CECL, including information about past events, current conditions, and reasonable and supportable forecasts relevant to assessing the collectability of the cash flows of the loans. Historical loss experience serves as the foundation for our estimated credit losses. Adjustments to our historical loss experience are made for differences in current loan portfolio segment credit risk characteristics such as the impact of changing unemployment rates, changes in U.S. Treasury yields, portfolio concentrations, the volume of classified loans, and other prevailing economic conditions and factors that may affect the borrower's ability to repay, or reduce the estimated value of any underlying collateral. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available.

The Company adopted ASU 2016-13 using the modified retrospective method. Results for reporting periods beginning after January 1, 2023 are presented under ASU 2016-13 while prior period amounts continue to be reported in accordance with previously applicable GAAP.

Upon the adoption of ASC 326, the Company recorded a $10.8 million increase to the ACL. ACL balances increased to 1.24% of portfolio loans at December 31, 2023 compared to 0.65% at December 31, 2022. At December 31, 2023, the Company's ACL increased $40.7 million or 244.60% to $57.4 million from $16.6 million at December 31, 2022. The increase in the general allowance was primarily due to the merger with TCFC and the impact of the adoption of ASC 326.

The Company recorded a provision for credit losses on loans of $30.4 million for the year ended December 31, 2023 compared to $1.9 million for the year ended December 31, 2022. Net recoveries amounted to $774 thousand, or 0.03% of average loans for the year ended December 31, 2022 compared to net charge-offs of $2.0 million or 0.06% of average loans for the year ended December 31, 2023. Included in the net charge-offs for

2023 were $1.2 million in charge-offs related to the strategic sale of $10.7 million in loans that reduced classified assets and CRE concentrations.

Management believes that the ACL was adequate at December 31, 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 ACL is based on a periodic evaluation of the loan portfolio. For additional information regarding the ACL, refer to Notes 1 and 4 of the Consolidated Financial Statements and the Critical Accounting Policy section of the Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following table allocates the ACL by portfolio loan category at the dates indicated. The allocation of the ACL to each category is not necessarily indicative of future losses and does not restrict the use of the ACL to absorb losses in any category.

	December 31, 2023		December 31, 2022	
(dollars in thousands)	Amount	%(1)	Amount	%(1)
Construction	$ 3,935	6.40 %	$ 2,973	9.60 %
Residential real estate	21,949	32.10 %	2,622	31.70 %
Commercial real estate	20,975	49.30 %	4,899	41.70 %
Commercial	2,671	5.00 %	1,652	5.80 %
Consumer	7,601	7.10 %	4,497	11.20 %
Credit Cards	220	0.10 %	—	— %
Total allowance for credit losses	$ 57,351	100.00 %	$ 16,643	100.00 %

(1) Percent of loans in each category to total portfolio loans.

The following table indicates net charge-offs or recoveries by average portfolio loan category for the years ended as indicated:

	December 31, 2023			December 31, 2022		
(dollars in thousands)	Net (Charge-offs) Recoveries	Average Balance (1)	%	Net (Charge-offs) Recoveries	Average Balance (1)	%
Construction	$ 15	$ 311,360	— %	$ 13	$ 243,045	0.01 %
Residential real estate	(75)	1,151,181	0.01 %	137	707,965	0.02 %
Commercial real estate	(1,326)	1,713,825	0.08 %	945	965,108	0.59 %
Commercial	(232)	127,441	0.18 %	(319)	159,288	0.16 %
Consumer	(290)	322,904	0.09 %	(2)	202,979	— %
Credit Cards	(111)	2,811	3.95 %	—	—	— %
	(2,019)	3,629,522	0.06 %	774	2,278,385	0.03 %
Allowance for credit losses	—	(40,777)	— %	—	(15,441)	— %
Total net charge-off and average loans	$ (2,019)	$ 3,588,745	0.06 %	$ 774	$ 2,262,944	0.03 %

Liabilities

(1) Excludes Loans Held for Sale

Off Balance Sheet Credit Exposure Reserve

The Company's reserve for off balance sheet credit exposures was $1.1 million at December 31, 2023 and increased compared to December 31, 2022 due to impact of

the adoption of ASC 326, the merger, and growth in unfunded commitments for residential real estate loans. The Company is monitoring line of credit usage and has not seen substantive increases in usage or expected usage. The Company will continue to monitor activity for potential increases in the off-balance sheet reserve in future quarters as customers use available liquidity.

Classified Assets and Special Mention Assets

Classified assets increased $12.2 million from $2.7 million at December 31, 2022 to $14.9 million at December 31, 2023. Management considers classified assets to be an important measure of asset quality. Increases in classified and special mention loan categories were due to loans related to our marine lending portfolio of $7.2 million and residential mortgages of $3.2 million all of which are diverse in origination date and not indicative of recurring trends. The Company's risk rating process for classified loans is an important input into the Company's allowance methodology. Risk ratings are an important input into the Company's ACL qualitative framework. The following is a breakdown of the Company's classified and special mention assets at December 31, 2023 and December 31, 2022, respectively:

(dollars in thousands)	December 31, 2023	December 31, 2022
Classified loans		
Substandard	**$ 14,672**	$ 2,466
Doubtful	**—**	—
Loss	**—**	—
Total classified loans	**14,672**	2,466
Special mention loans	**28,263**	3,539
Total classified loans and special mention loans	**$ 42,935**	$ 6,005
Classified loans	**$ 14,672**	$ 2,466
Classified securities	**—**	—
OREO	**179**	197
Total classified assets	**$ 14,851**	$ 2,663
Total classified assets and special mention loans	**$ 43,114**	$ 6,202
Total classified assets as a percentage of total assets	**0.25 %**	0.08 %
Total classified assets as a percentage of risk based capital	**2.75 %**	0.73 %

Nonperforming Assets

At December 31, 2023, nonperforming assets were $13.7 million, an increase of $9.8 million, or 247.21%, when compared to December 31, 2022. The increase in nonperforming assets was primarily due to the increase in nonaccrual loans acquired in the merger, partially offset by a decrease in loans 90 days past due and still accruing. At December 31, 2023, the ratio of nonaccrual loans to total assets was 0.21%, an increase from 0.05% at December 31, 2022. The ratio of nonperforming assets to total assets at December 31, 2023 was 0.23% compared to 0.11% at December 31, 2022.

The Company continues to focus on the resolution of its nonperforming and problem loans. The efforts to accomplish this goal include frequently contacting borrowers until the delinquency is cured or until an acceptable payment plan has been agreed upon; obtaining updated appraisals; provisioning for credit losses; charging off loans; transferring loans to OREO; aggressively marketing OREO; and selling loans. The reduction of nonperforming and problem loans is and will continue to be a high priority for the Company.

The following table summarizes our nonperforming assets for the years ended December 31, 2023 and December 31, 2022.

(Dollars in thousands)	December 31, 2023	December 31, 2022
Nonperforming assets		
Nonaccrual loans	**$ 12,784**	$ 1,908
Total loans 90 days or more past due and still accruing	**738**	1,841
OREO	**179**	197
Total nonperforming assets	**$ 13,701**	$ 3,946
As a percent of total loans:		
Nonaccrual loans	**0.28 %**	0.07 %
As a percent of total loans and OREO:		
Nonperforming assets	**0.30 %**	0.15 %
As a percent of total assets:		
Nonaccrual loans	**0.21 %**	0.05 %
Nonperforming assets	**0.23 %**	0.11 %

Deposits

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

	December 31, 2023		December 31, 2022			
(dollars in thousands)	Balance	%	Balance	%	$ Change	% Change
Noninterest-bearing demand	**$1,258,037**	**23.36 %**	$ 862,015	**28.64 %**	$ 396,022	45.9 %
Interest-bearing:						
Demand	**1,165,546**	**21.64 %**	694,101	**23.06 %**	471,445	67.9 %
Money market deposits	**1,430,603**	**26.56 %**	709,132	**23.56 %**	721,471	101.7 %
Savings	**347,324**	**6.45 %**	320,188	**10.64 %**	27,136	8.5 %
Certificates of deposit	**1,184,610**	**21.99 %**	424,348	**14.10 %**	760,262	179.2 %
Total interest-bearing	**4,128,083**	**76.64 %**	2,147,769	71.36 %	1,980,314	92.2 %
Total Deposits	**$5,386,120**	**100.0 %**	$3,009,784	100.0 %	$2,376,336	79.0 %

Total deposits increased $2.4 billion, or 79.0%, to $5.4 billion at December 31, 2023 when compared to December 31, 2022. The increase in total deposits was primarily due to the merger, which resulted in an increase in time deposits of $760.3 million, demand deposits of $471.4 million, money market and savings of $748.6 million, and noninterest-bearing deposits of $396.0 million.

Total estimated uninsured deposits were $1.05 billion, or 19.5% of total deposits, at December 31, 2023. At December 31, 2023, there were $156.1 million included in uninsured deposits that the Bank secured using the market value of pledged collateral. The Bank's uninsured deposits, excluding deposits secured by the market value of pledged collateral, at December 31, 2023 was $893.5 million, or 16.6% of total deposits.

For FDIC call reporting purposes, reciprocal deposits are classified as brokered deposits when they exceed 20% of a bank's liabilities or $5.0 billion. Reciprocal deposits increased

$816.0 million to $1.3 billion at December 31, 2023 compared to $475.6 million at December 31, 2022. Reciprocal deposits as a percentage of the Bank's liabilities at December 31, 2023 and December 31, 2022 were 24.0% and 15.8%, respectively. For call reporting purposes, $204.8 million of reciprocal deposits were considered brokered at December 31, 2023 compared to none at December 31, 2022.

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 December 31, 2023, the Bank had four local municipal customer deposit relationships that exceeded 2% of total deposits, totaling $598.5 million or 11.11% of total deposits of $5.4 billion. At December 31, 2022,

there were two customer deposit relationships that exceeded 2% of total deposits, totaling $217.8 million or 7.24% of total deposits of $3.0 billion.

The Bank uses deposits primarily to fund loans and to purchase investment securities. Total deposits decreased from $3.03 billion at December 31, 2021 to $3.01 billion at December 31, 2022. When compared to December 31, 2021 Average total deposits decreased $16.5 million increased from $3.0 billion at December 31, 2022 to $4.0 billion at December 31, 2023, an increase of $1.0 billion, or less than 1% 33.67%. The decrease in deposit products consisted of the following: money market/savings deposits of $85.7, noninterest-bearing deposits of $65.5 million and time deposits of $35.2 million. Interest bearing checking accounts increased $170.0 million.

The following table sets forth the average balances of deposits and the percentage of each major category to total average deposits for the years year ended December 31.

(Dollars in thousands)	Average Balances 2022		2021	
Noninterest-bearing demand	**$ 888,509**	**29.5 %**	$ 574,531	28.5 %
Interest-bearing deposits				
Demand	**638,105**	**21.2**	450,399	22.3
Money market and savings	**1,043,032**	**34.6**	695,056	34.5
Certificates of deposit, $100,000 to $249,999	**170,443**	**5.6**	93,898	4.7
Certificates of deposit, $250,000 or more	**69,484**	**2.3**	50,311	2.5
Other time deposits	**204,536**	**6.8**	151,429	7.5
Total	**$ 3,014,109**	**100.0 %**	$ 2,015,624	100.0 %

December 31, 2023 and December 31, 2022.

(Dollars in thousands)	**December 31, 2023** Average Balance	%	December 31, 2022 Average Balance	%
Noninterest-bearing demand	**$ 1,043,479**	**25.9 %**	$ 888,509	29.5 %
Interest-bearing deposits				
Demand	**883,976**	**21.9 %**	638,105	21.2 %
Money market and savings	**1,275,088**	**31.6 %**	1,043,032	34.6 %
Certificates of deposit of $100,000 or more	**492,226**	**12.2 %**	239,927	8.0 %
Other time deposits	**334,245**	**8.3 %**	204,536	6.8 %
Total interest-bearing	**$ 2,985,535**	**74.1 %**	$ 2,125,600	70.5 %
Total Deposits	**$ 4,029,014**	**100.0 %**	$ 3,014,109	100.0 %

Average interest-bearing deposits increased $859.9 million, or 40.5%, in 2023, compared to an increase of $684.5 million, or 47.5%, in 2022, 2022. Average noninterest-bearing deposits increased $155 million, or 17.44% in 2023, compared to an increase of $384.5 million, or 36.4%, in 2021. Average noninterest-bearing deposits increased $314.0 million, or 54.6%, in 2022, compared to an increase of $143.2 million, or 33.2%, in 2021. 2022. Deposits provided funding for approximately 93.6% 92.5% and 92.2% 93.6% of average earning assets for 2023 and 2022, and 2021, respectively.

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The following table sets forth the aggregate amount and maturity ranges of certificates of deposit with balances of $250,000 or more as of December 31, 2022.

(Dollars in thousands)		Uninsured
Three months or less	$ 8,921 $	2,576
Over three through 6 months	7,799	2,049
Over 6 through 12 months	24,258	9,008
Over 12 months	36,734	11,234
Total	$ 77,712 $	24,867

Total estimated uninsured December 31, 2023, as well as the portion that is uninsured.

(Dollars in thousands)	Total	Uninsured
Three months or less	$ 90,670	$ 39,593
Over three through 6 months	122,077	51,078
Over 6 through 12 months	122,331	44,832
Over 12 months	19,500	7,249
Total	$ 354,578	$ 142,752

Note 8 to the Consolidated Financial Statements includes the scheduled contractual maturities of total certificates of deposits amounted to $871.5 million and $974.8 million of $1.2 billion at December 31, 2022 and December 31, 2021, respectively.

December 31, 2023.

Securities Sold Under Retail Repurchase Agreements

Securities sold under agreements to repurchase are issued in conjunction with cash management services for commercial depositors. There were no securities sold under retail purchase agreements at the end of 2023 and 2022.

Wholesale Funding - Short-Term Borrowings and Long-Term Advances Brokered Deposits

The Company borrows from the FHLB

on a short-term basis to meet short term liquidity needs. At December 31, 2023, there were no short-term borrowings outstanding, compared to short-term advances with the FHLB of $40.0 million at December 31, 2022.

The Company's wholesale funding increased $4.5 million, which includes FHLB advances and brokered deposits, from $40.0 million in FHLB advances at December 31, 2022 to $44.5 million in brokered deposits at December 31, 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 and $62.0 million in the fourth quarter of 2023. Cash proceeds from the sale of TCFC's AFS securities acquired in the merger and increases in on-balance sheet cash were utilized to curtail FHLB advances and brokered deposits.

Contractual Obligations

The Company has various contractual obligations that affect its cash flows and liquidity. Our operating leases are primarily related to branch premises and equipment. Purchase obligations arise from agreements to purchase goods and services that are enforceable and legally binding. Other contracts included in purchase obligations primarily consist of service agreements for various systems and applications supporting bank operations. For information regarding material contractual obligations please see Note 6 Leases in the Notes to the Consolidated Financial Statements and Note 23 Revenue Recognition.

Long-Term Debt

The Company occasionally borrows from the FHLB to meet longer term liquidity needs, specifically to fund loan growth when liquidity from deposit growth is not sufficient. We also borrow from FHLB on a short-term basis to meet short term liquidity needs. At the end of 2022 short-term advances from FHLB were $40 million. There were no long-term borrowings from the FHLB borrowings outstanding at the end of 2022.

Subordinated Debt

Legacy

December 31, 2023 and December 31, 2022.

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

The Company has used the net proceeds

As a result of the offering for general corporate purposes, organic growth and to support the Bank's regulatory capital ratios. The Notes were structured to qualify as Tier 2 capital acquisition of the Company for regulatory capital purposes. The Notes bear an initial interest rate of 5.375% until September 1, 2025 Severn Bancorp, Inc. ("Severn"), with interest during this period payable semi-annually in arrears. From and including September 1, 2025, to but excluding the maturity date or early redemption date, the interest rate will reset quarterly to an annual floating rate equal to three-month SOFR, plus 526.5 basis points, with interest during this period payable quarterly in arrears. The Notes are redeemable by the Company at its option, in whole or in part, on or after September 1, 2025. Initial debt issuance costs were $611 thousand. The debt balance of $24.7 million is presented net of unamortized issuance costs of $326 thousand at December 31, 2022.

Acquired from Severn

On effective October 31, 2021, the Company acquired from the Severn merger, Junior Subordinated Debt Securities due in 2035 ("2035 Debentures") which had an outstanding principal balance of $20.6 million. The debt balance of $18.6 million at December 31, 2023 and $18.4 million is at December 31, 2022 was presented net of fair value adjustments of $2.0 million and $2.2 million, respectively.

Additionally, as a result of the remaining $2.2 million acquisition discount at December 31, 2022.

The 2035 Debentures were issued pursuant to an Indenture dated as of December 17, 2004 (the "2035 Indenture") between TCFC merger, the Company and Wells Fargo Bank, National Association as Trustee. acquired Junior Subordinated Debt Securities which had an outstanding principal balance of $12.0 million. The 2035 Debentures pay interest quarterly debt balance of $10.6 million at December 31, 2023 was presented net of a floating fair value adjustment of $1.4 million. In addition, the Company acquired 4.75% fixed-to-floating rate subordinated notes with a principal balance of interest $19.5 million at December 31, 2023. The debt balance of 3-month LIBOR plus 200 basis points and mature on January 7, 2035. Payments $18.3 million at December 31, 2023 was presented net of principal, interest, premium, and other amounts under fair value adjustment of $1.2 million.

For additional information regarding the 2035 Debentures are subordinated and junior in right of payment long-term debt, refer to Note 9 to the prior payment in full of all senior indebtedness of the Company, as defined in the 2035 Indenture. The 2035 Debentures are currently redeemable, in whole or in part, by the Company. U.S. regulators have directed banks to cease offering new

Consolidated Financial Statements.

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Stockholders' Equity

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LIBOR-based products after December 31, 2021. Existing LIBOR contracts, per above, can continue to be serviced through the June 30, 2023 cessation date; however, Wells Fargo Bank, as Trustee, will be working with holders of the 2035 Debentures to move to an (ARR) in advance of LIBOR cession, where possible.

The 2035 Debentures were issued and sold to Severn Capital Trust I (the "Trust"), of which 100% of the common equity is owned by the Company. The Trust was formed for the purpose of issuing corporation-obligated mandatorily redeemable Capital Securities ("Capital Securities") to third-party investors and using the proceeds from the sale of such Capital Securities to purchase the 2035 Debentures. The 2035 Debentures held by the Trust are the sole assets of the Trust. Distributions on the Capital Securities issued by the Trust are payable quarterly at a rate per annum equal to the interest rate being earned by the Trust on the 2035 Debentures. The Capital Securities are subject to mandatory redemption, in whole or in part, upon repayment of the 2035 Debentures. We have entered into an agreement which, taken collectively, fully and unconditionally guarantees the Capital Securities subject to the terms of the guarantee.

Under the terms of the 2035 Debentures, we are permitted to defer the payment of interest on the 2035 Debentures for up to 20 consecutive quarterly periods, provided that no event of default has occurred and is continuing. As of December 31, 2022, we were current on all interest due on the 2035 Debentures.

Capital Resources Management

Total stockholders' equity was $364.3 million $511.1 million at December 31, 2022 December 31, 2023, compared to $350.7 million $364.3 million at December 31, 2021 December 31, 2022. The increase in stockholders' equity in 2022 2023 was primarily due to current year earnings, the $153.1 million increase in paid in capital due to the merger and net income of $11.2 million, partially offset by an increase in unrealized losses on available for sale securities of $9.1 million, a $7.8 million CECL adjustment, net of tax in the first quarter of 2023 and dividends paid to

stockholders of $9.5 million $12.7 million. The ratio of period-end equity to total assets was 10.48% 8.50% for 2022, 2023, as compared to 10.14% 10.48% for 2021.

2022.

(Dollars in thousands)	**December 31, 2023**	December 31, 2022	$ Change	% Change
Common Stock at par value of $0.01	**$ 332**	$ 199	$ 133	66.83 %
Additional paid in capital	**356,007**	201,494	154,513	76.68 %
Retained earnings	**162,290**	171,613	(9,323)	(5.43)%
Accumulated other comprehensive loss	**(7,494)**	(9,021)	1,527	(16.93)%
Total Stockholders' Equity	**$ 511,135**	$ 364,285	$ 146,850	40.31 %

We record unrealized holding gains (losses), net of tax, on investment securities available for sale as accumulated other comprehensive income AOCI (loss), a separate component of stockholders' equity. At December 31, 2022 December 31, 2023, the portion of the investment portfolio designated as "available for sale" had a net unrealized holding loss, net of tax, of $9.0 million $7.5 million compared to a net unrealized holding gain, loss, net of tax, of $56 thousand $9.1 million at December 31, 2021 December 31, 2022.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity is our ability to fund operations and meet present and future financial obligations through the sale or repayment of existing assets or by obtaining additional funding through liability management. 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. We believe our level of liquid assets is sufficient to meet current anticipated funding needs.

Liquidity is provided by access to funding sources, which include core deposits 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 in cash and cash equivalents was $316.9 million for the year ended December 31, 2023 compared to a decrease of $528.1 million for the year ended December 31, 2022. The increase in cash and cash equivalents in 2023 was mainly due to proceeds from the sale of acquired investment securities of $434.2 million after the merger as well as increases in the Bank's deposits subsequent to the merger.

To the extent that deposits are not adequate to fund customer loan demand, liquidity needs can be met in the short-term funding markets. The Bank has arrangements with other correspondent banks whereby it has $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 December 31, 2023, the Bank had approximately $1.3 billion of available liquidity including: $372.4 million in cash and cash equivalents, $344.8 million in unpledged securities, $659.0 million in secured borrowing capacity at the FHLB, and the other correspondent banks of $45.0 million. The Bank is a member of the FHLB, which provides another source of liquidity. The Bank has pledged, under a blanket lien, all qualifying residential and CRE loans under borrowing agreements with the FHLB.

Comparison of Cash Flows for the Years Ending December 31, 2023 and 2022

During the year ended December 31, 2023, all financing activities provided $121.9 million in cash compared to $0.8 million in cash provided for the same period in 2022. The Company was provided $121.1 million more cash from financing activities compared to the prior year, primarily due to increased deposits of $243.2 million from management's efforts to expand deposit relationships. The Company used less cash in 2023 compared to 2022 for net long-term debt activity. Short-term borrowings activity used $144.9 million more cash in 2023 compared to 2022 as the Bank paid down wholesale funding. The Company used $3.2 million more in cash for stock related activities in 2023 compared to 2022. The increase was primarily due to a $3.2 million increase in common stock dividend payments.

The Bank's principal use of cash has been in investing activities including its investments in loans, investment securities and other assets. In 2023, the level of net cash provided from investing activities increased $753.9 million to $172.3 million from net cash used of $581.6 million in 2022. The increase in cash provided was primarily the result of proceeds from sale of investment securities of $434.2 million acquired from the merger partially offset by cash used for loan activities. Cash used for loan activities decreased $109.7 million to $317.3 million, for the year ended December 31, 2023 from $427.0 million for the year ended December 31, 2022 as organic loan growth slowed in 2023 as management focused on merger integration as well as safe and sound moderate loan growth in the current economic environment.The use of funds to purchase investment securities decreased $148.1 million to $68.7 million for the year ended December 31, 2023 from $216.7 million for the year ended December 31, 2022. Cash provided increased $471.5 million as total proceeds from sales of acquired investment securities, redemption of restricted securities and principal payments of securities for year ended December 31, 2023 increased compared to the year ended December 31, 2022.

Operating activities provided less cash of $29.7 million as cash provided decreased $22.7 million for the year ended December 31, 2023 compared to $52.6 million of cash provided for the same period of 2022.

The Company has no business other than holding the stock of the Bank and does not currently have any material funding requirements, except for the payment of dividends on common stock, and the payment of interest on subordinated debentures and subordinated notes, and noninterest expense.

Capital Requirements

The Company evaluates capital resources by the ability to maintain adequate regulatory capital ratios. The Company and the Bank annually update its strategic plan that includes a three-year capital plan. In developing its plan, the Company considers the impact to capital of asset growth, loan concentrations, income accretion, dividends, holding company liquidity, investment in markets and people and stress testing.

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 to maintain minimum ratios of common equity Tier CET 1, Tier 1, and total capital as a percentage of assets and off-balance sheet exposures, adjusted for risk weights ranging from 0% to 1,250% 1250%. The Bank is also required to maintain capital at a minimum level based on quarterly average assets, which is known as the leverage ratio.

In July 2013, federal bank regulatory agencies issued a final rule that revised their risk-based capital requirements and the method for calculating risk-weighted assets to make them consistent with certain standards that were developed by Basel III and certain provisions of the Dodd-Frank Act. The final rule currently applies to all depository institutions and bank holding companies and savings and loan holding companies with total consolidated assets of more than $3 billion. The Company had total consolidated assets of more than $3 billion as of December 31, 2021, due to the acquisition of Severn in the fourth quarter of 2021. As such, the Company was required to comply with the consolidated capital requirements for the first quarterly report date following the effective date of the business combination as its total assets exceeded $3 billion.

As of December 31, 2022 December 31, 2023, 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.

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The following table compares tables present the Company's applicable capital ratios to for the minimum regulatory requirements Company and the Bank as of December 31.

(Dollars in thousands)	2022	2021	Minimum Regulatory Requirements for 2022
Common equity Tier 1 capital	$ 304,493	$ 279,681	
Tier 1 capital	322,891	279,681	
Tier 2 capital	41,528	57,015	
Total risk-based capital	364,419	336,696	
Net risk-weighted assets	2,619,400	2,191,557	
Adjusted average total assets	3,390,516	2,966,412	
Risk-based capital ratios:			
Common equity Tier 1	11.62 %	12.76 %	7.00*
Tier 1	12.33	12.76	8.50*
Total capital	13.91	15.36	10.50*
Tier 1 leverage ratio	9.52	9.43	4.00

December 31, 2023 and December 31, 2022.

December 31, 2023	Tier 1 Leverage Ratio	Common Equity Tier 1 Ratio	Tier 1 Risk-Based Capital Ratio	Total Risk-Based Capital Ratio
The Company	7.74 %	8.69 %	9.31 %	11.48 %
The Bank	8.33 %	10.02 %	10.02 %	11.27 %

December 31, 2022	Tier 1 Leverage Ratio	Common Equity Tier 1 Ratio	Tier 1 Risk-Based Capital Ratio	Total Risk-Based Capital Ratio

The Company	9.52 %	11.62 %	12.33 %	13.91 %
The Bank	9.92 %	12.82 %	12.82 %	13.47 %

*** includes phased in capital conservation buffer of 2.50%**

See Note 2016 to the Consolidated Financial Statements for further information about the regulatory capital positions of the Bank and Company.

Asset Quality - Provision for Credit Losses

USE OF NON-GAAP FINANCIAL MEASURES

Statements included in the Management's Discussion and Risk Management

Originating loans involves Analysis of Financial Condition and Results of Operations include non-GAAP financial measures and should be read along with the accompanying tables, which provide a degree reconciliation of risk non-GAAP financial measures to GAAP financial measures. The Company's management uses these non-GAAP financial measures and believes that credit losses will occur in varying amounts according non-GAAP financial measures provide additional useful information that allows readers to among other factors, evaluate the types of loans being made, the credit-worthiness ongoing performance of the borrowers over 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 terms Company's performance and financial condition as reported under GAAP and all other relevant information when assessing the performance or financial condition of the loans, the quality 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 collateral results or financial condition as reported under GAAP. See Non-GAAP reconciliation schedules that immediately follow:

Reconciliation of Non-GAAP Measures

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 Annual Report on Form 10-K, 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 loans, if any, as well as general economic conditions. Through underlying performance trends of the Company's Company.

(dollars in thousands, except per share amounts)	December 31, 2023	December 31, 2022
Total assets	$ 6,010,918	$ 3,477,276
Less: intangible assets		
Goodwill	63,266	63,266
Core deposit intangibles	48,090	5,547
Total intangible assets	111,356	68,813
Tangible assets	$ 5,899,562	$ 3,408,463
Total common equity	$ 511,135	$ 364,285
Less: intangible assets	111,356	68,813
Tangible common equity	$ 399,779	$ 295,472
Common shares outstanding at end of period	33,161,532	19,864,956
Common equity to assets	8.50 %	10.48 %
Tangible common equity to tangible assets	6.78 %	8.67 %
Common book value per share	$ 15.41	$ 18.34
Tangible common book value per share	$ 12.06	$ 14.87

Return on Average Common Equity

Return on average common equity is a financial ratio that measures the profitability of a company in relation to the average 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' equity for a specific period of time.

(dollars in thousands, except per share amounts)	For the Year Ended December 31, 2023	For the Year Ended December 31, 2022
Net income (as reported)	$ 11,228	$ 31,177
Return on Average Common Equity	2.54 %	8.76 %
Average stockholders' equity	$ 441,790	$ 355,850

Return on Average Tangible Common Equity

Return on average tangible common equity is computed by dividing net earnings applicable to common shareholders by average tangible common stockholders' equity. Management believes that return on average tangible common equity is meaningful because it measures the performance of a business consistently, whether acquired or internally developed. ROATCE is a non-GAAP measure and the Bank's Asset/Liability Management Committees, the Company's Audit Committee may not be comparable to similar non-GAAP measures used by other companies.

(dollars in thousands, except per share amounts)	For the Year Ended December 31, 2023	For the Year Ended December 31, 2022
Net income (as reported)	$ 11,228	$ 31,177
Core deposit intangible amortization (net of tax)	4,254	1,471
Merger and acquisition costs (net of tax)	11,637	1,553
Net earnings applicable to common shareholders	$ 27,119	$ 34,201
Return of Average Tangible Common Equity	7.74 %	11.96 %
Average stockholders' equity	$ 441,790	$ 355,850
Average goodwill and core deposit intangible	(91,471)	(69,845)
Average tangible stockholders' common equity	$ 350,319	$ 286,005

Item 7A. Quantitative and the Company's Board actively reviews critical risk positions, including credit, market, liquidity and operational risk. The Company's goal in managing Qualitative Disclosures About Market Risk.

Interest rate risk is to reduce earnings volatility, control defined as the exposure to unnecessary risk, changes in net interest income and ensure appropriate returns for risk assumed. Senior members of management actively manage risk at the product level, supplemented with corporate level oversight through the Asset/Liability Management Committee and internal audit function. The risk management structure is designed to identify risk through a systematic process, enabling timely and appropriate action to avoid and mitigate risk.

Credit risk is mitigated through loan portfolio diversification, limiting exposure to any single industry or customer, collateral protection, and prudent lending policies and underwriting criteria. The following discussion provides information and statistics capital that arises from movements in interest rates. Depending on the overall quality of the Company's loan portfolio. Note 1 to the Consolidated Financial Statements describes the accounting policies related to nonperforming loans (nonaccrual and delinquent 90 days or more), TDRs and loan charge-offs and describes the methodologies used to develop the allowance for credit losses, including the specific, historical formula, and qualitative formula components (also discussed below). Management believes the policies governing nonperforming loans, TDRs and charge-offs are consistent with regulatory standards. The amount of the allowance for credit losses and the resulting provision are reviewed monthly by senior members of management and approved quarterly by the Board of Directors.

The allowance is increased by provisions for credit losses charged to expense and recoveries of loans previously charged off. It is decreased by loans charged off in the current period. Loans, or portions thereof, are charged off when considered uncollectible by management. Provisions for credit losses are made to bring the allowance for credit losses within the range of balances that are considered appropriate.

The adequacy of the allowance for credit losses is determined based on management's estimate of the inherent risks associated with lending activities, estimated fair value of collateral or expected future cash flows, past experience and present indicators such as loan delinquency trends, nonaccrual loans and current market conditions. Management believes the current allowance is adequate to provide for probable and estimable losses inherent in our loan portfolio; however, future changes in the composition of the loan portfolio balance sheet, increasing or decreasing interest rates can negatively affect the Company's results of operations and financial condition of borrowers may result condition.

The Company measures interest rate risk over the short and long term. The Company measures interest rate risk as the change in additions to the

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allowance. Examination of the portfolio net interest income caused by a change in interest rates over twelve and allowance twenty-four months. The Company's net interest income simulations provide information about short-term interest rate risk exposure. The Company also measures interest rate risk by various regulatory agencies and consultants engaged by the Company may result measuring changes in the need for additional provisions based on information available at the time values of the examination. assets and liabilities due to changes in interest rates. The Bank's allowance for credit losses, is available to absorb losses from all loan segments of the portfolio. The allowance set by the Bank is subject to regulatory examination and determination as to its adequacy.

The allowance for credit losses is comprised of three parts: (i) the specific allowance; (ii) the historical formula allowance; and (iii) the qualitative formula allowance. The specific allowance is established against impaired loans until charge offs are made. Loans are considered impaired when it is probable that the Company will not collect all principal and interest payments according to the loan's contractual terms when due. The qualitative formula allowance is determined based on management's assessment of industry trends, economic factors in the markets in which we operate, as well as other portfolio related factors. The determination of the qualitative formula allowance involves a higher risk of uncertainty and considers current risk factors that may not have yet manifested themselves in our historical loss factors.

The specific allowance is used to individually allocate an allowance to loans identified as impaired. An impaired loan may involve deficiencies in the borrower's overall financial condition, payment history, support available from financial guarantors and/or the fair market value of collateral. If it equity is determined that there is a loss associated with an impaired loan, a specific allowance is established until a charge off is made. Impaired loans, or portions thereof, are charged off when deemed uncollectible.

The historical formula allowance is used to estimate defined as the loss on internally risk-rated loans, exclusive present value of those identified as impaired. Loans are grouped by type (construction, residential real estate, commercial real estate, commercial or consumer). Each loan type is assigned allowance factors based on management's estimate future cash flows from existing assets, minus the present value of future cash flows from existing liabilities. Economic value of equity simulations reflect the risk, within a particular category using average historical charge-offs by segment over the last 16 quarters.

The qualitative formula allowance is used to estimate the losses on loans stemming from more global factors such as delinquencies, loss history, effects interest rate sensitivity of changes in lending policy, the experience and depth of management, national and local economic trends, concentrations of credit, the quality of the loan review system and the effect of external factors that would cause current estimated losses to deviate from the historical loss experience. Loans that are identified as pass-watch, special mention, substandard and doubtful are considered to have elevated credit risk. These loans are assigned higher allowance factors than favorably rated loans due to management's concerns regarding collectability or management's knowledge of particular elements regarding the borrower.

The provision for credit losses was $1.9 million for 2022 and $(358) thousand for 2021. The increase in provision for credit losses was primarily a result of the increase in loans held for investment in 2022 of $436.9 million. Net loan recoveries totaled $774 thousand in 2022, compared to net loan recoveries of $414 thousand in 2021.

The allowance for credit losses was $16.6 million, or 0.78% of period end loans, excluding PPP loans, acquired loans and the associated purchase discount mark on the acquired loans from both Severn and Northwest, at December 31, 2022, compared to an allowance of $13.9 million, or 0.93% of period end loans, excluding PPP loans, acquired loans and the associated purchase discount mark on the acquired loans from both Severn and Northwest, at December 31, 2021. The decrease in the percentage of the allowance for credit losses to total period end loans was primarily driven by lower historical loss experience and the elimination of pandemic related qualitative factors. The ratio of net (recoveries) to average loans was (0.03) % for 2022, compared to (0.03) % for 2021.

Nonperforming loans increased at year end 2022 as compared to 2021 primarily due to increases in loans 90 days past due and still accruing of $1.3 million which was primarily a result of timing of the renewal process for certain loans that had matured, and not specific credit concerns related to the underlying borrowers. Accruing TDRs declined $1.3 million when comparing 2022 to 2021 which reflects continued workout efforts on outstanding problem loans. When comparing 2022 to 2021 loan risk categories, special mention and substandard loans decreased $4.4 million and $1.3 million, respectively. The decrease in substandard and special mention loans was primarily due to payoffs and credit risk rating upgrades during 2022. Pass/Watch loans decreased $46.4 million during 2022 when compared to 2021. Management will continue to monitor and charge off nonperforming assets as rapidly as possible and focus on the generation of healthy loan growth and new business development opportunities.

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The following table sets forth a summary of our loan loss experience for the presented years ended December 31.

(Dollars in thousands)	December 31, 2022 Average balances	Net (charge-offs) recoveries	Percentage of net charge-offs (recoveries) (annualized) to average loans outstanding during the year	December 31, 2021 Average balances	Net (charge-offs) recoveries	Percentage of net charge-offs (recoveries) (annualized) to average loans outstanding during the year
Construction	$ 243,045	$ 13	(0.01)%	$ 150,669	$ 278	(0.18)%
Residential real estate	707,965	137	(0.02)	503,794	82	(0.02)
Commercial real estate	965,108	945	(0.10)	645,595	114	(0.02)
Commercial	159,288	(319)	0.20	188,420	(42)	0.02
Consumer	202,979	(2)	-	79,990	(18)	0.02
Total	$ 2,278,385	$ 774	(0.03)%	$ 1,568,468	$ 414	(0.03)%

Allowance for credit losses at period end as a percentage of total period end loans (1)	0.65 %	0.66 %
Allowance for credit losses at period end as a percentage of total period end loans (2)	0.78 %	0.93 %
Allowance for credit losses at period end as a percentage of average loans (3)	0.73 %	0.89 %
Allowance for credit losses at period end as a percentage of period end nonaccrual loans	872.27 %	695.81 %

(1) As of December 31, 2022 and December 31, 2021, these ratios included all loans held for investment, including PPP loans of $187 thousand and $27.6 million, respectively.
(2) As of December 31, 2022 and December 31, 2021, these ratios exclude PPP loans, acquired loans and the associated purchase discount mark on the acquired loans from both Severn and Northwest.
(3) As of December 31, 2022 and December 31, 2021, these ratios included all loans held for investment, including PPP loans of $6.7 million and $85.5 million, respectively.

The following table sets forth the allocation of the allowance for credit losses and the percentage of loans in each category to total loans for the presented years ended December 31.

(Dollars in thousands)	2022 Amount	2022 % of Loans	2021 Amount	2021 % of Loans
Construction	$ 2,973	17.9 %	$ 2,454	11.3 %
Residential real estate	2,622	15.8	2,858	30.9
Commercial real estate	4,899	29.4	4,598	42.3
Commercial	1,652	9.9	2,070	9.6
Consumer	4,497	27.0	1,964	5.9
Total	$ $16,643	100.0 %	$ $13,944	100.0 %

At December 31, 2022, nonperforming assets were $3.9 million, an increase of $902 thousand, or 29.6%, when compared to December 31, 2021. The increase in nonperforming assets was primarily due to the increase in loans 90 days past due and still accruing, partially offset by a decrease in other real estate owned properties. Accruing TDRs were $4.4 million at December 31, 2022, a decrease of $1.3 million, or 22.3%, when compared to December 31, 2021.At December 31, 2022, the ratio of nonaccrual loans to total assets was 0.05%, a decrease from 0.06% at December 31, 2021. The ratio of accruing TDRs to total assets at December 31, 2022 was 0.13% improving from 0.16% at December 31, 2021.

The Company continues to focus on the resolution of its nonperforming and problem loans. The efforts to accomplish this goal include frequently contacting borrowers until the delinquency is cured or until an acceptable payment plan has been agreed upon; obtaining updated appraisals; provisioning for credit losses; charging off loans; transferring loans to other real estate owned; aggressively marketing other real estate owned; and selling loans. The reduction of nonperforming and problem loans is and will continue to be a high priority for the Company.

The following table summarizes our nonperforming assets and accruing TDRs for liabilities over a longer time period, considering the years ended December 31.

(Dollars in thousands)	2022	2021
Nonperforming assets		
Nonaccrual loans	**$ 1,908**	$ 2,004
Total loans 90 days or more past due and still accruing	**1,841**	508
Other real estate owned	**197**	532
Total nonperforming assets	**$ 3,946**	$ 3,044
Total accruing TDRs	**$ 4,405**	$ 5,667
As a percent of total loans:		
Nonaccrual loans	**0.07 %**	0.09 %
Accruing TDRs	**0.17 %**	0.27 %
Nonaccrual loans and accruing TDRs	**0.25 %**	0.36 %
As a percent of total loans and other real estate owned:		
Nonperforming assets	**0.15 %**	0.14 %
Nonperforming assets and accruing TDRs	**0.33 %**	0.41 %
As a percent of total assets:		
Nonaccrual loans	**0.05 %**	0.06 %
Nonperforming assets	**0.11 %**	0.09 %
Accruing TDRs	**0.13 %**	0.16 %
Nonperforming assets and accruing TDRs	**0.24 %**	0.25 %

Market Risk Management maturities, average life and Interest Sensitivity

duration of all balance sheet accounts.

The Company's net income is largely dependent on its net interest income. Net interest income is susceptible to interest rate risk to the extent that interest-bearing liabilities mature or re-price on a different basis than interest-earning assets. When interest-bearing liabilities mature or re-price more quickly than interest-earning assets in a given period, a significant increase in market rates of interest could adversely affect net interest income. Similarly, when interest-earning assets mature or re-price more quickly than interest-bearing liabilities, falling interest rates could result in a decrease in net interest income. Net interest income is also affected by changes in the portion of interest-earning assets that are funded by interest-bearing liabilities rather than by other sources of funds, such as noninterest-bearing deposits and stockholders' equity.

The Company's interest rate risk management goals are (1) to increase net interest income at a growth rate consistent with the growth rate of total assets, and (2) to minimize fluctuations in net interest margin as a percentage of interest-earning assets. Management attempts to achieve these goals by balancing, within policy limits, the volume of floating-rate liabilities with a similar volume of floating-rate assets; by keeping the average maturity of fixed-rate asset and liability contracts reasonably matched; by maintaining a pool of administered core deposits; and by adjusting pricing rates to market conditions on a continuing basis.

The Company's board of directors has approved the Company's interest rate risk policy and assigned oversight to the Board of Directors has established a comprehensive asset liability management policy, which is administered by management's Asset Liability Management Committee ("ALCO"). Risk Oversight Committee. The policy establishes limits on risk, which are quantitative measures of the percentage change in net interest income (a measure of net interest income at risk) and the fair value of equity capital (a measure of economic value of equity or "EVE" at risk) resulting from a hypothetical change changes in the yield curve interest rates. Both net interest income and economic value of U.S. Treasury equity simulations assist in identifying, measuring, monitoring and controlling interest rates for maturities from one day rate risk and along with mitigating strategies are used by management to thirty years. maintain interest rate risk exposure within Board policy guidelines.

The Company evaluates the potential adverse impacts that changing Company's interest rates may have on its short-term earnings, long-term value, and liquidity by outsourcing simulation analysis through the use of computer modeling. The simulation rate risk model captures optionality uses assumptions which include factors such as call features, prepayment options and interest rate caps and floors imbedded included in investment and loan portfolio contracts. As with any method of gauging The interest rate risk there model estimates the lives and interest rate sensitivity of the Company's non-maturity deposits. These assumptions have a significant effect on model results. The assumptions are certain shortcomings developed primarily based upon historical behavior of Bank customers. The Company also considers industry and regional data in developing interest rate risk model assumptions. There are inherent limitations in the Company's interest rate modeling methodology used by the Company. risk model and underlying assumptions. When interest rates change, actual movements in different categories of interest-earning assets and interest-bearing liabilities, loan prepayments, and withdrawals of time and other deposits, may deviate significantly from assumptions used in the model. As an example, certain money market deposit accounts are

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assumed to reprice at 50% of the interest rate change in each of the up rate shock scenarios even though this is not a contractual requirement. As a practical matter, management would likely lag the impact of any upward movement in market rates on these accounts as a mechanism to manage the Company's net interest margin. Finally, the methodology does not measure or reflect the impact that higher rates may have on adjustable-rate loan customers' ability to service their debts, or the impact of rate changes on demand for loan, lease, and deposit products.

The Company presents prepares a current base case and several alternative simulations at least once a quarter and reports the analysis to the Board of Directors. In addition, more frequent forecasts could be produced when interest rates are particularly uncertain or when other business conditions so dictate.

The statement of condition is subject to quarterly testing for six alternative interest rate shock possibilities to indicate the inherent interest rate risk. Average quarterly. Current interest rates are shocked by +/- 100, 200, 300, and 400 basis points ("bp"), although points. In addition, the Company simulates additional rate curve scenarios. The Company may elect not to use particular scenarios that it determines are impractical in a current rate environment.

The Company's internal limits for parallel shock scenarios are as follows:

Shock in Basis Points	Net Interest Income	Economic Value of Equity
+ - 400	+/- 40%	+/- 25%
+ - 300	+/- 30%	+/- 20%
+ - 200	+/- 20%	+/- 15%
+ - 100	+/- 10%	+/- 10%

It is management's goal to structure manage the balance sheet Bank's portfolios so that net interest earnings income at risk over a twelve-month period twelve and twenty-four-month periods and the economic value of equity at risk do not exceed policy guidelines at the various interest rate shock levels.

As of December 31, 2023, and 2022, the Company did not exceed any Board approved sensitivity limits for percentage change in net interest income. As of December 31, 2023, the Company exceeded Board approved limits for the percentage change in economic value of equity in the interest rate shocks of +400 and +300 due to extension rate risk on loans. As of December 31, 2022, the Company exceeded Board approved limits for the percentage change in economic value of equity in the interest rate shock scenario of +400.

Measures of net interest income at risk produced by simulation analysis are indicators of an institution's short-term performance in alternative rate environments. These measures are typically based upon The below schedule estimates the changes in net interest income over a relatively brief twelve-month period usually one year. They do not necessarily indicate the long-term prospects or economic value of the institution.

The measures for parallel rate shocks for up 400, 300, 200, 100 and down 100, and 200 scenarios:

Estimated Changes in Net Interest Income

Change in Interest Rates:	**+ 400 basis points**	**+ 300 basis points**	**+ 200 basis points**	**+ 100 basis points**	**- 100 basis points**	**- 200 basis points**
Policy Limit	**+/- 40%**	**+/- 30%**	**+/- 20%**	**+/- 10%**	**+/-10%**	**+/- 20%**
December 31, 2023	**(15.6)%**	**(11.6)%**	**(7.6)%**	**(3.6)%**	**2.1 %**	**2.8 %**
December 31, 2022	(11.7)%	(8.6)%	(5.5)%	(2.6)%	(5.1)%	(11.5)%

Measures of equity value at risk indicate the ongoing economic value of the Company by considering the effects of changes in interest rates on all of the Company's cash flows, and by discounting the cash flows to estimate the present value of assets and liabilities. The difference between these discounted values of below schedule estimates the assets and liabilities is changes in the EVE, which, in theory, approximates the fair economic value of the Company's net assets.

The following tables present the projected change in the Bank's net interest income equity at parallel shocks for up 400, 300, 200, 100 and EVE at December 31, 2022 down 100 and 2021 that would occur upon an immediate change in interest rates based on independent analysis, but without giving effect to any steps that management might take to counteract that change:

Estimated Changes in Net Interest Income						
Change in Interest Rates:	+400 bp	+300 bp	+200 bp	+100 bp	-100 bp	-200 bp
Policy Limit	+/- 40 %	+/- 30 %	+/- 20 %	+/- 10 %	+/-10 %	+/- 20 %
December 31, 2022	**(11.7)%**	**(8.6)%**	**(5.5)%**	**(2.6)%**	**(5.1)%**	**(11.5)%**
December 31, 2021	23.5 %	18.0 %	12.6 %	6.7 %	(7.0)%	(10.6)%

Estimated Changes in Economic Value of Equity						
Change in Interest Rates:	+400 bp	+300 bp	+200 bp	+100 bp	-100 bp	-200 bp
Policy Limit	+/- 25 %	+/- 20 %	+/- 15 %	+/- 10 %	+/- 20 %	+/- 35 %
December 31, 2022	**(25.3)%**	**(18.9)%**	**(12.4)%**	**(6.0)%**	**0.1 %**	**(2.6)%**
December 31, 2021	(2.1)%	(0.5)%	1.0 %	1.1 %	(10.9)%	(23.0)%

200 scenarios:

Estimated Changes in EVE						
Change in Interest Rates:	**+ 400 bp**	**+ 300 bp**	**+ 200 bp**	**+ 100 bp**	**- 100 bp**	**- 200 bp**
Policy Limit	**+/- 25%**	**+/- 20%**	**+/- 15%**	**+/- 10%**	**+/-20%**	**+/- 35%**
December 31, 2023	**(27.7)%**	**(20.9)%**	**(13.8)%**	**(6.6)%**	**4.1 %**	**5.8 %**
December 31, 2022	(25.3)%	(18.9)%	(12.4)%	(6.0)%	0.1 %	(2.6)%

As with any method of measuring interest rate risk, certain shortcomings are inherent in the method of analysis presented in the foregoing tables. For example, although certain assets and liabilities may have similar maturities or periods to repricing, they may react in different degrees to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates. Additionally, certain assets, such as adjustable rate mortgage loans, have features which restrict changes in interest rates on a short-term basis and over the life of the asset. Further, if interest rates change, expected rates of prepayments on loans and early withdrawals from certificates of deposit could deviate significantly from those assumed in calculating the tables.

Inflation

The Consolidated Financial Statements and related consolidated financial data presented herein have been prepared in accordance with GAAP and practices within the banking industry which require the measurement of financial condition

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and operating results in terms of historical dollars, without considering the changes in the relative purchasing power of money over time due to inflation. As a financial institution, virtually all of our assets

and liabilities are monetary in nature and interest rates have a more significant impact on our performance than the effects of general levels of inflation. A prolonged period of inflation could cause interest rates, wages, and other costs to increase and could adversely affect our results of operations unless mitigated by increases in our revenues correspondingly.

Off-Balance Sheet Arrangements

Credit Commitments

In the normal course of business, to meet the financing needs of its customers, the Bank is party to financial instruments with off-balance sheet risk. These financial instruments include commitments to extend credit and standby letters of credit. The Bank's exposure to credit loss in the event of nonperformance by the other party to these financial instruments is represented by the contractual amount of the instruments. The Bank uses the same credit policies in making commitments and conditional obligations as they use for on-balance sheet instruments. The Bank generally requires collateral or other security to support the financial instruments with credit risk. The amount of collateral or other security is determined based on management's credit evaluation of the counterparty. The Bank evaluates each customer's creditworthiness on a case-by-case basis.

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. Further information about these arrangements is provided in Note 23 to the Consolidated Financial Statements.

Management does not believe that any of the foregoing arrangements have or are reasonably likely to have a current or future effect on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

Derivatives

We maintain and account for derivatives, in the form of interest rate lock commitments ("IRLCs") and mandatory forward contracts, in accordance with the Financial Accounting Standards Board ("FASB") guidance on accounting for derivative instruments and hedging activities. We recognize gains and losses on IRLCs, mandatory forward contracts, and best effort forward contracts on the loan pipeline 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. For these IRLCs, 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 loan level commitments, on a limited basis, in the form of best efforts and mandatory forward contracts. Mandatory forward contracts are also considered derivatives. Best efforts forward contracts are not derivatives, however, we have elected to measure and report these commitments at fair value. These assets and liabilities are included in the Consolidated Statements of Financial Condition in other assets and accrued expenses and other liabilities, respectively. See Note 15 to the Consolidated Financial Statements contained in this Annual Report on Form 10-K for more information on our derivatives.

Liquidity Management

Liquidity describes our ability to meet financial obligations that arise during the normal course of business. Liquidity is primarily needed to meet the borrowing and deposit withdrawal requirements of customers and to fund current and planned expenditures. Liquidity is derived through increased customer deposits, maturities in the investment portfolio, loan repayments and income from earning

assets. To the extent that deposits are not adequate to fund customer loan demand, liquidity needs can be met in the short-term funds markets. We have arrangements with correspondent banks whereby we

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have $15 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. The Bank is also a member of the FHLB, which provides another source of liquidity, and had credit availability of approximately $298.7 million from the FHLB as of December 31, 2022.

At December 31, 2022, our loan to deposit ratio was approximately 85.0%, higher than the 70.0% at year-end 2021. This increase is the result of our loans increasing $436.9 million, or 20.6% since year end 2021. Investment securities available for sale totaling $83.6 million at the end of 2022 were available for the management of liquidity and interest rate risk, subject to certain pledging requirements, which can be easily transitioned to held to maturity securities. The comparable amount was $117.0 million at December 31, 2021. Cash and cash equivalents were $55.5 million at December 31, 2022, a decrease of $528.1 million, or 90.5%, compared to the $583.6 million at year-end 2021, which reflects the use of such funds to invest in loans and investment securities during 2022. Management is not aware of any demands, commitments, events or uncertainties that will materially affect our ability to maintain liquidity at satisfactory levels.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

The information required by this item may be found in Item 7 of Part II of this annual report under the caption "Market Risk Management and Interest Sensitivity", which is incorporated herein by reference.

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Item 8. Financial Statements and Supplementary Data.

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MANAGEMENT’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of Shore Bancshares, Inc. (the “Company”) is responsible for the preparation, integrity and fair presentation of the consolidated financial statements included in this annual report. Annual Report. The Company’s consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and, as such, include some amounts that are based on the best estimates and judgments of management.

The Company’s management is responsible for establishing and maintaining adequate internal control over financial reporting. This internal control system is designed to provide reasonable assurance to management and the Board of Directors regarding the reliability of the Company’s financial reporting and the preparation and presentation of financial statements for external reporting purposes in conformity with accounting principles generally accepted in the United States of America as well as to safeguard assets from unauthorized use and reflect management's judgments and estimates concerning the effects of events and transactions that are accounted for or disposition. disclosed.

Management is also responsible for establishing and maintaining effective internal control over financial reporting. The system of Company's internal control over financial reporting is evaluated for effectiveness by management includes those policies and tested for reliability through a program of procedures that pertain to the Company's ability to record, process, summarize and report reliable financial data. The internal audit with control system contains monitoring mechanisms, and appropriate actions taken to correct potential deficiencies as they identified deficiencies. Management believes that internal controls over financial reporting, which are identified. Because subject to scrutiny by management and the Company's internal auditors, support the integrity and reliability of the financial statements. Management recognizes that there are inherent limitations in the effectiveness of any internal control system, no matter how well designed, misstatement due to error or fraud may occur and not be detected, including the possibility of human error and the circumvention or overriding of internal controls. Accordingly, even an effective internal control system over financial reporting can provide only reasonable assurance with respect to financial statement preparation. Further, In addition, because of changes in conditions and circumstances, the effectiveness of internal control effectiveness over financial reporting may vary over time.

Management assessed the effectiveness The Audit Committee of the Company's board of directors (the "Committee"), is comprised entirely of outside directors who are independent of management. The Committee is responsible for the appointment and compensation of the independent auditors and makes decisions regarding the appointment or removal of members of the internal audit function. The Committee meets periodically with management, the independent auditors, and the internal auditors to ensure that they are carrying out their responsibilities. The Committee is also responsible for performing an oversight role by reviewing and monitoring the financial, accounting, and auditing procedures of the Company in addition to reviewing the Company's financial reports. The independent auditors and the internal auditors have full and unlimited access to the Committee, with or without the presence of management, to discuss the adequacy of internal control over financial reporting, and any other matters which they believe should be brought to the attention of the Committee.

As permitted by the guidance issued by the Office of the Chief Accountant of the Securities and Exchange Commission, management excluded the operations of The Community Financial Corporation and its subsidiary ("TCFC") from its assessment of internal control over financial reporting as of December 31, 2022, December 31, 2023. TCFC and its subsidiary were merged with and into the Company, however, their legacy operations utilized separate accounting systems from July 1, 2023 (the date of acquisition) until the systems were converted on September 11, 2023. TCFC's total assets represented approximately 39.9% of the Company's consolidated assets as of the date of acquisition.

Management assessed the Company's system of internal control over financial reporting as of December 31, 2023. This assessment was conducted based upon criteria set forth in Internal Control – Integrated Framework issued by on the Committee of Sponsoring Organizations of the Treadway Commission (2013 COSO Framework) "Internal Control - Integrated Framework (2013)." Based on this assessment, management identified material weaknesses related to the Company's internal control over financial reporting, and, on the foregoing criteria, management has as such, concluded that as of December 31, 2022, the Company's internal control over financial reporting was effective.

This ineffective as of December 31, 2023. 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 report does or interim financial statements will not include an attestation report be prevented or detected on a timely basis.

Management identified a material weakness associated with ineffective input review controls relating to specific aspects of the Company's allowance for credit loss ("ACL") model and previously disclosed a material weakness in relation to deferred income taxes discussed in Part I, Item 4 of the Company's Form 10-Q/A for the quarter ended September 30, 2023 (the "amended Form 10-Q").

Concerning the identified material weakness with respect to the ACL, management has concluded that the issue resulted from an insufficient validation of key loan payment and projected historical loss variable inputs in the post-merger ACL model.The lack of sufficient data validation did not require a restatement of previously reported ACL balances.

Concerning the material weakness identified in the Company's amended Form 10-Q, management has concluded that the issue resulted from not performing a key control that was previously only performed in the fourth quarter on annual basis, which was the Company's annual year-end roll-forward reconciliation and review of book to tax basis differences in the Company's deferred tax asset and liability categories. Management concluded that the Company should have performed this key control in the third quarter of 2023 when the merger was consummated.

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 December 31, 2023.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 allowance for credit losses, management is in the process of completing a detailed inventory covering select inputs to the allowance for credit losses calculation, a re-evaluation of SOX control design and operation, and determining the appropriate frequency and precision of controls to ensure all significant inputs to the allowance for credit losses calculation are addressed. In addition, management expects to conduct a detailed data audit to ensure the completeness and accuracy of select inputs to the allowance for credit losses calculation.

Specifically, in relation to the Company'sremediation plan for the error in deferred taxes, management has continued to follow the remediation plans outlined in the Company's amended Form 10-Q. This plan includes a quarterly reconciliation of book to tax basis differences to ensure deferred tax basis items are properly recorded. Beginning in the fourth quarter of 2023, management revised the frequency of the roll-forward reconciliation and review control from an annual key control to a quarterly key control.

Management will consider the material weaknesses remediated once the applicable controls have operated for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively. We expect that the remediation of the allowance for credit losses material weakness will be completed prior to the end of 2024. We expect that the remediation of the deferred tax material weakness will be completed with the filing of the Company's 10-Q for quarter ended March 31, 2024.

Except as described above, there were no other changes in the Company's internal control over financial reporting (as defined in Rule 13a-15 under the Securities Act of 1934) during the quarter ended December 31, 2023 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

The 2023 financial statements have been audited by the independent registered public accounting firm regarding of Yount, Hyde & Barbour, P.C. ("YHB"). Personnel from YHB were given unrestricted access to all financial records and related data, including minutes of all meetings of the Board of Directors and committees thereof. Management believes that all representations made to all the independent auditors were valid and appropriate. The resulting report from YHB accompanies the financial statements. YHB has also issued a report on the effectiveness of internal control over financial reporting. Management's This report was not subject to attestation by the Company's registered public accounting firm pursuant to rules has also been made a part of the Securities and Exchange Commission that permit the Company to provide only management's report in its annual report.

March 30, 2023

this Annual Report.

/s/ James M. Burke	/s/ Todd L. Capitani	
/s/ LloydJames M. Burke	Todd L. Beatty, Jr.	/s/ Vance Adkins Capitani
Lloyd L. Beatty, Jr.	Vance Adkins	
President and Chief Executive Officer	Executive Vice President and Chief Financial Officer	
(Principal Executive Officer)	(Principal Financial Officer)	
March 15, 2024	March 15, 2024	

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Graphic

Report of Independent Registered Public Accounting Firm

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors and Stockholders

of Shore Bancshares, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Shore Bancshares, Inc. and its subsidiaries (the Company) as of December 31, 2022 December 31, 2023 and 2021, 2022, the related consolidated statements of income, comprehensive income, changes in stockholders' stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 December 31, 2023 and 2021, 2022, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2023, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. Our report dated March 15, 2024, expressed an opinion that the Company had not maintained effective internal control over financial reporting as of December 31, 2023, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

Adoption of New Accounting Standard

As discussed in Notes 1 and 4 to the financial statements, the Company changed its method of accounting for credit losses in 2023 due to the adoption of Accounting Standards Update 2016-13,

Financial Instruments – Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments

, including all related amendments.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

Matters

The critical audit matter matters communicated below is a matter are matters arising from the current period audit of the financial statements that was were communicated or required to be communicated to the audit committee and that: (1)

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relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter matters below, providing a separate opinion opinions on the critical audit matter matters or on the accounts or disclosures to which it relates.

Allowance for Loan Losses – Qualitative Formula Allowance

As described in Note 1 (Summary of Significant Accounting Policies) and Note 4 (Loans and they relate.

Allowance for Credit Losses) Losses – Collectively Evaluated Loans

As further described in Notes 1 and 4 to the consolidated financial statements, the Company maintains an changed its method of accounting for credit losses on January 1, 2023, due to the adoption of Accounting Standards Update 2016-13, *Financial Instruments – Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments,* as amended. The allowance for credit losses on loans (ACL) is a valuation allowance that represents management's best estimate of expected credit losses on loans measured at amortized cost considering available information relevant to provide assessing collectability over the loans' contractual terms. Loans which share common risk characteristics are pooled and collectively evaluated by the Company using historical data, as well as assessments of current conditions and reasonable and supportable forecasts of future conditions. The Company's ACL related to collectively evaluated loans represented $56.43 million of the total recorded ACL of $57.35 million as of December 31, 2023. The collectively evaluated ACL consists of quantitative and qualitative components.

The quantitative component consists of loss estimates derived from a cash flow model adjusted for probable losses inherent estimated prepayments and forecasts of future conditions over a reasonable and supportable period. These estimates consider large amounts of data in tabulating significant inputs to the calculations, including default, loss given default, and prepayment speeds and require complex calculations as well as management judgment in the loan portfolio, which totaled $16,643,000 at December 31, 2022. The Company's allowance for credit losses consists selection of three components: (i) the specific allowance; (ii) the historical formula allowance; and (iii) the qualitative formula allowance. For loans that are not individually evaluated for impairment, the qualitative formula allowance uses certain qualitative factors to develop loss percentages which are applied appropriate inputs. In addition to the loan portfolio, by loan pool, based on quantitative component, the collectively evaluated ACL also includes a qualitative component which aggregates management's assessment of shared risk characteristics within groups of similar loans. The qualitative formula allowance available information relevant to assessing collectability that is determined based on management's continuing not captured in the quantitative loss estimation process. This evaluation of internal and external factors (described in Note 1), which may impact the underlying quality of the loan portfolio.

is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

Management exercised significant judgment when assessing estimating the factors which serve as the basis for the qualitative formula allowance component of the allowance for credit losses estimate. ACL on collectively evaluated loans. We identified the assessment of those qualitative factors and the determination estimation of the qualitative formula allowance collectively evaluated ACL as a critical audit matter as auditing the qualitative factors and the resultant qualitative formula allowance collectively evaluated ACL involved especially complex and subjective auditor judgment in evaluating management's assessment of the inherently subjective estimates.

How We Addressed the Matter in Our Audit

The primary audit procedures we performed to address this critical audit matter included:

-

- Obtaini Substantively testing management's process for measuring theL on collectively evaluated loans, including the collectively evaluated ACL, including:
  - Evaluating the conceptual soundness of the methodology for determining the collectively evaluated ACL.
  - Testing significant inputs to the calculation, including probability of default, loss given default, and prepayment rates, and the data on which those inputs were based.
  - Evaluating management's selection of forecasting inputs and testing the accuracy of management's incorporation of its forecasts in the collectively evaluated ACL estimate.
  - Testing the completeness and accuracy of internal loan level data used in the calculation, as well as evaluating the pool of collectively evaluated loans for completeness.
  - Evaluating management's determination of qualitative adjustments, including evaluating data on which the qualitative adjustments were based as well as the relative magnitude of the adjustments.
  - Testing the mathematical accuracy of the ACL for collectively evaluated loans, including the calculations underlying the quantitative component as well as application of qualitative factors to the collectively evaluated loan balances.

Fair Value of Acquired Loans

As described in Note 2 – "Business Combination", the Company completed its acquisition of The Community Financial Corporation on July 1, 2023, for total consideration valued at approximately $153.6 million. The transaction was accounted for as a business combination using the acquisition method of accounting. Accordingly, the assets acquired and liabilities assumed were recorded at fair value on the acquisition date, including acquired loans with an aggregate fair value of $1.77 billion. As disclosed by management, determining the acquired fair values, particularly in relation to the loan portfolio, is inherently subjective and involves significant judgment regarding the methods and assumptions used to estimate fair value. In determining the fair value of acquired loans, management must determine whether or not acquired loans have evidence of more-than-insignificant credit deterioration at acquisition, the amount and timing of cash flows expected to be collected, and market discount rates, among other assumptions. Changes in these assumptions could have a significant impact on the fair value of the acquired loans.

We identified the acquisition date fair value of acquired loans as a critical audit matter as auditing this estimate required significant auditor judgment in evaluating management's identification of loans with evidence of credit deterioration, the need for specialized skill in development and application of subjective assumptions in estimated cash flows, and the size of the acquired loan portfolio.

The primary audit procedures we performed to address this critical audit matter included:

- Assessing the effectiveness of the Company's controls over the fair value measurement process, including management's engagement and review of the work performed by its third-party valuation specialist, including the completeness and accuracy of the data utilized in forming the estimates, review of key assumptions and inputs in estimating fair value, as well as identification of loans with credit deterioration.
- Substantively testing management's process, including:
    - Using our own valuation specialist to assess the Company's methods and significant assumptions utilized in determining the fair value of the acquired loan portfolio and evaluating whether the assumptions used were reasonable with respect to market participant views and other factors.
    - Testing the completeness and accuracy of loans determined to have experienced more-than-insignificant credit deterioration since origination and evaluating the reasonableness of the criteria utilized by management in making the determination.
    - Testing the accuracy of the data utilized in the development of acquisition date fair values by confirming, on a sample basis, select data.
    - Confirming the mathematical accuracy of the underlying calculations of fair value.

Obtaining an understanding of the Company's processes for evaluating qualitative factors, including the development of the data inputs used.

- Substantively testing management's process, including evaluating their judgments and assumptions for developing the qualitative formula allowance, which included:
    - Evaluating the completeness and accuracy of data inputs used as a basis for the qualitative factors.
    - Evaluating the reasonableness of management's judgments related to the determination of qualitative factors.
    - Evaluating the qualitative factors for directional consistency and for reasonableness.
    - Testing the mathematical accuracy of the allowance calculation, including the application of the qualitative factors.

/s/ Yount, Hyde & Barbour, P.C.

We have served as the Company's auditor since 2017.

Winchester, Virginia

March 30, 2023

15, 2024

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Table REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of **Contents**

Directors of Shore Bancshares, Inc.

Opinion on the Internal Control Over Financial Reporting

We have audited Shore Bancshares, Inc.'s (the Company) internal control over financial reporting as of December 31, 2023, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. In our opinion, because of the effect of the material weaknesses described below on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of December 31, 2023, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets as of December 31, 2023 and 2022, the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements of the Company, and our report dated March 15, 2024, expressed an unqualified opinion.

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 the company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weaknesses have been identified and included in management's assessment:

- Ineffective review controls over inputs for specific aspects of the Company's allowance for credit losses calculation for the loan portfolio.
- Ineffective review controls concerning the verification of income tax related balances.

These material weaknesses were considered in determining the nature, timing and extent of audit tests applied in our audit of the 2023 financial statements, and this report does not affect our report dated March 15, 2024, on those financial statements.

As described in *Management's Report on Internal Control Over Financial Reporting*, management has excluded The Community Financial Corporation, Inc. from its assessment of internal control over financial reporting as of December 31, 2023, because it was acquired by the Company in a purchase business combination in the third quarter of 2023. We have also excluded The Community Financial Corporation, Inc. from our audit of internal control over financial reporting. The Community Financial Corporation, Inc. and its subsidiary operated under separate accounting systems from July 1, 2023 (the date of acquisition) until the systems were converted on September 11, 2023. The Community Financial Corporation, Inc.'s total assets represented approximately 39.9% of the Company's consolidated assets as of the date of acquisition.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting in the accompanying *Management's Report on Internal Control Over Financial Reporting*. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with

U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Yount, Hyde & Barbour, P.C.

Winchester, Virginia
March 15, 2024

SHORE BANCSHARES, INC.

CONSOLIDATED BALANCE SHEETS

December 31,

(In thousands, except share and per share data)	December 31, 2022	December 31, 2021
ASSETS		
Cash and due from banks	$ 37,661	$ 16,919
Interest-bearing deposits with other banks	17,838	566,694
Cash and cash equivalents	55,499	583,613
Investment securities:		
Available-for-sale, at fair value	83,587	116,982
Held to maturity, at amortized cost - fair value of $494,627 (2022) and $401,524 (2021)	559,455	404,594
Equity securities, at fair value	1,233	1,372
Restricted securities, at cost	11,169	4,159
Loans held for sale, at fair value	4,248	37,749
Loans held for investment	2,556,107	2,119,175
Less: allowance for credit losses	(16,643)	(13,944)
Loans, net	2,539,464	2,105,231

Premises and equipment, net	51,488	51,624
Goodwill	63,266	63,421
Other intangible assets, net	5,547	7,535
Other real estate owned, net	197	532
Mortgage servicing rights, at fair value	5,275	4,087
Right-of-use assets	9,629	11,370
Cash surrender value on life insurance	59,218	47,935
Other assets	28,001	19,932
TOTAL ASSETS	$ 3,477,276	$ 3,460,136
LIABILITIES		
Deposits:		
Noninterest-bearing	$ 862,015	$ 927,497
Interest-bearing	2,147,769	2,098,739
Total deposits	3,009,784	3,026,236
Securities sold under retail repurchase agreements	—	4,143
Advances from FHLB - short-term	40,000	—
Advances from FHLB - long-term	—	10,135
Subordinated debt	43,072	42,762
Total borrowings	83,072	57,040
Lease liabilities	9,908	11,567
Other liabilities	10,227	14,600
TOTAL LIABILITIES	3,112,991	3,109,443
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Common stock, par value $.01 per share; shares authorized - 35,000,000; shares issued and outstanding - 19,849,563 (2022) and 19,807,533 (2021)	199	198
Additional paid in capital	201,494	200,473
Retained earnings	171,613	149,966
Accumulated other comprehensive (loss) income	(9,021)	56
TOTAL STOCKHOLDERS' EQUITY	364,285	350,693
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 3,477,276	$ 3,460,136

(In thousands, except share and per share data)	December 31, 2023	December 31, 2022
ASSETS		
Cash and due from banks	$ 63,172	$ 37,661
Interest-bearing deposits with other banks	309,241	17,838
Cash and cash equivalents	372,413	55,499
Investment securities:		
Available-for-sale, at fair value (amortized cost of $120,832 (2023) and $95,999 (2022))	110,521	83,587
Held to maturity, net of allowance for credit losses of $94 (2023) (fair value of $457,830 (2023) and $494,627 (2022))	513,188	559,455
Equity securities, at fair value	5,703	1,233
Restricted securities, at cost	17,900	11,169
Loans held for sale, at fair value	8,782	4,248
Loans held for investment ($9,944 (2023) and $8,437 (2022), at fair value)	4,641,010	2,556,107

Less: allowance for credit losses	**(57,351)**	(16,643)
Loans, net	**4,583,659**	2,539,464
Premises and equipment, net	**82,386**	51,488
Goodwill	**63,266**	63,266
Other intangible assets, net	**48,090**	5,547
OREO, net	**179**	197
Mortgage servicing rights, at fair value	**5,926**	5,275
Right-of-use assets	**12,487**	9,629
Cash surrender value on life insurance	**101,704**	59,218
Accrued interest receivable	**19,217**	9,384
Deferred income taxes	**40,707**	7,357
Other assets	**24,790**	11,260
TOTAL ASSETS	**$ 6,010,918**	$ 3,477,276
LIABILITIES		
Deposits:		
Noninterest-bearing	**$ 1,258,037**	$ 862,015
Interest-bearing	**4,128,083**	2,147,769
Total deposits	**5,386,120**	3,009,784
Advances from FHLB - short-term	**—**	40,000
Guaranteed preferred beneficial interest in junior subordinated debentures ("TRUPS")	**29,158**	18,398
Subordinated debt	**43,139**	24,674
Total borrowings	**72,297**	83,072
Lease liabilities	**12,857**	9,908
Other liabilities	**28,509**	10,227
TOTAL LIABILITIES	**5,499,783**	3,112,991
STOCKHOLDERS' EQUITY		
Common stock, par value $.01 per share; shares authorized - 50,000,000; shares issued and outstanding - 33,161,532 (2023) and 19,864,956 (2022)	**332**	199
Additional paid in capital	**356,007**	201,494
Retained earnings	**162,290**	171,613
Accumulated other comprehensive loss	**(7,494)**	(9,021)
TOTAL STOCKHOLDERS' EQUITY	**511,135**	364,285
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$ 6,010,918**	$ 3,477,276

The notes to the consolidated financial statements are an integral part of these statements.

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SHORE BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF INCOME

For the Years Ended December 31,

(In thousands, except per share data)	2022	2021
INTEREST INCOME		
Interest and fees on loans	**$ 99,122**	$ 64,795
Interest and dividends on taxable investment securities	**11,507**	5,006
Interest and dividends on tax-exempt investment securities	**6**	—
Interest on deposits with other banks	**3,210**	368
Total interest income	**113,845**	70,169
INTEREST EXPENSE		
Interest on deposits	**9,983**	4,461
Interest on short-term borrowings	**74**	8
Interest on long-term borrowings	**2,486**	1,570
Total interest expense	**12,543**	6,039
NET INTEREST INCOME	**101,302**	64,130
Provision for credit losses	**1,925**	(358)
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	**99,377**	64,488
NONINTEREST INCOME		
Service charges on deposit accounts	**5,652**	3,396
Trust and investment fee income	**1,784**	1,881
Gains on sales and calls of investment securities	**—**	2
Interchange credits	**4,812**	3,964
Mortgage-banking revenue	**5,210**	948
Title Company revenue	**1,340**	247
Other noninterest income	**4,288**	3,060
Total noninterest income	**23,086**	13,498
NONINTEREST EXPENSE		
Salaries and wages	**35,931**	21,222
Employee benefits	**9,908**	7,262
Occupancy expense	**6,242**	3,690
Furniture and equipment expense	**2,018**	1,553
Data processing	**6,890**	5,001
Directors' fees	**839**	620
Amortization of other intangible assets	**1,988**	734
FDIC insurance premium expense	**1,426**	1,015
Other real estate owned expenses, net	**65**	4
Legal and professional fees	**2,840**	1,742
Merger-related expenses	**2,098**	8,530
Other noninterest expenses	**10,077**	5,433
Total noninterest expense	**80,322**	56,806
Income before income taxes	**42,141**	21,180
Income tax expense	**10,964**	5,812
NET INCOME	**$ 31,177**	$ 15,368

Basic and diluted net income per common share	**$ 1.57**	$ 1.17
Dividends paid per common share	**$ 0.48**	$ 0.48

(In thousands, except per share data)	**2023**	2022
INTEREST INCOME		
Interest and fees on loans	**$ 194,339**	$ 99,122
Interest and dividends on taxable investment securities	**16,832**	11,507
Interest and dividends on tax-exempt investment securities	**46**	6
Interest on federal funds sold	**92**	—
Interest on deposits with other banks	**2,770**	3,210
Total interest income	**214,079**	113,845
INTEREST EXPENSE		
Interest on deposits	**68,800**	9,983
Interest on short-term borrowings	**5,518**	74
Interest on long-term borrowings	**4,454**	2,486
Total interest expense	**78,772**	12,543
NET INTEREST INCOME	**135,307**	101,302
Provision for credit losses	**30,953**	1,925
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	**104,354**	99,377
NONINTEREST INCOME		
Service charges on deposit accounts	**5,501**	5,652
Trust and investment fee income	**3,608**	1,784
Loss on sales and calls of investment securities	**(2,166)**	—
Interchange credits	**5,714**	4,812
Mortgage-banking revenue	**4,513**	5,210
Title Company revenue	**551**	1,340
Bargain purchase gain	**8,816**	—
Other noninterest income	**6,622**	4,288
Total noninterest income	**33,159**	23,086
NONINTEREST EXPENSE		
Salaries and wages	**44,645**	35,931
Employee benefits	**12,358**	9,908
Occupancy expense	**7,791**	6,242
Furniture and equipment expense	**2,551**	2,018
Data processing	**8,783**	6,890
Directors' fees	**1,156**	839
Amortization of other intangible assets	**6,105**	1,988
FDIC insurance premium expense	**3,479**	1,426
Other real estate owned expenses, net	**1**	65
Legal and professional fees	**4,337**	2,840
Merger-related expenses	**17,356**	2,098
Other noninterest expenses	**14,767**	10,077
Total noninterest expense	**123,329**	80,322
Income before income taxes	**14,184**	42,141
Income tax expense	**2,956**	10,964
NET INCOME	**$ 11,228**	$ 31,177
Basic and diluted net income per common share	**$ 0.42**	$ 1.57
Dividends paid per common share	**$ 0.48**	$ 0.48

The notes to the consolidated financial statements are an integral part of these statements.

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SHORE BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Years Ended December 31,

(In thousands)	2022	2021
Net income	$ 31,177	$ 15,368
Other comprehensive (loss):		
Investment securities:		
Unrealized holding (losses) on available-for-sale-securities	(12,488)	(2,027)
Tax effect	3,411	554
Total other comprehensive (loss)	(9,077)	(1,473)
Comprehensive income	$ 22,100	$ 13,895

(In thousands)	2023	2022
Net income	$ 11,228	$ 31,177
Other comprehensive income (loss):		
Investment securities:		
Unrealized holding gains (losses) on available-for-sale-securities	2,101	(12,488)
Tax effect	(574)	3,411
Total other comprehensive income (loss)	1,527	(9,077)
Comprehensive income	$ 12,755	$ 22,100

The notes to the consolidated financial statements are an integral part of these statements.

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SHORE BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

For the Years Ended December 31, 2022 December 31, 2023 and 2021

(In thousands)	Common Stock	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income (loss)	Total Stockholders' Equity
Balances, January 1, 2022	$ **198**	**$ 200,473**	**$ 149,966**	**$ 56**	**$ 350,693**
Net income	**—**	**—**	**5,613**	**—**	**5,613**
Other comprehensive (loss)	**—**	**—**	**—**	**(2,228)**	**(2,228)**
Common shares issued for employee stock purchase plan	**—**	**37**	**—**	**—**	**37**
Stock-based compensation	**—**	**130**	**—**	**—**	**130**
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**
Net Income	**—**	**—**	**8,407**	**—**	**8,407**
Other comprehensive income	**—**	**—**	**—**	**760**	**760**
Common shares issued for employee stock purchase plan	**—**	**122**	**—**	**—**	**122**
Stock-based compensation	**—**	**159**	**—**	**—**	**159**
Cash dividends declared	**—**	**—**	**(2,384)**	**—**	**(2,384)**

Balances, December 31, 2022	$ **199**	**$ 201,494**	**$ 171,613**	**$ (9,021)**	**$ 364,285**

2022

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(In thousands)	Common Stock	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income (loss)	Total Stockholders' Equity
Balances, December 31, 2021	**$ 198**	**$ 200,473**	**$ 149,966**	**$ 56**	**$ 350,693**
Net Income	**—**	**—**	**31,177**	**—**	**31,177**
Other comprehensive (loss)	**—**	**—**	**—**	**(9,077)**	**(9,077)**
Common shares issued for employee stock purchase plan	**1**	**385**	**—**	**—**	**386**
Stock-based compensation	**—**	**636**	**—**	**—**	**636**
Cash dividends at $0.48 per common share	**—**	**—**	**(9,530)**	**—**	**(9,530)**
Balances, December 31, 2022	**$ 199**	**$ 201,494**	**$ 171,613**	**$ (9,021)**	**$ 364,285**
Net Income	**—**	**—**	**11,228**	**—**	**11,228**
Cumulative effect adjustment due to the adoption of ASC 326, net of tax	**—**	**—**	**(7,818)**	**—**	**(7,818)**
Other comprehensive income	**—**	**—**	**—**	**1,527**	**1,527**
TCFC acquisition	**132**	**152,955**	**—**	**—**	**153,087**
Common shares issued for employee stock purchase plan	**1**	**384**	**—**	**—**	**385**
Stock-based compensation	**—**	**1,174**	**—**	**—**	**1,174**
Cash dividends at $0.48 per common share	**—**	**—**	**(12,733)**	**—**	**(12,733)**
Balances, December 31, 2023	**$ 332**	**$ 356,007**	**$ 162,290**	**$ (7,494)**	**$ 511,135**

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(In thousands)	Common Stock	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
Balances, January 1, 2021	$ 118	$ 52,167	$141,205	$ 1,529	$ 195,019
Net Income	—	—	3,998	—	3,998
Other comprehensive (loss)	—	—	—	(782)	(782)
Retirement of common stock	—	(819)	—	—	(819)
Stock-based compensation	—	97	—	—	97
Cash dividends declared	—	—	(1,409)	—	(1,409)
Balances, March 31, 2021	$ 118	$ 51,445	$143,794	$ 747	$ 196,104
Net Income	—	—	4,031	—	4,031

Other comprehensive (loss)	—	—	—	(141)	(141)
Stock-based compensation	—	99	—	—	99
Cash dividends declared	—	—	(1,411)	—	(1,411)
Balances, June 30, 2021	$ 118	$ 51,544	$146,414	$ 606	$ 198,682
Net Income	—	—	4,616	—	4,616
Other comprehensive (loss)	—	—	—	(378)	(378)
Stock-based compensation	—	91	—	—	91
Exercise of options, net of shares surrendered	—	6	—	—	6
Cash dividends declared	—	—	(1,410)	—	(1,410)
Balances, September 30, 2021	$ 118	$ 51,641	$149,620	$ 228	$ 201,607
Net Income	—	—	2,723	—	2,723
Other comprehensive (loss)	—	—	—	(172)	(172)
Severn Bank acquisition - 8,053,088 shares	80	148,741	—	—	148,821
Stock-based compensation	—	91	—	—	91
Cash dividends declared	—	—	(2,377)	—	(2,377)
Balances, December 31, 2021	$ 198	$200,473	$149,966	$ 56	$ 350,693

The notes to the consolidated financial statements are an integral part of these statements.

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SHORE BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31,

	For Year Ended December 31,	
(In thousands)	**2022**	2021

CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	**$ 31,177**	$ 15,368
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Net accretion of acquisition accounting estimates	**(1,768)**	(440)
Provision for credit losses	**1,925**	(358)
Depreciation and amortization	**5,861**	3,086
Net amortization of securities	**1,414**	1,579
Amortization of debt issuance costs	**122**	123
(Gain) on mortgage banking activities	**(3,918)**	(918)
Proceeds from sale of mortgage loans held for sale	**131,286**	15,562
Originations of loans held for sale	**(102,144)**	(42,199)
Stock-based compensation expense	**636**	378
Deferred income tax expense (benefit)	**(1,182)**	278
(Gains) on sales and calls of securities	**—**	(2)
(Gains) loss on valuation adjustments on mortgage servicing rights	**(372)**	59
Losses on sales and disposals of premises and equipment	**183**	4
Losses on sales and valuation adjustments on other real estate owned	**44**	2
Fair value adjustment on equity securities	**157**	40
Bank owned life insurance income	**(1,118)**	(1,090)
Net changes in:		
Accrued interest receivable	**(2,665)**	2,145
Other assets	**(1,450)**	(3,045)
Accrued interest payable	**297**	(5)
Other liabilities	**(5,838)**	1,930
Net cash (used in) provided by operating activities	**52,647**	(7,503)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from maturities and principal payments of investment securities available for sale	**20,441**	40,656
Purchases of investment securities available for sale	**—**	—
Proceeds from maturities and principal payments of investment securities held to maturity	**52,324**	40,274
Purchases of securities held to maturity	**(208,133)**	(255,514)
Purchases of equity securities	**(18)**	(17)
Purchase of restricted securities	**(8,560)**	—
Net change in loans	**(426,973)**	(79,771)
Purchases of premises and equipment	**(2,415)**	(3,450)
Proceeds from sales of premises and equipment	**17**	—
Proceeds from sales of other real estate owned	**394**	—
Improvements to other real estate owned	**(34)**	—
Redemption of restricted securities	**1,550**	437
Purchases of bank owned life insurance	**(10,165)**	(10,203)
Cash acquired in the acquisition of Severn, net of cash paid	**—**	305,781
Net cash (used in) provided by investing activities	**(581,572)**	38,193
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net changes in:		
Noninterest-bearing deposits	**(65,482)**	35,821
Interest-bearing deposits	**49,580**	334,512
Short-term borrowings	**35,857**	3,093
Repayment of long-term borrowings	**(10,000)**	—
Common stock dividends paid	**(9,530)**	(6,607)
Retirement of common stock	**—**	(819)
Issuance of common stock	**386**	6

Net cash provided by financing activities	**811**	366,006
Net (decrease) increase in cash and cash equivalents	**(528,114)**	396,696
Cash and cash equivalents at beginning of period	**583,613**	186,917
Cash and cash equivalents at end of period	**$ 55,499**	$ 583,613

	For Year Ended December 31,	
(In thousands)	**2023**	2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	**$ 11,228**	$ 31,177
Adjustments to reconcile net income to net cash provided by operating activities:		
Net accretion of acquisition accounting estimates	**(8,772)**	(1,768)
Provision for credit losses	**30,953**	1,925
Depreciation and amortization	**10,939**	5,861
Net amortization of securities	**838**	1,414
Amortization of debt issuance costs	**122**	122
Bargain purchase gain	**(8,816)**	—
(Gain) on mortgage banking activities	**(3,477)**	(3,918)
Proceeds from sale of mortgage loans held for sale	**121,734**	131,286
Originations of loans held for sale	**(123,376)**	(102,144)
Stock-based compensation expense	**1,174**	636
Deferred income tax expense (benefit)	**2,721**	(1,182)
Losses on sales and calls of securities	**2,166**	—
Loss (Gain) on valuation adjustments on mortgage servicing rights	**251**	(372)
Loss on sale and valuation adjustments on premises transferred to held for sale	**272**	—
Losses on sales and disposals of premises and equipment	**—**	183
(Gain) loss on sales and valuation adjustments on other real estate owned	**(3)**	44
Fair value adjustments on loans held for investments, at fair value	**(33)**	—
Fair value adjustment on equity securities	**(54)**	157
Bank owned life insurance income	**(1,997)**	(1,118)
Net changes in:		
Accrued interest receivable	**(724)**	(2,665)
Other assets	**(10,875)**	(1,450)
Accrued interest payable	**2,095**	297
Other liabilities	**(3,653)**	(5,838)
Net cash provided by operating activities	**22,713**	52,647
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from maturities and principal payments of investment securities available for sale	**17,754**	20,441
Proceeds from the sale of acquired AFS securities	**434,215**	—
Proceeds from maturities and principal payments of investment securities held to maturity	**44,801**	52,324
Proceeds from sale of loans held for investment	**8,611**	—
Purchase of securities available for sale	**(33,226)**	—
Purchases of securities held to maturity	**—**	(208,133)
Purchases of equity securities	**(79)**	(18)
Purchase of restricted securities	**(35,350)**	(8,560)
Net change in loans	**(317,283)**	(426,973)
Purchases of premises and equipment	**(5,954)**	(2,415)
Proceeds from sales of premises and equipment	**—**	17
Proceeds from sales of other real estate owned	**21**	394
Improvements to other real estate owned	**—**	(34)
Redemption of restricted securities	**32,959**	1,550

Purchases of bank owned life insurance	**(249)**	(10,165)
Proceeds from disposal of premises held for sale	**721**	—
Cash acquired in the acquisition of TCFC	**25,372**	—
Net cash provided by (used in) investing activities	**172,313**	(581,572)

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	For Year Ended December 31,	
(In thousands)	**2023**	2022
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net changes in:		
Net change in deposits	**$ 243,236**	$ (15,902)
Net (repayment) advances of short-term borrowings	**(109,000)**	35,857
Repayment of long-term borrowings	**—**	(10,000)
Common stock dividends paid	**(12,733)**	(9,530)
Issuance of common stock	**385**	386
Net cash provided by financing activities	**121,888**	811
Net increase (decrease) in cash and cash equivalents	**316,914**	(528,114)
Cash and cash equivalents at beginning of period	**55,499**	583,613
Cash and cash equivalents at end of period	**$ 372,413**	$ 55,499
Supplemental cash flows information:		
Interest paid	**$ 74,038**	$ 12,621
Income taxes paid	**$ 7,293**	$ 11,851
Recognition (remeasurement of) lease liabilities arising from right-of-use assets	**$ 179**	$ (456)
Transfer from loans held for sale to loans held for investments	**$ —**	$ 7,791
Transfers from loans to other real estate owned	**$ —**	$ 69
Unrealized gain (loss) on securities available for sale	**$ 2,101**	$ (12,488)
Transfer of premises to held for sale (included in other assets)	**$ 750**	$ —

SHORE BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

For the Years Ended December 31,

Supplemental cash flows information:		
Interest paid	**$ 12,621**	$ 6,007
Income taxes paid	**$ 11,851**	$ 6,253
Recognition (remeasurement of) lease liabilities arising from right-of-use assets	**$ (456)**	$ 1,383
Transfer from loans held for sale to loans held for investment	**$ 7,791**	$ —
Transfers from loans to other real estate owned	**$ 69**	$ 205
Unrealized (loss) on securities available for sale	**$ (12,488)**	$ (2,027)

The notes to consolidated financial statements are an integral part of these statements.

Notes to Consolidated Financial Statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements include the accounts of Shore Bancshares, Inc. and its subsidiaries (collectively referred to in these Notes as the "Company"), with all significant intercompany transactions eliminated. The investments in subsidiaries are recorded on the Company's books (Parent (holding company only) on the basis of its equity in the net assets of the subsidiaries. The accounting and reporting policies of the Company conform to accounting principles generally accepted in the United States of America ("GAAP"). For purposes of comparability, certain reclassifications have been made to amounts previously reported to conform with the current period presentation. Reclassifications had no effect on prior year net income or stockholders' equity.

Nature of Operations

The Company engages in the banking business through Shore United Bank, N.A., a Maryland commercial bank with trust powers. The Company's primary source of revenue is derived from interest earned on commercial, residential mortgage and other loans, and fees charged in connection with lending and other banking services located in Maryland, Delaware and the Eastern Shore of Virginia. The Company engages in the trust services business through the trust department at Shore United Bank, N.A. under the trade name Wye Financial Partners Trust and conducts secondary market lending activities through a division of the Bank. The Title Company engages in title work related to real estate transactions.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and affect the reported amounts of revenues earned and expenses incurred during the reporting period. Actual results could differ from those estimates. Estimates that could change significantly relate to the determination of the allowance for loan credit losses on loans, loans acquired in business combinations, valuation of deferred tax assets and the subsequent evaluation of goodwill for impairment.

Loans Acquired

Investments in a Business Combination

Loans acquired Debt Securities

Investments in a business combination, such debt securities are classified as either held to maturity ("HTM"), available for sale ("AFS"), or trading, based on management's intent. Currently, the Company's acquisition of Severn, 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 allowance for credit losses ("ACL"). Debt securities not classified as HTM are classified as AFS and are carried at estimated fair value on with the date of acquisition without the carryover of the related allowance for loan losses. Purchased credit-impaired (PCI) loans are those for which there is evidence of credit deterioration since origination and for which it is probable at the date of acquisition that the Company will not collect all contractually required principal and interest payments. When determining fair value, PCI loans were aggregated into pools of loans 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. The difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition is referred to as the "nonaccretable difference," and is not recorded. Any excess of cash flows expected at acquisition over the estimated fair value is referred to as the accretable yield and is recognized as interest income over the remaining life of the loan when there is a reasonable expectation about the amount and timing of such cash flows. On a quarterly basis, the Company evaluates its estimate of cash flows expected to be collected. Estimates of cash flows for PCI loans require significant judgment. Subsequent decreases to the expected cash flows will generally result in a provision for loan losses, while subsequent increases in cash flows may result in a reversal of post-acquisition provision for loan losses, or a transfer from nonaccretable difference to accretable yield that increases interest income over the remaining life of the loan or pool(s) of loans. Disposals of loans, which may include sale of loans to third parties, receipt of payments in full or part from the borrower or foreclosure of the collateral, result in removal of the loan from the PCI loan portfolio at its carrying amount.

PCI loans are not classified as nonperforming loans by the Company at the time they are acquired, regardless of whether they had been classified as nonperforming by the previous holder of such loans, and they will not be classified as nonperforming so long as, at quarterly re-estimation periods, we believe we will fully collect the new carrying value of the pools of loans.

Loans not designated PCI loans as of the acquisition date are designated purchased performing loans. The Company accounts for purchased performing loans using the contractual cash flows method of recognizing discount accretion based

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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. There is no allowance for loan losses established at the acquisition date for purchased performing loans. A provision for loan losses may be required in future periods for any deterioration in these loans in future periods.

Investment Securities Available for Sale

Investment securities available for sale are stated at estimated fair value based on quoted prices. They represent those debt securities which management may sell as part of its asset/liability management strategy or which may be sold in response to changing interest rates, changes in prepayment risk or other similar factors. Realized corresponding unrealized gains and losses recognized in other comprehensive income (loss).

Gains or losses are recorded recognized in noninterest net income and are determined on a the trade date basis using the amortized cost of the specific identification method. Premiums and discounts security sold. Purchase premiums are amortized or accreted into recognized in interest income using the effective interest rate method over the lives 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 of its HTM and AFS debt securities and has included such accrued interest of $2.2 million at December 31, 2023 and at December 31, 2022 within the accrued interest receivable line item of the individual securities. Interest Consolidated Balance Sheets.

The Company estimates an ACL for held to maturity debt securities on investment 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 $94,000.

The estimate of an ACL on our HTM securities that are not guaranteed by 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 interest its entirety in net income on an accrual basis. Net unrealized holding gains and losses on these securities are reported as accumulated other comprehensive income, a separate component of stockholders' equity, net of related income taxes. Declines in the fair value of individual available-for-sale securities below their cost that are other than temporary result in write-downs of the individual securities to their fair value and are reflected in earnings as realized losses. Factors affecting the determination of whether an other-than-temporary impairment has occurred include a downgrade of the security by a rating agency, a significant deterioration in the financial condition of the issuer, or a determination that management has the intent if either (i) we intend to sell the security or (ii) it is more-likely-than-not that we will be required to sell the security before recovery of its amortized cost.

Investment Securities Held to Maturity

Investment securities held to maturity are stated at cost adjusted for amortization of premiums and accretion of discounts. Purchase premiums and discounts are recognized in interest income using basis. If, however, the interest method over the terms of the securities. The Company intends and has the ability to hold such securities until maturity. Declines in the fair value of individual held-to-maturity securities below their cost that are other than temporary result in write-downs of the individual securities to their fair value. Factors affecting the determination of whether an other-than-temporary impairment has occurred include a downgrade of the security by a rating agency, a significant deterioration in the financial condition of the issuer, or a determination that management has the intent does not intend to sell the security or and it is not more-likely-than-not that the Company will be required to sell the security before recovery, the Company evaluates unrealized losses to determine whether a decline in 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 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 of debt securities AFS not resulting from credit losses are recorded in other comprehensive income (loss). The Company regularly reviews unrealized losses in its investments in securities and cash flows expected to be collected from impaired securities based on criteria including the extent to which market value is below amortized cost.

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.

Equity Securities

Equity securities with readily determinable fair values are carried at fair value, with changes in fair value reported in net income. Any equity securities without readily determinable fair values are carried at cost, minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for identical or similar investments. Restricted equity securities are carried at cost and are periodically evaluated for impairment based on the ultimate recovery of par value. The entirety of any impairment on equity securities is recognized in earnings.

Loans Held for Sale ("LHFS")

The Company has elected to carry its mortgage loans originated for sale at fair value. Fair value is determined based on outstanding investor commitments or, in the absence of such commitments, on current investor yield requirements or third-party pricing models. Fair value adjustments are recorded at each balance sheet date with the changes in fair value recognized in mortgage banking revenue in the Consolidated Statements of Income. Gains and losses on loan sales are determined based on the differential between a loan's carrying value and sales price and are recognized through mortgage-banking revenue in the Consolidated Statements of Income. LHFS are sold either with the mortgage servicing rights ("MSRs") released or retained by the Bank.

Mortgage Servicing Rights

When mortgage loans are sold with servicing retained, the MSRs are initially recorded at fair value with the income statement effect recorded in mortgage banking revenue. Fair value is based on a valuation model that calculates the present

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value of estimated future net servicing income. The Company measures servicing rights at fair value at each reporting date and records the changes in fair value of servicing assets in earnings in the period in which the changes occur. These gains or losses are included in mortgage banking revenue in the Consolidated Statements of Income. Servicing fee income is also recorded in the mortgage banking revenue line item.

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 at the unpaid principal balances adjusted for charges-offs, unearned discounts, any deferred fees or costs on originated loans, and the ACL. The Company has elected to exclude accrued interest receivable from the amortized cost basis of its loans held for investment and has included such accrued interest of $16.8 million and $7.2 million at December 31, 2023 and December 31, 2022, respectively 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 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.

Transfers of LHFS to Loans Held for Investment (LHFI)

("LHFI")

The Company may, from time to time, transfer LHFS to LHFI. Transfers of LHFS to LHFI are accounted for in accordance with the underlying accounting applied to the loan prior to its transfer. For loans where the fair value option had been elected, the Company continues to account for the loan at fair value in the LHFI portfolio. Subsequent changes in the fair value of these loans are recorded in interest income. During the year ended December 31, 2022 December 31, 2023, the Company transferred LHFS accounted for under the fair value option totaling approximately $7.8 million had no transfers from LHFS to LHFI LHFI. There were no $7.8 million transfers between LHFS and LHFI during the year ended December 31, 2021 December 31, 2022.

Loans

ACL on Loans are stated Held for Investment

An ACL is estimated on loans held for investment, excluding loans carried at their principal amount outstanding net of any deferred fees, premiums, discounts and costs and net of any partial charge-offs. Interest income fair value. The ACL on loans is accrued at the contractual rate based on the principal amount outstanding. Fees charged and costs capitalized for originating loans are being amortized substantially on the interest method over the term of the loan. A loan is placed on nonaccrual (i.e., interest income is no longer accrued) when it is specifically determined established through charges to be impaired or when principal or interest is delinquent for 90 days or more, unless the loan is well secured and earnings in the process form of collection. Any unpaid interest previously accrued on those loans is reversed from income. Interest payments received on nonaccrual loans a provision for credit losses. Loan losses are applied as a reduction charged against the ACL for the difference between the carrying value of the loan principal balance unless collectability of and the principal amount is reasonably assured, in which case interest is recognized on a cash basis. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured.

A loan is considered impaired if it is probable that the Company will not collect all principal and interest payments according to the loan's contractual terms when due. An impaired loan may show deficiencies in the borrower's overall financial condition, payment history, support available from financial guarantors and/or the fair market estimated net realizable value of collateral. The impairment of a loan is measured at the present value of expected future cash flows using the loan's effective interest rate, or at the loan's observable market price or the 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 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 is collateral dependent. Generally, the Company measures impairment on such loans by reference to and the fair value of the collateral or 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 present value national unemployment rate, 10 year Treasury rate and changes in GDP that are reasonable and supportable over a twenty four month period and incorporated into the estimate of expected future cash flows. Once the amount of impairment has been determined, the uncollectible portion is charged off. Income on nonaccrual impaired loans is recognized on a cash basis, and payments are first applied against the principal balance outstanding (i.e., placing impaired loans on nonaccrual status). Generally, interest income is not recognized on impaired loans unless the likelihood of further loss is remote or the impairment analysis yielded no impairment for the loan. The allowance for credit losses may include specific reserves related to impaired loans. Specific reserves remain until charge offs using a statistical regression analysis. For periods beyond those for which reasonable and supportable forecasts are made. Reserves for probable credit losses related to these loans available, projections are based on a 12-month straight-line reversion of the corresponding economic independent variable from the last forecast to a historical loss ratios and an analysis average level.

Management's estimate of the ACL on loans that are collectively evaluated also includes a qualitative factors and are included assessment of available information relevant to assessing collectability that is not captured in the formula portion of the allowance for credit losses. See additional discussion below under the section, "Allowance for Credit Losses".

A loan is quantitative loss estimation process. Factors considered a troubled debt restructuring ("TDR") if a borrower is experiencing financial difficulties and a creditor has granted a concession. Concessions may include interest rate reductions or below market interest rates, principal forgiveness, restructuring amortization schedules and other actions intended to minimize potential losses. Loans are identified to be restructured when signs of impairment arise such as borrower interest rate reduction request, slowness to pay, or when an inability to repay becomes evident. The terms being offered are evaluated to determine if they are more liberal than those that would be indicated by policy or industry standards for similar, untroubled credits. In those situations where the terms or the interest rates are considered to be more favorable than industry standards or the current underwriting guidelines of the Company's banking subsidiary, the loan is classified as a TDR. All loans designated as TDRs are considered impaired loans and may be on either accrual or nonaccrual status. In instances where the loan has been placed on nonaccrual status, six consecutive months of timely payments are required prior to returning the loan to accrual status.

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All loans classified as TDRs which are restructured and accrue interest under revised terms require a full and comprehensive review of the borrower's financial condition, capacity for repayment, realistic assessment of collateral values, and the assessment of risk entered into any workout agreement. Current financial information on the borrower, guarantor, and underlying collateral is analyzed to determine if it supports the ultimate collection of principal and interest. For commercial loans, the cash flows are analyzed, both for the underlying project and globally. For consumer loans, updated salary, credit history and cash flow information is obtained. Current market conditions are also considered. Following a full analysis, the determination of the appropriate loan structure is made. The Company does not participate in any specific government or Company sponsored loan modification programs. All TDR loan agreements are contracts negotiated with each of the borrowers.

Allowance for Credit Losses

The allowance for credit losses is maintained at a level believed adequate by management to absorb probable losses inherent include changes in general market, concentrations, economic and business conditions; the loan portfolio as of the balance sheet date nature and is based on the size and current risk characteristics volume of the loan portfolio, an assessment portfolio; the volume and severity of individual problem loans delinquencies and actual loss experience, current economic events in specific industries adversely classified loan balances and geographical areas, including unemployment levels, the value of underlying collateral; and other pertinent factors including regulatory guidance as deemed necessary and general economic conditions and other observable data. Determination of the allowance appropriate. This evaluation is inherently subjective, as it requires significant estimates including the amounts and timing of expected future cash flows or collateral value of impaired loans, estimated losses on pools of similar loans that are based on historical loss experience, and consideration of current economic trends, all of which may be susceptible to significant change. Loans, or portions thereof, 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 considered uncollectible are charged off against not unconditionally cancellable by the allowance, while recoveries Company. The reserve for unfunded commitments is measured based on the principles utilized in estimating the ACL on loans and an estimate of amounts previously charged off are credited to the allowance. The criteria for charge offs are addressed in the Bank's Collection and Workout Policy. Per the policy, the recognition of the loss of loans or portions of loans will occur when there is a reasonable probability of loss. When the amount of loss can unfunded commitments expected to be readily calculated, advanced. Changes in the loss will be recognized. In cases where reserve for unfunded commitments are recorded through the provision for credit losses. During the 2023, the Company recorded a probable charge-off amount cannot be calculated, specific reserves will be maintained. A $436 thousand provision for credit losses is charged to income based on management's periodic evaluation of the factors previously mentioned, as well as other pertinent factors. Evaluations are conducted at least quarterly and more often if deemed necessary.

The allowance for credit losses is an estimate of the probable losses that may be sustained in the loan portfolio. The allowance is based on two basic principles of accounting: (i) Topic 450, " *Contingencies* ", of the Financial Accounting Standards Board's Accounting Standards Codification ("ASC"), which requires that losses be accrued when they are probable of occurring and estimable; and (ii) ASC Topic 310, " *Receivables* ", which requires that losses be accrued based on the differences between the loan balance and the value of collateral, present value of future cash flows or values that are observable in the secondary market. Management uses many factors to estimate the inherent loss that may be present in our loan portfolio as discussed further below. Actual losses could differ significantly from management's estimates. In addition, GAAP itself may change from one previously acceptable method to another. Although the economics of transactions would be the same, the timing of events that would impact the transactions could change.

Three basic components comprise our allowance for credit losses: (i) the specific allowance; (ii) the historical formula allowance; and (iii) the qualitative formula allowance. Each component is determined based on estimates that can and do change when the actual events occur. The specific allowance is established against impaired loans based on our assessment of the losses that may be associated with the individual loans. The specific allowance remains until charge-offs are made or the metrics underlying the impairment calculation change. An impaired loan may show deficiencies in the borrower's overall financial condition, payment history, support available from financial guarantors and/or the fair market value of collateral.

The historical formula allowance is used to estimate the loss on internally risk-rated loans, exclusive of those identified as impaired. Loans are grouped by type (construction, residential real estate, commercial real estate, commercial or consumer) and similar risk characteristics. Each loan pool is assigned allowance factors based on management's estimate of the risk, complexity and size of individual loans within a particular category using average historical charge-offs by segment over the last 16 quarters. Loans identified as pass-watch, special mention, substandard, and doubtful are considered to have elevated credit risk. These loans are assigned higher allowance factors than favorably rated loans due to management's concerns regarding collectability or management's knowledge of particular elements regarding the borrower. The qualitative formula allowance captures losses that have impacted the portfolio but have yet to be recognized in either the
its unfunded commitments.

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specific or historical formula allowance. A pass-watch loan has adequate risk and may include loans which may have been upgraded from another higher risk category. A special mention loan has potential weaknesses that could result in a future loss to the Company if the weaknesses are realized. A substandard loan has certain deficiencies that could result in a future loss to the Company if these deficiencies are not corrected. A doubtful loan has enough risk that there is a high probability that the Company will sustain a loss.

The qualitative formula allowance is used to adjust the historical formula allowance to an amount that is reflective of the probable losses inherent in the loan portfolio. The qualitative formula allowance is established through the evaluation of various qualitative factors which are used to develop loss percentages that are applied to the identified pools of loans that are not individually evaluated for impairment. Management has significant discretion in making the adjustments inherent in the determination of the provision and allowance for credit losses, including the establishment of the allowance factors in the qualitative formula allowance component of the allowance. The establishment of the qualitative factors used in the qualitative formula allowance is a continuing exercise, based on management's ongoing assessment of the totality of all factors, including, but not limited to, delinquencies, loss history, effects of changes in lending policy, the experience and depth of management, national and local economic trends, concentrations of credit, the quality of the loan review system and the effect of other factors as deemed appropriate, and their impact on the portfolio. Allowance factors may change from period to period, resulting in an increase or decrease in the amount of the provision or allowance, based on the same volume and classification of loans. Changes in allowance factors will have a direct impact on the amount of the provision, and a corresponding effect on net income. Errors in management's perception and assessment of these factors and their impact on the portfolio could result in the allowance not being adequate to cover losses in the portfolio, and may result in additional provisions or charge-offs.

Premises and Equipment

Land is carried at cost and premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are calculated using the straight-line method over the estimated useful lives of the assets. Useful lives range from three to 10 years for furniture, fixtures and equipment; three to five years for computer hardware and data handling equipment; and 10 to 40 years for buildings and building improvements. Land improvements are amortized over a period of 15 years and leasehold improvements are amortized over the term of the respective lease. lease or useful life, whichever is shorter. Maintenance and repairs are charged to expense as incurred, while improvements which extend the useful life of an asset are capitalized and depreciated over the estimated remaining life of the asset.

Long-lived assets are evaluated periodically for impairment when events or changes in circumstances indicate the carrying amount may not be recoverable. Impairment exists when the expected undiscounted future cash flows of a long-lived asset are less than its carrying value. In that event, the Company recognizes a loss for the difference between the carrying amount and the estimated fair value of the asset.

Mergers and Acquisitions

Business combinations are accounted for under ASC 805, Business Combinations, using the acquisition method of accounting. The acquisition method of accounting requires an acquirer to recognize the assets acquired and the liabilities assumed at the acquisition date measured at their fair values as of that date. To determine the fair values, the Company relies on internal or third-party valuations, such as appraisals, valuations based on discounted cash flow analyses, or other valuation techniques. Under the acquisition method of accounting, the Company identifies the acquirer and the closing date and applies applicable recognition principles and conditions. Acquisition-related costs are costs the Company incurs to effect a business combination. Those costs include advisory, legal, accounting, valuation, and other professional or consulting fees. Some other examples of costs to the Company include systems conversions, integration planning consultants and advertising costs. The Company accounts for acquisition-related costs as expenses in the periods in which the costs are incurred and the services are received, with one exception. The costs to issue debt or equity securities is recognized in accordance with other applicable GAAP. These acquisition-related costs have been and will be included within the consolidated statements of income classified within the noninterest expenses caption.

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The most significant assessment of fair value in our accounting for business combinations relates to the valuation of an acquired loan portfolio.At acquisition, loans are classified as either (i) purchase credit-deteriorated (“PCD”) loans or (ii) non-PCD 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. Fair values are determined primarily through a discounted cash flow approach which considers the acquired loans’ underlying characteristics, including account types, remaining terms, annual interest rates, interest types, timing of principal and interest payments, current market rates, and remaining balances.Estimates of fair value also include estimates of default, loss severity, and estimated prepayments.

Table At acquisition, an allowance for PCD loans is determined based upon the Company’s methodology for estimating the ACL on loans.This allowance is credited to the ACL on loans with a corresponding adjustment to the amortized cost basis of Contents the loan on the date of the acquisition. The difference between the new amortized cost basis and the unpaid principal balance is either a noncredit discount or premium that is amortized or accreted to interest income over the remaining life of the loan. Disposals of PCD 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 loan portfolio at its carrying amount. For non-PCD loans, an ACL is established in a manner that is consistent with the Company’s originated loans.

The ACL is determined using the Company’s methodology and the related ACL for non-PCD loans is recorded through a charge to the provision for credit losses in the period in which the loans are purchased or acquired.The entirety of any purchase discount or premium on non-PCD loans is amortized or accreted to interest income over the remaining life of the loan.

Goodwill and Other Intangible Assets

Goodwill represents the excess of the cost of an acquisition over the fair value of the net assets acquired. Other intangible assets represent purchased assets that also lack physical substance but can be distinguished from goodwill because of contractual or other legal rights or because the asset is capable of being sold or exchanged either on its own or in combination with a related contract, asset or liability. Goodwill and other intangible assets are initially required to be recorded at fair value. 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. Intangible assets that have finite lives are amortized over their estimated useful lives and also are subject to impairment testing.

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. As of December 31, 2022 December 31, 2023, the Company had two one operating segments segment the Community Banking segment and Mortgage Banking segment.

Other intangible assets consist of core deposit intangible assets arising from whole bank and branch acquisitions and are amortized using an accelerated method over their estimated useful lives, which range from 7 to 10 years.

During 2022 2023 and 2021, 2022, goodwill and other intangible assets were subjected to assessments for impairment. No impairment charges were recognized in either year. Our assessment of goodwill concluded it was not more likely that than not that the fair value of the Company's reporting units were unit was less than their carrying amount.

Other Real Estate Owned

(“OREO”)

Other real estate owned represents assets acquired in satisfaction of loans either by foreclosure or deeds taken in lieu of foreclosure. Properties acquired are recorded at fair value less estimated selling costs at the time of acquisition, establishing a new cost basis. Thereafter, costs incurred to operate or carry the properties as well as reductions in value as determined by periodic appraisals are charged to operating expense. Gains and losses resulting from the final disposition of the properties are included in noninterest expense.

Borrowings

Short-term and long-term borrowings are comprised primarily of FHLB borrowings. The Company’s short-term borrowings may also include advances on other lines of credit with correspondent banks or re-purchase repurchase agreements with customers. The repurchase agreements are securities sold to the Company’s customers, at the customers’ request, under a continuing “roll-over” contract that matures in one business day. The underlying securities sold are U.S. Government agency securities, which are segregated from the Company’s other investment securities by its safekeeping agents.

Subordinated Debt

Subordinated debt is carried at its outstanding principal balance, net of any unamortized issuance costs. costs and acquisition related fair value adjustments. For additional information on the Company’s subordinated debt, refer to Note 12 9 of the Consolidated Financial Statements.

Income Taxes

The Company and its subsidiary 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.

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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, 2019 December 31, 2020.

Derivative Financial Instruments and Hedging

We account for derivatives in accordance with FASB literature on accounting for derivative instruments and hedging activities. When we enter into a derivative contract, we designate the derivative as held for trading, an economic hedge, or a qualifying hedge as detailed in the literature. The designation may change based upon management's reassessment or changing circumstances. Derivatives utilized by the Company include interest rate lock commitments ("IRLC") or ("IRLCs" "IRLCs") and forward settlement contracts. IRLCs occur when we originate mortgage loans with interest rates determined prior to funding. Forward settlement contracts are agreements to buy or sell a quantity of a financial instrument, index, currency, or commodity at a predetermined future date, rate, or price.

We designate at inception whether a derivative contract is considered hedging or non-hedging. All of our derivatives are nonexchange traded contracts, and as such, their fair value is based on dealer quotes, pricing models, discounted cash flow methodologies, or similar techniques for which the determination of fair value may require significant management judgement or estimation.

For qualifying hedges, we formally document at inception all relationships between hedging instruments and hedged items, as well as risk management objectives and strategies for undertaking various accounting hedges. We primarily utilize derivatives to manage interest rate sensitivity.,

At December 31, 2022 December 31, 2023 and 2021 2022 we did not have any designated hedges.

Basic and Diluted Earnings Per Common Share

Basic earnings per share is calculated by dividing net income available to common stockholders by the weighted-average number of common shares outstanding and does not include the effect of any potentially dilutive common stock equivalents. Included in this calculation due to dividend participation rights are restricted stock awards which have been granted. Diluted earnings per share is calculated by dividing net income by the weighted-average number of shares outstanding, adjusted for the effect of any potentially dilutive common stock equivalents.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (i) the assets have been isolated from the Company, (ii) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the

transferred assets, and (iii) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Cash and Cash Equivalents

Cash and due from banks, interest-bearing deposits with other banks and federal funds sold are considered “cash and cash equivalents” for financial reporting purposes. Certain interest-bearing deposits with banks may exceed balances that are recoverable under Federal Deposit Insurance Corporation (“FDIC”) insurance. Balances in excess of FDIC insurance at December 31, 2022December 31, 2023 were approximately $8.7 million and approximately $1.8 million at December 31, 2022.

Share-Based Compensation

The Company may grant share-based compensation to employees and non-employee directors in the form of restricted stock, restricted stock units and stock options. The fair value of restricted stock is determined based on the closing price of the Parent’s common stock on the date of grant. The Company recognizes compensation expense related to restricted stock on a straight-line basis over the vesting period for service-based awards. The fair value of RSUs is initially valued based on the closing price of the Parent’s common stock on the date of grant and is amortized in the statement of income over the vesting period. The RSUs are subsequently remeasured in each reporting period until settlement based on the quantity of awards for which it is probable that the performance conditions will be achieved. The fair value of stock options is estimated at the date of grant using the Black-Scholes option pricing model and related assumptions. The Company uses historical data to predict option exercise and employee termination behavior. Expected volatilities are based on the historical volatility of the Parent’s common stock. The expected term of options granted is derived from actual historical exercise activity and represents the period of time that options granted are expected to be outstanding. The risk-free rate is derived from the U.S. Treasury yield curve in effect at the time of grant based on the expected life of the option. The dividend yield is equal to the dividend yield of the Parent’s common stock at the time of grant. Expense related to stock options is recorded in the statements of income as a component of salaries and benefits for employees and as a component of other noninterest expense for non-employee directors, with a corresponding increase to capital surplus in shareholders’ equity.

Fair Value

The Company measures certain financial assets and liabilities at fair value and also makes disclosures about certain financial instruments that are not measured at fair value in the Consolidated Balance

Sheets. Fair value is defined 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. Fair value estimates involve uncertainties and matters of significant judgement regarding interest rates, credit risk, and other factors, particularly in the absence of broad markets for specific terms. Changes in assumptions or in market conditions could significantly affect these estimates. See Note 22 18 for a further discussion of fair value.

Advertising Costs

Advertising costs are generally expensed as incurred. The Company incurred advertising costs of approximately $898 thousand $1.1 million for the year ended December 31, 2022 December 31, 2023 and $339 thousand $0.9 million for the year ended December 31, 2021 December 31, 2022.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income (loss). Other comprehensive income (loss) consists of unrealized gains and losses on available-for-sale securities net of any gains recognized from the sale of available-for-sale securities. There were no reclassifications from accumulated other comprehensive income in 2022 2023 and 2021.

2022.

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Recent Accounting Standards and Other Authoritative Guidance

ASU No. 2016-13 During June 2016,

On January 1, 2023, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) Company adopted ASU 2016-13 "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. Instruments," ASU 2018-19, "Codification Improvements to Topic 326, Financial Instruments – Credit Losses," ASU 2019-04, "Codification Improvements to Topic 326, Financial Instruments – Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments," 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 ASU, as amended, significant impacts of adopting these standards and related updates to the Company's accounting policies are discussed below.

ASC 326 requires entities to estimate an entity to measure allowance for credit losses ("ACL") on certain types of financial instruments measured at amortized cost using a current expected credit losses for financial assets carried at amortized cost based on historical experience, current conditions, ("CECL") methodology, replacing the incurred loss methodology from prior GAAP. It also applies to unfunded commitments to extend credit, including loan commitments, standby letters of credit, and reasonable and supportable forecasts. Among other things, the ASU also amended the similar instruments. The impairment model for available available-for-sale ("AFS") debt securities was modified and ASC 326 also provided for sale securities and addressed a simplified accounting model for purchased financial assets with deterioration. credit deterioration since their origination. Additionally, the measurement principles for modifications of loans to borrowers experiencing financial difficulty were modified, including how the ACL is measured for such loans.

The Company adopted ASU 2016-13 as amendments of January 1, 2023 ASC 326, upon adoption, were applied on a modified retrospective basis, by recording an increase in accordance with the required implementation date. Transition adjustments during the first quarter reported balance of 2023, will primarily include increases in loans and the allowance for credit losses on loans, and an increase in the reserve liability for credit losses on unfunded commitments to extend credit as well as a reduction of and reducing total equity net of taxes. This reduction of equity capital may, at the Company's election, be phased-in over a three-year period in accordance with regulatory guidelines. The final cumulative effect of the transition adjustments remains subject to completion by both the Company but is estimated to reduce opening retained earnings in January 1, 2023 by and the Bank. As a reasonable range result of $7 million to $9 million. Subsequent to adoption, the Company will record adjustments to its allowance and reserve for unfunded commitments by recognizing a provision for credit losses in the consolidated statements of income.

The Company is utilizing a third-party model to tabulate its estimate of current expected credit losses, using a DCF methodology. In accordance with adopting ASC 326, the Company has segmented its loan portfolio based 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 the adoption of ASC 326, loans previously designated as PCI loans were designated as purchased loans with credit deterioration ("PCD loans"). The Company adopted ASC 326 using the prospective transition approach for PCD loans that were 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 to the amortized cost basis of the loans and a corresponding increase to the ACL. The remaining noncredit discount, which represents the difference between the adjusted amortized cost basis 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 with other loans that share similar risk characteristics, which included types 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 collateral, use, lien position, secured ASC 326 also replaced previous TDR accounting guidance, and unsecured lending, purchased portfolios and risk rating. The Company primarily utilizes a published unemployment rate forecast in its reasonable and supportable forecasting of current expected credit losses. To further adjust the allowance for credit losses for expected losses not already included within the quantitative component evaluation of the calculation, 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.

	January 1, 2023		
(Dollars in thousands)	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 2, the Company may consider completed the following qualitative adjustment factors: underwriting standards, national, regional merger with The Community Financial Corporation ("TCFC") on July 1, 2023. Due to inconsistencies with historical loan loss data between the Bank and local economic conditions, experience and depth of lending staff, past due loans, the strength of the credit review function, the value of underlying collateral, concentrations of credit, and other factors as deemed appropriate by management. The Company's CECL implementation process was overseen by a CECL Implementation Committee and included an assessment of data availability and gap analysis, data collection, consideration and analysis of multiple loss estimation methodologies, an assessment of relevant qualitative factors and correlation analysis of multiple potential loss drivers and their impact on the Company's historical loss experience. During 2022, the Company calculated its current expected credit losses model in parallel to its incurred loss model in order to further refine TCFC, management updated the methodology used to estimate the probability of default and model. In addition, the Company independent economic variables used to forecast default rates. Due to the lack 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 a third-party audit firm the model vendor to perform a comprehensive model validation.

Effective November 25, 2019 Loss Driver Analysis ("LDA"), which utilized the SEC adopted Staff Accounting Bulletin (SAB) 119. SAB 119 updated portions of SEC interpretative guidance legacy Shore United and legacy CBTC's Call Report data to align with FASB ASC 326, "Financial Instruments – Credit Losses." It covers topics including (1) measuring current expected credit losses; (2) development, governance, derive gross loan balances and documentation charge-off data on a quarterly basis dating back to 2004. Using this data, the vendor performed regression analyses of a systematic methodology; (3) documenting number of independent economic variables to determine the results "best fit" of the economic variable to be used as a systematic methodology; 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	Impact of methodology change	Balance as of adoption of methodology 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

Accounting policies applied to prior periods are described in the 2022 Annual Report.

Recent Accounting Standards and (4) validating a systematic methodology.

ASU No. 2022-02 – Other Authoritative Guidance

In March 2022, December 2023, the Financial Accounting Standards Board (FASB) issued (ASU) No. 2022-02, "Financial Instruments-Credit Losses ASU 2023-09, "Income Taxes (Topic 326), Troubled Debt Restructurings and Vintage 740): Improvements to Income Tax Disclosures." ASU 2022-02 addresses areas identified by the FASB as part of its post-implementation review of the credit losses standard (ASU 2016-13) that introduced the CECL model. The amendments eliminate the accounting guidance for troubled debt restructurings by creditors that have adopted the CECL model and enhance the disclosure requirements for loan refinancing's and restructurings made with borrowers experiencing financial difficulty. In addition, the amendments require a public business entity to disclose current-period gross write-offs for financing receivables and net investment in leases by year of origination in the vintage disclosures. The amendments in this ASU should be applied prospectively, except for the transition method related to the recognition and measurement of troubled debt restructurings (TDR), require an entity has the option to apply a modified retrospective transition method, resulting in a cumulative-effect adjustment to retained earnings disclose specific categories in the period of adoption. For entities rate reconciliation and provide additional information for reconciling items that have adopted ASU 2016-13, ASU 2022-02 meet a quantitative threshold, which is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. The Company is currently assessing the impact that ASU 2022-02 will have on its consolidated financial statements.

ASU No. 2022-03 - In June 2022, the (FASB) issued (ASU) No. 2022-03, "Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions". ASU 2022-03 clarifies that a

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contractual restriction on the sale of an equity security 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 2023-06 to have a material impact on its consolidated financial statements.

ASU No. 2020-04 –

In March 2020, November 2023, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2020-04 "Reference Rate Reform ASU 2023-07, "Segment Reporting (Topic 848) 280): Facilitation Improvements to Reportable Segment Disclosures." The amendments in this ASU are intended to improve reportable segment disclosure requirements primarily through enhanced disclosures about significant segment expenses. This ASU requires disclosure of significant segment expenses that are regularly provided to the 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 Effects CODM and how the CODM uses the reported measures. Additionally, this ASU requires that at least one of Reference Rate Reform on Financial Reporting." These the reported segment profit and loss measures should be the measure that is most consistent with 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 provide temporary optional guidance to ease the potential burden in accounting for reference rate reform. The this ASU provides optional expedients and exceptions for applying generally accepted accounting principles to contract modifications and hedging relationships, subject to meeting certain criteria, that reference the London Inter-bank Offered Rate ("LIBOR") or another reference rate expected to be discontinued. It is intended to help stakeholders during the global market-wide reference rate transition period. The guidance all existing segment disclosures in Topic 280. This ASU is effective for all entities as of March 12, 2020 through December 31, 2022. Subsequently, in

January 2021, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2021-01 “Reference Rate Reform (Topic 848): Scope.” This ASU clarifies that certain optional expedients and exceptions in Topic 848 for contract modifications and hedge accounting apply to derivatives that are affected by the discounting transition. The ASU also amends the expedients and exceptions in Topic 848 to capture the incremental consequences of the scope clarification and to tailor the existing guidance to derivative instruments affected by the discounting transition. An entity may elect to apply ASU No. 2021-01 on contract modifications that change the interest rate used for margining, discounting, or contract price alignment retrospectively as of any date from the fiscal years beginning of the interim period that includes March 12, 2020, or prospectively to new modifications from any date within the interim period that includes or is subsequent to January 7, 2021, up to the date that financial statements are available to be issued. An entity may elect to apply ASU No. 2021-01 to eligible hedging relationships existing as of the beginning of the interim period that includes March 12, 2020 after December 15, 2023, and to new eligible hedging relationships entered into interim periods within fiscal years beginning after the beginning of the interim period that includes March 12, 2020 December 15, 2024. At present, the Bank has limited exposure to LIBOR based pricing. LIBOR based loans only comprise 16 loans or 3.1% of the loan portfolio. Early adoption

is permitted. The Bank is confident it can successfully negotiate a migration to the Secured Overnight Financing Rate (“SOFR”) between now and the implementation date. The Bank will notify customers within 120 days prior to migration to SOFR. The Bank acknowledges the replacement rate will amendments should be more volatile based on different countries migrating to different indexes and limited liquidity to support the rate. The Bank further acknowledges the volatility will be greatly influenced by the support provided by the Federal Reserve. applied retrospectively. The Company is assessing does not expect the adoption of ASU 2020-04 and its 2023-06 to have a material impact on the Company’s transitionaway from LIBOR for its loan and other consolidated financial instruments.

NOTE 2. BUSINESS COMBINATION

On October 31, 2021 (“Acquisition July 1, 2023 (the “Acquisition Date”), the Company completed the acquisition of Severn Bancorp, Inc. (“Severn”), TCFC, a Maryland charted commercial bank, in accordance with the definitive agreement that was entered into on March 3, 2021 December 14, 2022, by and among the Company and Severn. TCFC. The primary reasons for the Company 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 acquire Severn were shareholders, customers, employees, and communities served by Shore and TCFC, meaningful value creation to access shareholders; and deploy excess capital increased trading liquidity for both companies and deposits into a high growth market, while also enhancing scale to drive efficiency and profitability. Additionally, this transaction is expected to enhance the Company's competitive position in the Columbia/Baltimore/Towson MSA, while filling in our market footprint. increased dividends for TCFC shareholders. In connection with the completion of the merger, former Severn TCFC shareholders received 0.6207 2.3287 shares of Shore the Company’s common stock. The value of the total transaction consideration was approximately

$153.6 million. The consideration included the issuance of 13,201,693 shares of the Company's common stock, and $1.59 in cash for each which had a value of $11.56 per share, of Severn common stock. Based on which was the $18.48 per share closing price of the Company's common stock on October 29, 2021 and including June 30, 2023, the fair value last trading day prior to the consummation of options cashed-out, the acquisition. Also included in the total transaction value consideration were cash in lieu of any fractional shares, converted share-based payment awards, and debt of TCFC that was approximately $169.8 million. Upon completion of the acquisition, Shore shareholders owned approximately 59.6% of the combined company, and former Severn shareholders owned approximately 40.4%.

As of October 31, 2021, Severn, headquartered in Annapolis, MD, had more than $1.1 billion in assets and operated 7 full-service community banking offices throughout Anne Arundel County, Maryland.

effectively settled upon closing.

The acquisition of Severn 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 goodwill recognized bargain purchase gain as of the Acquisition Date was approximately $45.9 million. $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 kept will continue to keep the measurement of goodwill bargain purchase gain open for any additional adjustments to the fair value of certain accounts. The measurement period was closed 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 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 date. Adjustments 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.

(In thousands, except per share data)		
Purchase Price Consideration:		
Fair value of common shares issued (13,201,693 shares) based on Shore Bancshares, Inc. share price of $11.56		**$ 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 asset	**48,648**	
Other assets	**89,808**	
Total identifiable assets	**$ 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		**$ 162,408**
Provisional bargain purchase gain		**$ (8,816)**

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

(2) Represents the provisional amount number of goodwill recognized TCFC restricted stock units outstanding and the equity exchange ratio, further multiplied by the price per share of SHBI 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 are detailed below. Date. Management made significant estimates and exercised significant judgement in accounting for the acquisition of TCFC. The goodwill following is not expected a brief description of the valuation methodologies used to be deductible for tax purposes.

The consideration paid for Severn's common equity and outstanding stock options and estimate the fair values of major categories of assets acquired identifiable and liabilities assumed. The Company utilized a valuation specialist to assist with the determination of fair values for certain acquired assets and assumed identifiable liabilities as of the Acquisition Date were as follows:

(In thousands, except per share data)	
Purchase Price Consideration:	
Fair value of common shares issued (8,053,088 shares) based on Shore Bancshares, Inc. share price of $18.48	**$ 148,821**
Cash consideration	**20,631**
Cash paid for cash-out Severn stock options	**310**
Cash for fractional shares	**3**
Total purchase price	**$ 169,765**

Identifiable assets:	
Cash and cash equivalents	**$ 326,725**
Total securities	**146,292**
Loans held for sale	**9,613**
Loans, net (1)	**584,776**
Premises and equipment, net	**24,768**
Other real estate owned	**329**
Core deposit intangible asset	**6,550**
Other assets (1)	**20,319**
Total identifiable assets	**$1,119,372**
Identifiable liabilities:	
Deposits	**$ 955,288**
Total debt	**28,341**
Other liabilities	**11,727**
Total identifiable liabilities	**$ 995,356**
Fair value of net assets acquired including identifiable intangible assets	**124,016**
Resulting goodwill (1)	**$ 45,749**

(1) Includes the effect of measurement period adjustments recorded during 2022 and reconciled in the table below. Measurement period adjustments included adjustments related to loan validations and the final accounting for the income taxes of Severn.

Goodwill at December 31, 2021	$ **45,904**
Effect of measurement period adjustments to:	
Loans, net	**(192)**
Other assets	**37**
Goodwill at December 31, 2022	$ **45,749**

Acquired loans

The following table outlines the contractually required payments receivable, cash flows we expect to receive, and the accretable yield for all Severn PCI loans as of the acquisition date.

Contractually required payments receivable	**$ 46,833**
Nonaccretable difference	**(3,364)**
Cash flows expected to be collected	**43,469**
Accretable yield	**(5,667)**
Fair value	**$ 37,802**

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 losses.

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The Company determined the net discounted value of cash flows on gross loans totaling $593.3 million, $1.9 billion, including 1,306 performing 3,858 of Non-PCD loans and 162 PCI 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 performing 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 $8.7 million 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 3. 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 December 31, 2023 is 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 Company's accounting policies and policy elections related to the accounting standard update refer to Note 1.

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

(Dollars in thousands)	Three Months Ended December 31, 2023	Twelve Months Ended December 31, 2023

Balance, beginning of period	$ 126	$ —
Other debt securities, provision for credit losses	(32)	94
Balance, end of period	$ 94	$ 94

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 fourth quarter of 2023, a provision of $(32) thousand was recorded based on the results of our evaluation at December 31, 2023. A provision for credit losses of $94 thousand was recorded for the twelve months ended December 31, 2023.

The following table provides information on the amortized cost and estimated fair values of investment securities at December 31.

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale securities:				
December 31, 2022				
U.S. Government agencies	**$ 21,798**	**$ 5**	**$ 3,625**	**$ 18,178**
Mortgage-backed	**72,183**	**2**	**8,666**	**63,519**
Otherd debt securities	**2,018**	**—**	**128**	**1,890**
Total	**$ 95,999**	**$ 7**	**$ 12,419**	**$ 83,587**
December 31, 2021				
U.S. Government agencies	$ 22,932	$ 7	$ 634	$ 22,305
Mortgage-backed	91,948	1,318	629	92,637
Other debt securities	2,026	14	—	2,040
Total	$ 116,906	$ 1,339	$ 1,263	$ 116,982

December 31, 2023 and December 31, 2022.

(Dollars in thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**
Available-for-sale securities:				
December 31, 2023				
U.S. Treasury and government agencies	**$ 23,472**	**$ 5**	**$ 3,002**	**$ 20,475**
Mortgage-backed securities	**91,280**	**5**	**7,258**	**84,027**
Other debt securities	**6,080**	**59**	**120**	**6,019**
Total	**$ 120,832**	**$ 69**	**$ 10,380**	**$ 110,521**
December 31, 2022				
U.S. Treasury and government agencies	$ 21,798	$ 5	$ 3,625	$ 18,178
Mortgage-backed securities	72,183	2	8,666	63,519
Other debt securities	2,018	—	128	1,890
Total	$ 95,999	$ 7	$ 12,419	$ 83,587

No available for sale AFS securities were sold from the Company's legacy securities' portfolios during 2022 2023 and 2021.

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Held-to-maturity securities:				

December 31, 2022				
U.S. Government agencies	**$ 148,097**	**$ —**	**$ 13,601**	**$ 134,496**
Mortgage-backed	**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**
December 31, 2021				
U.S. Government agencies	$ 87,072	$ 20	$ 1,231	$ 85,861
Mortgage-backed	302,604	301	2,248	300,657
States and political subdivisions	400	2	—	402
Other debt securities	14,518	95	9	14,604
Total	$ 404,594	$ 418	$ 3,488	$ 401,524

2022. The Company sold virtually all of the AFS securities portfolio acquired from TCFC immediately after the legal merger with the proceeds of $434.2 million, and recognized gross losses of $2.2 million from the sale of securities.

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Held-to-maturity securities:				
December 31, 2023				
U.S. Treasury and government agencies	**$ 143,442**	**$ —**	**$ 10,377**	**$ 133,065**
Mortgage-backed securities	**357,870**	**—**	**43,864**	**314,006**
Obligations of states and political subdivisions	**1,470**	**57**	**19**	**1,508**
Other debt securities	**10,500**	**—**	**1,249**	**9,251**
Total	**$ 513,282**	**$ 57**	**$ 55,509**	**$ 457,830**
December 31, 2022				
U.S. Treasury and government agencies	$ 148,097	$ —	$ 13,601	$ 134,496
Mortgage-backed securities	398,884	—	50,464	348,420
Obligations of 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 $5.7 million at December 31, 2023 and $1.2 million at December 31, 2022 and $1.4 million at December 31, 2021 are presented separately on the balance sheet. The fair value adjustment recorded through earnings totaled $(157) $54 thousand for 2023 and $(0.2) million for 2022, respectively.

Credit Quality Information

The Company monitors the credit quality of HTM securities through credit ratings provided by Standard & Poor's Rating Services and $(40) thousand for 2021, respectively.

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 December 31, 2023 or December 31, 2022. 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 December 31, 2023.

	December 31, 2023						
	Investment Grade						
(Dollars in thousands)	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

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The following table provides 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 December 31.

	Less than 12 Months		More than 12 Months		Total	
(Dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2022						
Available-for-sale securities:						
U.S. Government agencies	$ 1,165	$ 4	$ 16,585	$ 3,588	$ 17,750	$ 3,592
Mortgage-backed	29,125	2,409	34,167	6,290	63,292	8,699
Other debt securities	1,890	128	—	—	1,890	128
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	**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**

	Less than 12 Months		More than 12 Months		Total	
(Dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2021						
Available-for-sale securities:						
U.S. Government agencies	$ 1,561	$ 1	$17,368	$ 633	$ 18,929	$ 634
Mortgage-backed	39,851	593	3,562	36	43,413	629
Total	$ 41,412	$ 594	$20,930	$ 669	$ 62,342	$ 1,263
Held-to-maturity securities:						
U.S. Government agencies	$ 64,268	$ 1,005	$11,719	$ 226	$ 75,987	$ 1,231
Mortgage-backed	226,918	1,836	14,564	412	241,482	2,248
Other debt securities	491	9	—	—	491	9
Total	$291,677	$ 2,850	$26,283	$ 638	$317,960	$ 3,488

December 31, 2023 and December 31, 2022.

	Less than 12 Months		**More than 12 Months**		**Total**	
(Dollars in thousands)	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
December 31, 2023						
Available-for-sale securities:						
U.S. Treasury and government agencies	**$ 74**	**$ —**	**$ 17,750**	**$ 3,002**	**$ 17,824**	**$ 3,002**
Mortgage-backed securities	**24,405**	**150**	**52,864**	**7,108**	**77,269**	**7,258**
Other debt securities	**—**	**—**	**1,890**	**120**	**1,890**	**120**
Total	**$ 24,479**	**$ 150**	**$ 72,504**	**$ 10,230**	**$ 96,983**	**$ 10,380**

	Less than 12 Months		**More than 12 Months**		**Total**	
(Dollars in thousands)	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
December 31, 2022						
Available-for-sale securities:						
U.S. Treasury and government agencies	$ 1,165	$ 4	$ 16,585	$ 3,588	$ 17,750	$ 3,592

Mortgage-backed securities	29,125	2,409	34,167	6,290	63,292	8,699
Other debt securities	$ 1,890	$ 128	$ —	$ —	$ 1,890	$ 128
Total	$ 32,180	$ 2,541	$ 50,752	$ 9,878	$ 82,932	$ 12,419
Held-to-maturity securities:						
U.S. Treasury and government agencies	$ 67,332	$ 2,786	$ 67,163	$ 10,815	$134,495	$ 13,601
Mortgage-backed securities	148,771	9,402	199,649	41,062	348,420	50,464
Obligations of 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 115 AFS debt securities with a fair value below the amortized cost basis, with unrealized losses totaling $10.4 million as of December 31, 2023. The Company concluded that a credit loss does not exist in its AFS securities portfolio as of December 31, 2023, 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 December 31, 2023.

All of the securities with unrealized losses in the portfolio have modest duration risk, low credit risk, and minimal losses when compared to total amortized cost. The unrealized losses on debt securities that exist are the result of market changes in interest rates since original purchase and are not related to credit concerns. Because the Company does not intend to sell these securities and it is not more likely than not that the Company will be required to sell these securities before recovery of their amortized cost bases, which may be at maturity for debt securities, the Company considers the unrealized losses to be temporary. There were a hundred and sixteen115 available-for-sale securities and a hundred185 held to maturity securities in an unrealized loss position at December 31, 2023. There were 192 available-for-sale securities and ninety twoa 116 held to maturity securities in an unrealized loss position at December 31, 2022. There were thirty-five available-for-sale securities and a hundred and fourteen held to maturity securities in an unrealized loss position at December 31, 2021.

The following table provides information on the amortized cost and estimated fair values of investment securities by maturity date at December 31, 2022 December 31, 2023.

	Available for sale		Held to maturity	
(Dollars in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 75	$ 74	$ 2,117	$ 2,076
Due after one year through five years	6,658	6,351	108,632	101,165

Due after five years through ten years	42,689	37,856	73,054	66,502
Due after ten years	46,577	39,306	375,652	324,884
Total	$ 95,999	$ 83,587	$ 559,455	$ 494,627

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	Available for sale		Held to maturity	
(Dollars in thousands)	**Amortized Cost**	**Fair Value**	**Amortized Cost**	**Fair Value**
Due in one year or less	$ 2,447	$ 2,449	$ 7,000	$ 6,927
Due after one year through five years	16,491	15,439	119,768	113,227
Due after five years through ten years	29,257	26,436	50,538	45,833
Due after ten years	72,637	66,197	335,976	291,843
Total	$ 120,832	$ 110,521	$ 513,282	$ 457,830

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

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 December 31, 2023, the aggregate carrying value of pledged AFS and HTM pledged securities was $54.5 million and $185.9 million, respectively. The comparable amounts for December 31, 2022 were $72.1 million and $19.2 million, respectively.

The following table sets forth the amortized cost and estimated fair values of securities which have been pledged as collateral for obligations to federal, state and local government agencies, and other purposes as required or permitted by law, or sold under agreements to repurchase at December 31, 2022 December 31, 2023 and 2021.

	2022		2021	
(Dollars in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Pledged available-for-sale securities	**$ 83,288**	**72,108**	$ 78,522	$ 78,352
Pledged held to maturity securities	**19,158**	**16,305**	913	915

2022.

	2023		2022	
(Dollars in thousands)	**Amortized Cost**	**Fair Value**	Amortized Cost	Fair Value
Pledged available-for-sale securities	**$ 62,290**	**$ 54,489**	$ 83,288	$ 72,108
Pledged held-to-maturity securities	**185,876**	**167,649**	19,158	16,305

There were no obligations of states or political subdivisions with carrying values, as to any issuer, exceeding 10% of stockholders' equity at December 31, 2022 December 31, 2023 or 2021.

2022.

NOTE 4. 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 1 – Summary of Significant Accounting Policies. All loan information presented as of December 31, 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.

The Company makes residential mortgage, commercial, and consumer loans to customers primarily in Anne Arundel County, Baltimore City, 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, Stafford County, Spotsylvania County, and Fredericksburg city in Virginia. The following table provides information about the principal classes of the loan portfolio at December 31.

(Dollars in thousands)	2022	2021
Construction	**$ 246,319**	$ 239,353
Residential real estate	**810,497**	654,769
Commercial real estate	**1,065,409**	896,229
Commercial	**147,856**	203,377
Consumer	**286,026**	125,447
Total loans (1)	**2,556,107**	2,119,175
Allowance for credit losses	**(16,643)**	(13,944)
Total loans, net	**$ 2,539,464**	$ 2,105,231

December 31, 2023 and December 31, 2022

(Dollars in thousands)	December 31, 2023	% of Total Loans	December 31, 2022	% of Total Loans
Construction	**$ 299,000**	**6.40 %**	$ 246,319	9.60 %
Residential real estate	**1,490,438**	**32.10 %**	810,497	31.70 %
Commercial real estate	**2,286,154**	**49.30 %**	1,065,409	41.70 %
Commercial	**229,939**	**5.00 %**	147,856	5.80 %
Consumer	**328,896**	**7.10 %**	286,026	11.20 %
Credit Cards	**6,583**	**0.10 %**	—	— %
Total loans	**$ 4,641,010**	**100.00 %**	$ 2,556,107	100.00 %
Allowance for credit losses	**(57,351)**		(16,643)	
Total loans, net	**$ 4,583,659**		$ 2,539,464	

(1) Includes net origination costs totaling $1.4 million and $1.2 million as of December 31, 2022 and 2021, respectively.

In the normal course of banking business, loans are made to officers and directors and their affiliated interests. These loans are made on substantially the same terms and conditions as those prevailing at the time for comparable transactions with persons who are not related to the Company and are not considered to involve more than the normal risk of collectability. As of December 31, 2022 December 31, 2023 and 2021, 2022, such loans outstanding, both direct and indirect (including guarantees), to directors, their associates and policy-making officers, totaled approximately $24.1 million $53.1 million and $18.7 million, $24.1 million, respectively. During 2022 2023 and 2021, 2022, loan additions were approximately $7.6 million $35.9 million and $16.5 million $7.7 million of which $15.4 million $27.4 million were due to the 2023 acquisition of Severn TCFC and loan repayments and no longer reportable loans were approximately $2.2 million $1.3 million and $1.5 million, $2.2 million, respectively.

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 $2.2 million and $1.4 million at December 31, 2023 and December 31, 2022. At December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022, included in total loans were $22.9 million $297.9 million and $39.9 million in loans, respectively, acquired as part of the 2017 NWBI branch acquisition. These balances are presented net of the related discount which totaled $298 thousand at December 31, 2022 and $516 thousand at December 31, 2021. At December 31, 2022 and December 31, 2021 included in total loans were $372.2 million and $553.0 million $372.2 million in loans, acquired as part of the acquisition of Severn. Severn Bancorp, Inc. ("Severn"), effective October 31, 2021. These balances are were presented net of the related discount which totaled $6.7 million $4.7 million and $6.7 million at December 31, 2022 December 31, 2023 and $8.4 million December 31, 2022, respectively. At December 31, 2023 included in total loans were $1.6 billion acquired as part of the acquisition of TCFC, effective July 1, 2023. This balance was presented net of the related discount which totaled $108.4 million at December 31, 2021 December 31, 2023.

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The following purchased credit deteriorated loans were acquired in connection with the TCFC merger on July 1, 2023.

(Dollars in thousands)	Par Value	Purchase Discount	Allowance	Purchase Price
Construction	$ 177	$ (11)	$ (3)	$ 163
Residential real estate	8,379	(1,307)	(215)	6,857
Commercial real estate	55,779	(6,950)	(985)	47,844
Commercial	2,317	(243)	(278)	1,796
Consumer	519	(38)	(14)	467
Credit Card	999	(222)	(18)	759
Total	$ 68,170	$ (8,771)	$ (1,513)	$ 57,886

At December 31, 2023, the Bank was servicing $371.5 million in loans for the Federal National Mortgage Association and $113.2 million in loans for Freddie Mac.

Table The following tables provides information on nonaccrual loans by loan class as of Contents

December 31, 2023.

(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
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
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. Loans 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 December 31, 2023 and gross write-offs during the twelve months ended December 31, 2023.

(Dollars in thousands)	Term Loans by Origination Year Prior	2019	2020	2021	2022	2023	Revolving loans	Revolving converted to term loans	Total
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)**

	Term Loans by Origination Year								
(Dollars in thousands)	**Prior**	**2019**	**2020**	**2021**	**2022**	**2023**	**Revolving loans**	**Revolving converted to term loans**	**Total**
Credit Cards									
Performing	$ —	$ —	$ —	$ —	$ —	$ —	$ 6,583	$ —	$ 6,583
Non-Performing	—	—	—	—	—	—	—	—	—
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 loan portfolio as of December 31, 2023 and December 31, 2022.

(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	Total past due	Current Accrual Loans (1)	Current Non-accrual Loans	Total
December 31, 2023								
Construction	$ 1,919	$ —	$ —	$ 220	$ 2,139	$ 296,456	$ 405	$ 299,000
Residential real estate	2,962	1,198	108	2,668	6,936	1,481,294	2,208	1,490,438
Commercial real estate	16	—	—	1,222	1,238	2,281,767	3,149	2,286,154
Commercial	48	—	488	28	564	228,859	516	229,939
Consumer	3,224	1,415	—	879	5,518	323,376	2	328,896
Credit Cards	35	36	142	—	213	6,370	—	6,583
Total	**$ 8,204**	**$ 2,649**	**$ 738**	**$ 5,017**	**$ 16,608**	**$ 4,618,122**	**$ 6,280**	**$ 4,641,010**
Percent of total loans	**0.2 %**	**0.1 %**	**— %**	**0.1 %**	**0.4 %**	**99.5 %**	**0.1 %**	**100.0 %**

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

	Accruing							
(Dollars in thousands)	Current (1)	30-59 days past due	60-89 days past due	Greater than 90 days	Total past due	Nonaccrual	PCI	Total
December 31, 2022								
Construction	$ 239,990	$ 4,343	$ 1,015	$ 24	$ 5,382	$ 297	$ 650	$ 246,319
Residential real estate	787,070	6,214	891	1,107	8,212	1,259	13,956	810,497
Commercial real estate	1,052,314	369	—	710	1,079	150	11,866	1,065,409
Commercial	147,511	15	—	—	15	174	156	147,856
Consumer	285,750	223	11	—	234	28	14	286,026
Total	$ 2,512,635	$ 11,164	$ 1,917	$ 1,841	$ 14,922	$ 1,908	$ 26,642	$ 2,556,107
Percent of total loans	98.3 %	0.4 %	0.1 %	0.1 %	0.6 %	0.1 %	1.0 %	100.0 %

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

The following tables provide a summary of the activity in the ACL allocated by loan class for the twelve months ended December 31, 2023 and December 31, 2022. Allocation of a portion of the allowance to one loan class does not include its availability to absorb losses in other loan classes.

(Dollars in thousands)	Beginning Balance	Impact of ASC326 Adoption	Merger Adjustments (2)	Charge-offs	Recoveries	Net (charge-offs) recoveries	Provision	Ending Balance
For the year ended December 31, 2023								
Construction	$ 2,973	$ 1,222	$ 3	$ —	$ 15	$ 15	$ (278)	$ 3,935

Residential real estate	2,622	4,974	215	(119)	44	(75)	14,213	21,949
Commercial real estate	4,899	3,742	985	(1,326)	—	(1,326)	12,675	20,975
Commercial	1,652	401	278	(243)	11	(232)	572	2,671
Consumer (1)	4,497	452	14	(574)	284	(290)	2,928	7,601
Credit Card	—	—	18	(111)	—	(111)	313	220
Total	$ 16,643	$ 10,791	$ 1,513	$ (2,373)	$ 354	$ (2,019)	$ 30,423	$ 57,351

(1) Gross charge-offs of consumer loans for the twelve months ended December 31, 2023 included $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	Recoveries	Net (charge-offs) recoveries	Provision	Ending Balance
For the year ended December 31, 2022						
Allowance for credit losses:						
Construction	$ 2,454	—	13	13	506	$ 2,973
Residential real estate	2,858	(5)	142	137	(373)	2,622
Commercial real estate	4,598	(6)	951	945	(644)	4,899
Commercial	2,070	(546)	227	(319)	(99)	1,652
Consumer	1,964	(31)	29	(2)	2,535	4,497
Total	$ 13,944	$ (588)	$ 1,362	$ 774	$ 1,925	$ 16,643

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

	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 December 31, 2023.

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 twelve months ended December 31, 2023.

(dollars in thousands)	Term Extension	Interest Rate Reduction	Payment Delay and Term Extension	Term Extension and Interest Rate Reduction	Payment Delay	Total	% of Total Portfolio Segment
December 31, 2023							
Construction	$ —	$ —	$ —	$ —	$ —	$ —	— %
Residential real estate	—	—	—	—	—	—	—
Residential rentals	—	—	—	—	—	—	—
Commercial real estate	125	—	—	—	—	125	0.01
Commercial	242	—	—	—	—	242	0.11
Consumer	—	—	—	—	—	—	—
Credit Cards	—	—	—	—	—	—	—
Total	$ 367	$ —	$ —	$ —	$ —	$ 367	0.01

The following table presents the financial effect of loan modifications made to borrowers experiencing financial difficulty during the twelve months ended December 31, 2023.

(dollars in thousands)	Weighted-Average Months of Term Extension
December 31, 2023	
Construction	0
Residential real estate	0
Residential rentals	0
Commercial real estate	12
Commercial	12
Consumer	0
Credit Cards	0

During the twelve months ended December 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 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	Total past due	Current Accrual	Current Non-Accrual	Total Recorded Investment
December 31, 2023								
Construction	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Residential real estate	—	—	—	—	—	—	—	—
Residential rentals	—	—	—	—	—	—	—	—
Commercial real estate	—	—	—	—	—	—	125	125
Commercial	—	—	—	—	—	153	89	242
Consumer	—	—	—	—	—	—	—	—
Credit Cards	—	—	—	—	—	—	—	—
Total	$ —	$ —	$ —	$ —	$ —	$ 153	$ 214	$ 367

Foreclosure Proceedings

There were $0.2 million of consumer mortgage loans collateralized by residential real estate property that were in the process of foreclosure as of December 31, 2023 and $0.3 million as of December 31, 2022, respectively. There were no residential real estate properties included in the balance of OREO at December 31, 2023 and one residential real estate property totaling $18,000 at December 31, 2022.

Prior to the adoption of ASC 326

The following table provides information about all loans acquired from Severn.

	December 31, 2022		
(Dollars in thousands)	**Acquired Loans - Purchased Credit Impaired**	**Acquired Loans - Purchased Performing**	**Acquired Loans - Total**
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**

	December 31, 2021		
(Dollars in thousands)	**Acquired Loans - Purchased Credit Impaired**	**Acquired Loans - Purchased Performing**	**Acquired Loans - Total**
Outstanding principal balance	$ 36,943	$ 524,474	$ 561,417
Carrying amount			
Construction	$ 2,379	$ 91,823	$ 94,202
Residential real estate	17,326	167,580	184,906
Commercial real estate	13,594	202,819	216,413
Commercial	321	56,200	56,521
Consumer	30	921	951
Total loans	$ 33,650	$ 519,343	$ 552,993

	December 31, 2022		
(Dollars in thousands)	**Acquired Loans - Purchased Credit Impaired**	**Acquired Loans - Purchased Performing**	**Acquired Loans - Total**
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.

	For the Year Ended

(Dollars in thousands)		December 31, 2022
Accretable yield, beginning of period	$	5,367
Accretion		(1,603)
Reclassification of nonaccretable difference due to improvement in expected cash flows		469
Other changes, net		506
Accretable yield, end of period	$	4,739

In April 2020, the Company began its participation in the Paycheck Protection Program ("PPP") and continued participation in the Program through its expiration in 2021. As of December 31, 2022, the Company held PPP loans with a total outstanding balance of $187 thousand. As of December 31, 2021, the Company held PPP loans with a total outstanding balance of $27.6 million, of which $9.2 million was acquired from Severn, which are included in the commercial loan segment in the table above. As compensation for originating the loans, the Company received lender processing fees from the SBA, which were deferred, along with the related loan origination costs. The net fees associated with the PPP loans have been accreted to interest income over the remaining contractual lives of the loans, with any unrecognized fees recorded in interest income upon forgiveness and repayment by the SBA.

At December 31, 2022, the Bank was servicing $343.8 million in loans for the Federal National Mortgage Association and $74.1 million in loans for the Federal Home Loan Mortgage Corporation.

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

(Dollars in thousands)		For the Year Ended December 31, 2022
Accretable yield, beginning of period	$	5,367
Accretion		(1,603)
Reclassification of nonaccretable difference due to improvement in expected cash flows		469
Other changes, net		506
Accretable yield, end of period	$	4,739

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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 home equity loans and lines, 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.

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The following tables include impairment information relating to loans and the allowance for credit losses for the years ended December 31.

(Dollars in thousands)	Construction	Residential real estate	Commercial real estate	Commercial	Consumer	Total
December 31, 2022						
Loans individually evaluated for impairment	$ 331	$ 5,081	$ 2,540	$ 174	$ 28	$ 8,154
Loans collectively evaluated for impairment	236,901	791,460	1,051,003	147,526	285,984	2,512,874

Acquired loans - PCI	650	13,956	11,866	156	14	26,642
Total loans (1)	$ 237,882	$ 810,497	$ 1,065,409	$ 147,856	$ 286,026	$2,547,670
Allowance for credit losses allocated to:						
Loans individually evaluated for impairment	$ —	$ 127	$ —	$ —	$ —	$ 127
Loans collectively evaluated for impairment	2,973	2,495	4,899	1,652	4,497	16,516
Total allowance	$ 2,973	$ 2,622	$ 4,899	$ 1,652	$ 4,497	$ 16,643

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

(Dollars in thousands)	Construction	Residential real estate	Commercial real estate	Commercial	Consumer	Total
December 31, 2021						
Loans individually evaluated for impairment	$ 321	$ 3,717	$ 3,833	$ 226	$ —	$ 8,097
Loans collectively evaluated for impairment	236,653	633,726	878,802	202,830	125,417	2,077,428
Acquired loans - PCI	2,379	17,326	13,594	321	30	33,650
Total loans	$ 239,353	$ 654,769	$ 896,229	$ 203,377	$ 125,447	$2,119,175
Allowance for credit losses allocated to:						
Loans individually evaluated for impairment	$ —	$ 172	$ 1	$ —	$ —	$ 173

Loans collectively evaluated for impairment	**2,454**	**2,686**	**4,597**	**2,070**	**1,964**	**13,771**
Acquired loans - PCI	**—**	**—**	**—**	**—**	**—**	**—**
Total allowance	**$ 2,454**	**$ 2,858**	**$ 4,598**	**$ 2,070**	**$ 1,964**	**$ 13,944**

The allowance for loan losses was 0.65% ACL on loans as of total December 31, 2022.

(Dollars in thousands)	Loans individually evaluated for impairment	Loans collectively evaluated for impairment (1)	Acquired loans - PCI	Total
December 31, 2022				
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 allocated to:	Loans individually evaluated for impairment	Loans collectively evaluated for impairment	Total allowance
December 31, 2022			
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 and 0.65% when excluding PPP loans, measured at fair value of $8.4 million at December 31, 2022 compared to 0.66% and 0.67% at December 31, 2021.

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The following tables provide information on impaired loans and any related allowance by loan class as of December 31. 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.

	Recorded	Recorded

(Dollars in thousands)	Unpaid principal balance	investment with no allowance	investment with an allowance	Related allowance	Year-to-date average recorded investment	Interest income recognized
December 31, 2022						
Impaired nonaccrual loans:						
Construction	$ 297	$ 297	$ —	$ —	$ 309	$ —
Residential real estate	1,363	1,259	—	—	1,661	—
Commercial real estate	159	150	—	—	604	—
Commercial	359	174	—	—	227	—
Consumer	29	28	—	—	43	—
Total	$ 2,207	$ 1,908	$ —	$ —	$ 2,844	$ —
Impaired accruing TDRs:						
Construction	$ 10	$ 10	$ —	$ —	$ 16	$ 1
Residential real estate	2,849	1,176	1,539	127	2,979	108
Commercial real estate	1,680	1,680	—	—	2,095	56
Commercial	—	—	—	—	—	—
Consumer	—	—	—	—	5	—
Total	$ 4,539	$ 2,866	$ 1,539	$ 127	$ 5,095	$ 165
Other impaired accruing loans:						
Construction	$ 24	$ 24	$ —	$ —	$ 215	$ 6
Residential real estate	1,107	1,107	—	—	474	3
Commercial real estate	710	710	—	—	553	30
Commercial	—	—	—	—	51	1
Consumer	—	—	—	—	15	—
Total	$ 1,841	$ 1,841	$ —	$ —	$ 1,308	$ 40
Total impaired loans:						
Construction	$ 331	$ 331	$ —	$ —	$ 540	$ 7
Residential real estate	5,319	3,542	1,539	127	5,114	111
Commercial real estate	2,549	2,540	—	—	3,252	86
Commercial	359	174	—	—	278	1
Consumer	29	28	—	—	63	—
Total	$ 8,587	$ 6,615	$ 1,539	$ 127	$ 9,247	$ 205

(Dollars in thousands)	Unpaid principal balance	Recorded investment with no allowance	Recorded investment with an allowance	Related allowance	Year-to-date average recorded investment	Interest income recognized
December 31, 2022						
Impaired nonaccrual loans:						
Construction	$ 297	$ 297	$ —	$ —	$ 309	$ —
Residential real estate	1,363	1,259	—	—	1,661	—
Commercial real estate	159	150	—	—	604	—

Commercial	359	174	—	—	227	—
Consumer	29	28	—	—	43	—
Total	$ 2,207	$ 1,908	$ —	$ —	$ 2,844	$ —
Impaired accruing TDRs:						
Construction	$ 10	$ 10	$ —	$ —	$ 16	$ 1
Residential real estate	2,849	1,176	1,539	127	2,979	108
Commercial real estate	1,680	1,680	—	—	2,095	56
Commercial	—	—	—	—	—	—
Consumer	—	—	—	—	5	—
Total	$ 4,539	$ 2,866	$ 1,539	$ 127	$ 5,095	$ 165
Other impaired accruing loans:						
Construction	$ 24	$ 24	$ —	$ —	$ 215	$ 6
Residential real estate	1,107	1,107	—	—	474	3
Commercial real estate	710	710	—	—	553	30
Commercial	—	—	—	—	51	1
Consumer	—	—	—	—	15	—
Total	$ 1,841	$ 1,841	$ —	$ —	$ 1,308	$ 40
Total impaired loans:						
Construction	$ 331	$ 331	$ —	$ —	$ 540	$ 7
Residential real estate	5,319	3,542	1,539	127	5,114	111
Commercial real estate	2,549	2,540	—	—	3,252	86
Commercial	359	174	—	—	278	1
Consumer	29	28	—	—	63	—
Total	$ 8,587	$ 6,615	$ 1,539	$ 127	$ 9,247	$ 205

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(Dollars in thousands)	Unpaid principal balance	Recorded investment with no allowance	Recorded investment with an allowance	Related allowance	Year-to-date average recorded investment	Interest income recognized
December 31, 2021						
Impaired nonaccrual loans:						
Construction	$ 297	$ 297	$ —	$ —	$ 297	$ —
Residential real estate	882	803	—	—	1,095	—
Commercial real estate	994	606	—	—	2,122	—
Commercial	380	216	—	—	242	—
Consumer	—	—	—	—	9	—
Total	$ 2,553	$ 1,922	$ —	$ —	$ 3,765	$ —
Impaired accruing TDRs:						
Construction	$ 24	$ 24	$ —	$ —	$ 30	$ 3
Residential real estate	2,965	475	2,361	172	3,150	146

Commercial real estate	2,807	2,352	455	1	2,952	87
Commercial	—	—	—	—	—	—
Consumer	—	—	—	—	—	—
Total	$ 5,796	$ 2,851	$ 2,816	$ 173	$ 6,132	$ 236
Other impaired accruing loans:						
Construction	$ —	$ —	$ —	$ —	$ —	$ —
Residential real estate	78	78	—	—	465	21
Commercial real estate	420	420	—	—	470	17
Commercial	10	10	—	—	13	—
Consumer	—	—	—	—	—	—
Total	$ 508	$ 508	$ —	$ —	$ 948	$ 38
Total impaired loans:						
Construction	$ 321	$ 321	$ —	$ —	$ 327	$ 3
Residential real estate	3,925	1,356	2,361	172	4,710	167
Commercial real estate	4,221	3,378	455	1	5,544	104
Commercial	390	226	—	—	255	—
Consumer	—	—	—	—	9	—
Total	$ 8,857	$ 5,281	$ 2,816	$ 173	$ 10,845	$ 274

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The following tables provide a roll-forward for troubled debt restructurings as of and for the years ended December 31.

(Dollars in thousands)	1/1/2022 TDR Balance	New TDRs	Disbursements (Payments)	Charge-offs	Reclassifications/ Transfer In/(Out)	Payoffs	12/31/2022 TDR Balance	Related Allowance
For the Year Ended December 31, 2022								
Accruing TDRs								
Construction	**$ 24**	**$ —**	**$ (14)**	**$ —**	**$ —**	**$ —**	**$ 10**	**$ —**
Residential real estate	**2,836**	**—**	**(100)**	**—**	**(20)**	**(1)**	**2,715**	**127**
Commercial real estate	**2,807**	**—**	**(180)**	**—**	**—**	**(947)**	**1,680**	**—**
Commercial	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Consumer	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**

Total	$ 5,667	$ —	$ (294)	$ —	$ (20)	$ (948)	$ 4,405	$ 127
Nonaccrual TDRs								
Construction	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Residential real estate	—	—	(6)	—	20	—	14	—
Commercial real estate	—	—	—	—	—	—	—	—
Commercial	216	—	(46)	—	—	—	170	—
Consumer	—	—	—	—	—	—	—	—
Total	$ 216	$ —	$ (52)	$ —	$ 20	$ —	$ 184	$ —
Total	$ 5,883	$ —	$ (346)	$ —	$ —	$ (948)	$ 4,589	$ 127

(Dollars in thousands)	1/1/2021 TDR Balance	New TDRs	Disbursements (Payments)	Charge-offs	Reclassifications/ Transfer In/(Out)	Payoffs	12/31/2021 TDR Balance	Related Allowance
For the Year Ended December 31, 2021								
Accruing TDRs								
Construction	$ 34	$ —	$ (10)	$ —	$ —	$ —	$ 24	$ —
Residential real estate	3,845	—	(109)	—	—	(900)	2,836	172
Commercial real estate	3,118	—	(311)	—	—	—	2,807	1
Commercial	—	—	—	—	—	—	—	—
Consumer	—	—	—	—	—	—	—	—
Total	$ 6,997	$ —	$ (430)	$ —	$ —	$ (900)	$ 5,667	$ 173
Nonaccrual TDRs								
Construction	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Residential real estate	—	—	—	—	—	—	—	—
Commercial real estate	—	—	—	—	—	—	—	—
Commercial	258	—	(42)	—	—	—	216	—
Consumer	—	—	—	—	—	—	—	—
Total	$ 258	$ —	$ (42)	$ —	$ —	$ —	$ 216	$ —
Total	$ 7,255	$ —	$ (472)	$ —	$ —	$ (900)	$ 5,883	$ 173

There were no TDRs which subsequently defaulted within 12 months of modification for the years ended December 31, 2022 and 2021. 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 OREO or repossessed assets.

Management uses risk ratings as part of its monitoring of the credit quality in the Company's loan portfolio. Loans that are identified as special mention, substandard or doubtful are adversely rated. These loans and the pass/watch loans are assigned higher qualitative factors than favorably rated loans in the calculation of the formula portion of the allowance for credit losses. At December 31, 2022, there were no nonaccrual loans classified as special mention or doubtful and $1.9 million of nonaccrual loans were classified as substandard. Similarly, at December 31, 2021, there were no nonaccrual loans classified as special mention or doubtful and $2.0 million of nonaccrual loans were classified as substandard.

The following tables provide information on loan risk ratings at December 31.

(Dollars in thousands)	Pass/Performing (1)	Pass/Watch	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) December 31, 2022.

(Dollars in thousands)	Pass/Performing (1)	Pass/Watch	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.

(Dollars in thousands)	Pass/Performing	Pass/Watch	Special Mention	Substandard	Doubtful	PCI	Total

December 31, 2021							
Construction	$ 210,287	$ 24,513	$ 1,877	$ 297	$ —	$ 2,379	$ 239,353
Residential real estate	596,694	38,309	1,539	901	—	17,326	654,769
Commercial real estate	724,561	151,209	4,535	2,330	—	13,594	896,229
Commercial	186,176	16,654	—	226	—	321	203,377
Consumer	125,200	215	—	2	—	30	125,447
Total	$ 1,842,918	$ 230,900	$ 7,951	$ 3,756	$ —	$33,650	$ 2,119,175

The following tables provide information on the aging of the loan portfolio at December 31.

		Accruing						
(Dollars in thousands)	Current (1)	30-59 days past due	60-89 days past due	Greater than 90 days	Total past due	Nonaccrual	PCI	Total
December 31, 2022								
Construction	**$ 239,990**	**$ 4,343**	**$ 1,015**	**$ 24**	**$ 5,382**	**$ 297**	**$ 650**	**$ 246,319**
Residential real estate	**787,070**	**6,214**	**891**	**1,107**	**8,212**	**1,259**	**13,956**	**810,497**
Commercial real estate	**1,052,314**	**369**	**—**	**710**	**1,079**	**150**	**11,866**	**1,065,409**
Commercial	**147,511**	**15**	**—**	**—**	**15**	**174**	**156**	**147,856**
Consumer	**285,750**	**223**	**11**	**—**	**234**	**28**	**14**	**286,026**
Total	**$2,512,635**	**$ 11,164**	**$ 1,917**	**$ 1,841**	**$14,922**	**$ 1,908**	**$26,642**	**$2,556,107**
Percent of total loans	**98.3** %	**0.4** %	**0.1** %	**0.1** %	**0.6** %	**0.1** %	**1.0** %	**100.0** %

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

		Accruing						
(Dollars in thousands)	Current	30-59 days past due	60-89 days past due	Greater than 90 days	Total past due	Nonaccrual	PCI	Total
December 31, 2021								
Construction	$ 235,757	$ 920	$ —	$ —	$ 920	$ 297	$ 2,379	$ 239,353
Residential real estate	635,166	1,371	25	78	1,474	803	17,326	654,769
Commercial real estate	881,350	259	—	420	679	606	13,594	896,229
Commercial	202,503	183	62	10	255	298	321	203,377
Consumer	125,130	287	—	—	287	—	30	125,447
Total	$2,079,906	$ 3,020	$ 87	$ 508	$ 3,615	$ 2,004	$33,650	$2,119,175
Percent of total loans	98.2 %	0.1 %	— %	— %	0.1 %	0.1 %	1.6 %	100.0 %

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The following tables provide a summary roll-forward for TDRs as of the activity in the allowance for credit losses allocated by loan class and for the years ended December 31. 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)	Construction	Residential real estate	Commercial real estate	Commercial	Consumer	Total
For the year ended December 31, 2022						
Allowance for credit losses:						
Beginning Balance	**$ 2,454**	**$ 2,858**	**$ 4,598**	**$ 2,070**	**$ 1,964**	**$13,944**
Charge-offs	**—**	**(5)**	**(6)**	**(546)**	**(31)**	**(588)**
Recoveries	**13**	**142**	**951**	**227**	**29**	**1,362**
Net (charge-offs) recoveries	**13**	**137**	**945**	**(319)**	**(2)**	**774**
Provision	**506**	**(373)**	**(644)**	**(99)**	**2,535**	**1,925**
Ending Balance	**$ 2,973**	**$ 2,622**	**$ 4,899**	**$ 1,652**	**$ 4,497**	**$16,643**

(Dollars in thousands)	Construction	Residential real estate	Commercial real estate	Commercial	Consumer	Total
For the year ended December 31, 2021						
Allowance for credit losses:						
Beginning Balance	$ 2,022	$ 3,699	$ 5,426	$ 2,089	$ 652	$13,888
Charge-offs	—	—	—	(235)	(28)	(263)
Recoveries	278	82	114	193	10	677
Net (charge-offs) recoveries	278	82	114	(42)	(18)	414
Provision	154	(923)	(942)	23	1,330	(358)
Ending Balance	$ 2,454	$ 2,858	$ 4,598	$ 2,070	$ 1,964	$13,944

Foreclosure Proceedings

Consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure totaled $263 thousand and $311 thousand as of December 31, 2022 and 2021, respectively. .

(Dollars in thousands)	1/1/2022 TDR Balance	New TDRs	Disbursements (Payments)	Charge-offs	Reclassifications/ Transfer In/ (Out)	Payoffs	12/31/2022 TDR Balance	Related Allowance
For the Year Ended December 31, 2022								
Accruing TDRs								
Construction	$ 24	$ —	$ (14)	$ —	$ —	$ —	$ 10	$ —
Residential real estate	2,836	—	(100)	—	(20)	(1)	2,715	(127)
Commercial real estate	2,807	—	(180)	—	—	(947)	1,680	—
Commercial	—	—	—	—	—	—	—	—
Consumer	—	—	—	—	—	—	—	—
Total	$ 5,667	$ —	$ (294)	$ —	$ (20)	$ (948)	$ 4,405	$ (127)
Nonaccrual TDRs								
Construction	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Residential real estate	—	—	(6)	—	20	—	14	—
Commercial real estate	—	—	—	—	—	—	—	—
Commercial	216	—	(46)	—	—	—	170	—
Consumer	—	—	—	—	—	—	—	—
Total	$ 216	$ —	$ (52)	$ —	$ 20	$ —	$ 184	$ —
Total	$ 5,883	$ —	$ (346)	$ —	$ —	$ (948)	$ 4,589	$ (127)

There were $18 thousand no TDRs which subsequently defaulted within 12 months of residential real estate properties included modification for the twelve months ended December 31, 2022. Generally, a loan is considered in default when principal or interest is past due 90 days or more, the balance of other real estate owned at December 31, 2022 and $203 thousand at December 31, 2021.

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 and 2021.

loan is placed on nonaccrual, the loan is charged off, or there is a transfer to OREO or repossessed assets.

NOTE 5. GOODWILL AND OTHER INTANGIBLE ASSETS

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

	December 31, 2023						
(Dollars in thousands)	**Gross Carrying Amount**	**Additions**	**Measurement Period Adjustments**	**Accumulated Impairment Charges**	**Accumulated Amortization**	**Net Carrying Amount**	**Weighted Average Remaining Life (in years)**
Goodwill	**$ 65,476**	**$ —**	**$ —**	**$ (1,543)**	**$ (667)**	**$ 63,266**	**—**
Other intangible assets							

Amortizable							
Core deposit intangible	**$ 10,503**	**$ 48,648**	**$ —**	**$ —**	**$ (11,061)**	**$ 48,090**	**3.7**
Total other intangible assets	**$ 10,503**	**$ 48,648**	**$ —**	**$ —**	**$ (11,061)**	**$ 48,090**	

(Dollars in thousands)	December 31, 2022 Gross Carrying Amount	Measurement Period Adjustments	Accumulated Impairment Charges	Accumulated Amortization	Net Carrying Amount	Weighted Average Remaining Life (in years)
Goodwill	$ 65,631	$ (155)	$ (1,543)	$ (667)	$ 63,266	—
Other intangible assets						
Amortizable						
Core deposit intangible	$ 10,503	$ —	$ —	$ (4,956)	$ 5,547	2.6
Total other intangible assets	$ 10,503	$ —	$ —	$ (4,956)	$ 5,547	

The aggregate amortization expense was $6.1 million and $2.0 million for the years ended December 31, 2023 and 2022, respectively.

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

(Dollars in thousands)	**Amortization Expense**
2024	$ 9,779
2025	8,589
2026	7,398
2027	6,208
2028	5,060
Thereafter	11,056
Total amortizing intangible assets	$ 48,090

NOTE 6. 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 Some of these 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.

Table During the third quarter of Contents

During 2021, 2023, the Company acquired long-term branch leases and equipment leases due to the acquisition of Severn. TCFC. These leases were reassessed by management as of the acquisition date of October 31, 2021, Acquisition Date, which included updating the incremental borrowing rates and remaining lease terms.

The following tables present information about the Company's leases as of and for the years ended December 31.

(Dollars in thousands)	**December 31, 2022**	December 31, 2021
Lease liabilities	**$ 9,908**	$ 11,567
Right-of-use assets	**$ 9,629**	$ 11,370
Weighted average remaining lease term	**12.55** years	13.61 years
Weighted average discount rate	**2.50** %	2.48 %

	For the Year Ended	
Lease cost (in thousands)	**December 31, 2022**	December 31, 2021
Operating lease cost	**$ 1,355**	$ 902
Short-term lease cost	**—**	—
Total lease cost	**$ 1,355**	$ 902
Cash paid for amounts included in the measurement of lease liabilities	**$ 1,268**	$ 777

December 31, 2023 and December 31, 2022.

(Dollars in thousands)	**December 31, 2023**	December 31, 2022
Lease liabilities	**$ 12,857**	$ 9,908
Right-of-use assets	**$ 12,487**	$ 9,629
Weighted average remaining lease term	**10.88 years**	12.55 years
Weighted average discount rate	**3.24 %**	2.50 %
Remaining lease term - min	**0.39 years**	0.16 years
Remaining lease term - max	**17.68 years**	18.68 years

	For the Year Ended	
Lease cost (in thousands)	**December 31, 2023**	December 31, 2022
Operating lease cost	**$ 1,645**	$ 1,355
Short-term lease cost	**—**	—
Total lease cost	**$ 1,645**	$ 1,355
Cash paid for amounts included in the measurement of lease liabilities	**$ 1,553**	$ 1,268

The following table presents a maturity analysis of operating lease liabilities and reconciliation of the undiscounted cash flows to the total of operating lease liabilities at December 31.

Lease payments due (in thousands)	As of December 31, 2022
2023	$ 1,231
2024	1,141
2025	917
2026	916
2027	849
Thereafter	6,584
Total undiscounted cash flows	$ 11,638
Discount	1,730
Lease liabilities	$ 9,908

December 31, 2023.

Lease payments due (in thousands)	As of December 31, 2023
2024	$ 1,801
2025	1,617
2026	1,575
2027	1,469
2028	1,419
Thereafter	7,261
Total undiscounted cash flows	$ 15,142
Discount	2,285
Lease liabilities	$ 12,857

Total gross rental income was $1.3 million $1.2 million and $180 thousand $1.3 million for the years ended December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022, respectively. The following table presents our minimum future annual rental income on such leases at December 31.

(In thousands)	As of December 31, 2022
2023	$ 918
2024	701
2025	719
2026	737
2027	418
Thereafter	1,554
Total	$ 5,047

December 31, 2023.

(In thousands)	As of December 31, 2023
2024	$ 833
2025	854
2026	876
2027	562
2028	578
Thereafter	2,521
Total	$ 6,224

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NOTE 6. 7. PREMISES AND EQUIPMENT

The following table provides information on premises and equipment at December 31.

(Dollars in thousands)	**2022**	2021
Land	**$ 10,886**	$ 10,886
Buildings and land improvements	**48,605**	47,002
Furniture and equipment	**8,177**	8,467
	67,668	66,355
Accumulated depreciation	**(16,180)**	(14,731)
Total	**$ 51,488**	$ 51,624

December 31, 2023 and December 31, 2022.

(Dollars in thousands)	**December 31, 2023**	December 31, 2022
Land	**$ 19,041**	$ 10,886
Buildings and land improvements	**67,506**	48,605
Furniture and equipment	**14,820**	8,177
	101,367	67,668
Accumulated depreciation	**(18,981)**	(16,180)
Total	**$ 82,386**	$ 51,488

Depreciation expense totaled $3.3 million for 2023 and $2.4 million for 2022 and $1.5 million for 2021.

NOTE 7. GOODWILL AND OTHER INTANGIBLE ASSETS

The following table provides information on the significant components of goodwill and other acquired intangible assets at December 31.

December 31, 2022						
	Gross Carrying	Measurement Period	Accumulated Impairment	Accumulated	Net Carrying	Weighted Average Remaining Life

(Dollars in thousands)	Amount	Adjustments	Charges	Amortization	Amount	(in years)
Goodwill	**$ 65,631**	**$ (155)**	**$ (1,543)**	**$ (667)**	**$ 63,266**	**—**
Other intangible assets						
Amortizable						
Core deposit intangible	**$ 10,504**	**$ —**	**$ —**	**$ (4,957)**	**$ 5,547**	**2.6**
Total other intangible assets	**$ 10,504**	**$ —**	**$ —**	**$ (4,957)**	**$ 5,547**	

December 31, 2021						
(Dollars in thousands)	Gross Carrying Amount	Additions	Accumulated Impairment Charges	Accumulated Amortization	Net Carrying Amount	Weighted Average Remaining Life (in years)
Goodwill	$ 19,727	$ 45,904	$ (1,543)	$ (667)	$ 63,421	—
Other intangible assets						
Amortizable						
Core deposit intangible	$ 3,954	$ 6,550	$ —	$ (2,969)	$ 7,535	2.9
Total other intangible assets	$ 3,954	$ 6,550	$ —	$ (2,969)	$ 7,535	

The aggregate amortization expense was $2.0 million and $734 thousand for the years ended December 31, 2022 and 2021, respectively.

2022.

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The following table presents estimated future remaining amortization for amortizing intangibles at December 31, 2022.

(Dollars in thousands)	**Amortization Expense**
2023	**$ 1,682**
2024	**1,376**
2025	**1,070**
2026	**765**
2027	**459**
Thereafter	**195**
Total amortizing intangible assets	**$ 5,547**

NOTE 8. OTHER ASSETS

The Company had DEPOSITS

Deposits consist of the following other assets at December 31.

(Dollars in thousands)	2022	2021
Accrued interest receivable	**$ 9,384**	$ 6,719
Deferred income taxes	**7,357**	2,926
Prepaid expenses	**2,680**	2,865
Income taxes receivable	**74**	616
Other assets	**8,506**	6,806
Total	**$ 28,001**	$ 19,932

NOTE 9. OTHER LIABILITIES

The Company had categories as of the following other liabilities at December 31.

(Dollars in thousands)	2022	2021
Accrued interest payable	**$ 989**	$ 692
Accrued salaries and wages	**1,360**	3,422
Accounts payable	**353**	2,745
Deferred compensation liability	**5,679**	4,660
Other liabilities	**1,846**	3,081
Total	**$ 10,227**	$ 14,600

NOTE 10. DEPOSITS

The approximate amount dates indicated:

(dollars in thousands)	December 31, 2023			December 31, 2022		
		Balance	**%**		Balance	%
Noninterest-bearing demand	**$**	**1,258,037**	**23.36 %**	$	862,015	28.64 %
Interest-bearing:						
Demand		**1,165,546**	**21.64**		694,101	23.06
Money market deposits		**1,430,603**	**26.56**		709,132	23.56
Savings		**347,324**	**6.45**		320,188	10.64
Certificates of deposit		**1,184,610**	**21.99**		424,348	14.10
Total interest-bearing		**4,128,083**	**76.64 %**		2,147,769	71.36 %
Total Deposits	**$**	**5,386,120**	**100.00 %**	$	3,009,784	100.00 %

As of certificates of deposit of $250,000 or more was $77.7 million December 31, 2023 and $78.0 million at December 31, 2022 2022, deposits, both direct and 2021, indirect, from executive officers and directors, their associates and policy-making officers, totaled approximately $35.6 million and $11.9 million, respectively.

The following table provides information on the approximate maturities of total time deposits at December 31.

(Dollars in thousands)	**2022**	2021
Due in one year or less	**$ 231,089**	$ 291,685
Due in one to three years	**162,216**	128,222
Due in three to five years	**31,417**	40,044
Total	**$ 424,722**	$ 459,951

As December 31, 2023 and December 31, 2022.

(dollars in thousands)		**December 31, 2023**		December 31, 2022
Within one year	**$**	**1,042,343**	$	230,715
Year 2		**78,585**		138,356
Year 3		**36,469**		23,860
Year 4		**12,081**		17,327
Year 5		**14,955**		14,051
Thereafter		**177**		39
Total	**$**	**1,184,610**	$	424,348

The approximate amount of December 31, 2022 certificates of deposit of $250,000 or more was $354.6 million and 2021, deposits, both direct $77.7 million at December 31, 2023 and indirect, from directors, their associates and policy-making officers, totaled approximately $11.9 million and $7.7 million, 2022, respectively.

At December 31, 2022 and December 31, 2021, we had no brokered deposits.

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NOTE 9. BORROWINGS

NOTE 11. BORROWINGS

The Company may periodically borrow from a correspondent federal funds line of credit arrangement, under a secured reverse repurchase agreement, or from the FHLB to meet short-term liquidity needs.

The following table summarizes certain information on short-term borrowings as of and for the years ended December 31.

	2022		2021	
(Dollars in thousands)	Amount	Rate	Amount	Rate
Average for the Year				
Repurchase agreements	$ 683	0.25 %	$ 3,017	0.25 %
FHLB Advances	1,863	3.87	—	—
Overnight Fed Funds purchased	—	—	—	—
At Year End				
Repurchase agreements	$ —	— %	$ 4,143	0.18 %
FHLB Advances	40,000	4.57	—	—
Overnight Fed Funds purchased	—	—	—	—

December 31, 2023 and December 31, 2022.

	December 31, 2023		December 31, 2022	
(Dollars in thousands)	Amount	Rate	Amount	Rate
Average for the Year				
Repurchase agreements	$ —	— %	$ 683	0.25 %
FHLB Advances	111,392	4.95	1,863	3.87
At Year End				
Repurchase agreements	$ —	— %	$ —	— %
FHLB Advances	—	—	40,000	4.57

Securities sold under agreements to repurchase are securities sold to customers, at the customers' request, under a "roll-over" contract that matures in one business day. The underlying securities sold are U.S. Government agency securities, which are segregated in the Company's custodial accounts from other investment securities.

The Bank had $15.0 million $45.0 million in federal funds lines of credit and a reverse repurchase agreement available on a short-term basis from correspondent banks at December 31, 2022 December 31, 2023 and 2021. In conjunction with the acquisition of Severn, the Company assumed $10.0 million in Long-term FHLB Advances which carried a contractual interest rate of 2.19%. The associated purchase premium at acquisition was $162 thousand which was amortized over the contractual life of the obligation which matured in October 2022. In addition, the Bank had secured credit availability of approximately $298.9 million and $363.9 million $659.0 million from the FHLB at December 31, 2022 and 2021, respectively. December 31, 2023. The Bank has pledged as collateral, under a blanket lien, all qualifying residential loans under borrowing agreements with the FHLB. The Bank had $40 million in short-term letters of credit with FHLB of $86.1 million and $6.1 million as of December 31, 2023 and 2022, respectively. These letters of credit are used to secure public deposits held with various municipal customers. The Bank had no borrowings from the FHLB at December 31, 2022 December 31, 2023 and no $40.0 million short term FHLB borrowings at December 31, 2021 December 31, 2022.

NOTE 12. SUBORDINATED DEBT

On August 25, 2020

(dollars in thousands)	December 31, 2023	December 31, 2022	Issue Date	Stated Maturity Date	Earliest Call Date	Interest Rate

September 2030 Subordinated Debentures	$	**25,000**	$ 25,000	2020	2030	2025	5.375% through September 2025, 3-month SOFR + 5.265% thereafter
October 2030 Subordinated Debentures		**19,500**	—	2020	2030	2025	4.75% through October 2025, 3-month SOFR + 4.58% thereafter
Total subordinated debentures		**44,500**	25,000				
Severn Capital Trust I		**20,619**	20,619	2004	2035		3-month SOFR + 2.00%
Tri-County Capital Trust I		**7,000**	—	2004	2034		90-day SOFR + 2.60%
Tri-County Capital Trust II		**5,000**	—	2005	2035		90-day SOFR + 1.70%
Total trust preferred securities		**32,619**	20,619				
Less net discount and unamortized issuance costs		**(4,822)**	(2,547)				
Total long-term debt	**$**	**72,297**	$ 43,072				

At December 31, 2023, the Company entered into Subordinated Note Purchase Agreements with certain Purchasers pursuant to which the Company subordinated notes consisted of $25.0 million of long-term debt issued and sold $25.0 million in aggregate principal amount with an initial interest rate of 5.375% Fixed-to-Floating Rate Subordinated Notes due September 1, 2030.

The Notes were structured to qualify as Tier 2 capital for regulatory capital purposes and bear an initial interest rate of 5.375% until September 1, 2025, with interest during this period payable semi-annually in arrears. From and including September 1, 2025, to but excluding the maturity date or early redemption date, the interest rate will reset quarterly to an annual floating rate equal to three-month SOFR, plus 526.5 basis points, with interest during this period payable quarterly in arrears. The Notes are redeemable by the Company at its option, in whole or in part, on or after September 1, 2025. Initial August 2020, and $19.5 million of long-term debt issuance costs were $611 thousand. The debt assumed as a result of the merger with TCFC. As of December 31, 2023, the recorded balance of $24.7 million is presented subordinated debt issued by the Company and the assumed subordinated debt from TCFC, net of unamortized issuance costs and fair value discounts, were $24.8 million and $18.3 million, respectively.

The Company also assumed trust preferred securities in the aggregate of $326 thousand at December 31, 2022.

In conjunction $32.6 million as a result of the merger with TCFC in 2023 and the acquisition of Severn the Company assumed $20.6 million in junior subordinated debt 2021. Trust preferred securities ("2035 Debentures"). The 2035 Debentures were consisted of $20.6 million issued and sold to Severn Capital Trust I, (the "Trust"), of which 100% $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 common equity is owned by the Company. The Trust debt acquired from Severn at December 31, 2023 was formed for the purpose of issuing corporation-obligated mandatorily redeemable Capital Securities ("Capital Securities") to third-party investors and using the proceeds from the sale of such Capital Securities to purchase the 2035 Debentures. The 2035 Debentures held by the Trust are the sole assets $18.6 million, net of the Trust. Distributions on unamortized fair value adjustment of $2.0 million. At December 31, 2023, 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.

As both the Capital Securities issued by the Trust are payable quarterly at a rate per annum equal to I and Capital Trust II variable-rate capital securities were originally LIBOR-linked instruments that matured after June 30, 2023, the interest rate being earned by the Trust on the 2035 Debentures. The Capital Securities are subject transitioned from a LIBOR-based rate to mandatory redemption, in whole or in part, upon repayment of the 2035 Debentures. We have entered into an agreement which, taken collectively, fully and unconditionally guarantees the Capital Securities alternative reference rate. Both instruments were subject to the terms of Adjustable Interest Rate (LIBOR) Act (the "LIBOR Act") and neither instrument contains fallback provision or a clearly practicable fallback provision in the guarantee.

Under event that LIBOR was no longer published or quoted. The interest rate on both the terms of Capital Trust I and Capital Trust II transitioned pursuant to the 2035 Debentures, we are permitted LIBOR Act to defer the payment of interest a rate based on the 2035 Debentures for up to 20 consecutive quarterly periods, provided that no event of default has occurred and is continuing. As of December 31, 2022, we were current Secured Overnight Financing Rate ("SOFR") on all interest due on the 2035 Debentures.

July 1, 2023.

NOTE 13. 10. BENEFIT PLANS

401(k) and Profit Sharing Plan

- The Company has a 401(k) and profit sharing plan covering substantially all full-time employees. The plan calls for matching contributions by the Company, and the Company makes discretionary contributions based on profits. Company contributions to this plan included in noninterest expense totaled $1.7 million and $1.3 million for 2023 and $696 thousand 2022, respectively.

Employee Stock Ownership Plan - Prior to the closing of the acquisition of TCFC, TCFC paid into the Employee Stock Ownership Plan ("ESOP") and adopted resolutions to (i) terminate the ESOP and (ii) provide for 2022 full vesting of all account balances in the ESOP. A determination letter has been filed with the IRS to terminate the ESOP and 2021, respectively.

NOTE 14. 11. 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 three-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 499,870 455,530 shares remained available for grant at December 31, 2022 December 31, 2023.

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

The following tables provide information on stock-based compensation expense as of and for the years ended December 31.

(Dollars in thousands)	December 31, 2022	December 31, 2021
Stock-based compensation expense	**$ 636**	$ 378
Excess tax benefits related to stock-based compensation	**42**	9

(Dollars in thousands)	December 31, 2022	December 31, 2021
Unrecognized stock-based compensation expense	**$ 138**	$ 80
Weighted average period unrecognized expense is expected to be recognized	**0.2 years**	0.2 years

December 31, 2023 and December 31, 2022.

(Dollars in thousands)	**December 31, 2023**	December 31, 2022
Stock-based compensation expense	**$ 1,174**	$ 636

(Dollars in thousands)	**December 31, 2023**	December 31, 2022
Unrecognized stock-based compensation expense	**$ 1,859**	$ 138
Weighted average period unrecognized expense is expected to be recognized	**1.3 years**	0.2 years

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The following table summarizes tables summarize the unvested restricted stock award activity and restricted stock unit awards outstanding for the Company under the 2016 Equity Plan for the years ended December 31.

	2022		2021	
	Number of Shares	Weighted Average Grant Date Fair Value	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested at beginning of period	**29,425**	**$ 13.95**	24,505	$ 13.78
Granted	**34,184**	**20.48**	26,583	13.81
Vested	**(26,749)**	**13.75**	(20,240)	13.54
Forfeited	**—**	**—**	(1,423)	13.34
Nonvested at end of period	**36,860**	**$ 20.15**	29,425	$ 13.95

December 31, 2023 and 2022, respectively.

	Restricted Stock December 31, 2023		**Restricted Stock Units December 31, 2023**	
	Number of Shares	**Weighted Average Grant Date Fair Value**	**Number of Shares**	**Weighted Average Grant 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	**44,340**	**15.58**	**91,047**	**11.56**
Vested	**(38,184)**	**19.68**	**(15,573)**	**11.56**
Forfeited	**(1,671)**	**17.49**	**(1,202)**	**11.56**
Nonvested at end of period	**45,322**	**15.42**	**165,055**	**11.56**

	Restricted Stock December 31, 2022		Restricted Stock Units December 31, 2022	
	Number of Shares	Weighted Average Grant Date Fair Value	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested at beginning of period	29,425	$ 13.95	—	$ —
Granted	34,184	20.48	—	—
Vested	(26,749)	13.75	—	—
Forfeited	—	—	—	—
Nonvested at end of period	36,860	20.15	—	—

The fair value of restricted stock awards that vested during 2023 and 2022 was $0.6 million and 2021 $0.5 million, respectively. The fair value of restricted stock units vested during 2023 was $532 thousand and $309 thousand, respectively.

$0.2 million. There were no stock options granted during 2022 2023 and 2021.

2022.

NOTE 15. 12. DERIVATIVES

We maintain

The Company maintains and account for derivatives, in the form of 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. For these IRLCs and our closed inventory in loans held for sale , we attempt to protect the Bank from changes in interest rates through the use of TBA 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 December 31.

	December 31, 2022		December 31, 2021	
(Dollars in thousands)	**Notional Amount**	**Estimated Fair Value**	Notional Amount	Estimated Fair Value
Asset - IRLCs	**$ 4,166**	**$ 35**	**$ 17,557**	**$ 380**
Asset - TBA securities	**8,750**	**41**	**26,500**	**55**
Liability - IRLCs	**1,150**	**7**	**—**	**—**
Liability - TBA securities	**1,000**	**6**	**20,500**	**41**

December 31, 2023 and December 31, 2022.

(Dollars in thousands)	December 31, 2023		December 31, 2022	
	Notional Amount	Estimated Fair Value	Notional Amount	Estimated Fair Value
Asset - IRLCs	$ 6,785	$ 110	$ 4,166	$ 35
Asset - TBA securities	1,000	2	8,750	41
Liability - IRLCs	—	—	1,150	7
Liability - TBA securities	18,000	176	1,000	6

NOTE 16. 13. DEFERRED COMPENSATION

The Company has multiple deferred compensation agreements with current and former employees. The Executive Deferred Compensation Plan (the "Plan") is reserved for members of management and highly compensated employees of the Company and the Bank. During 2019, the Executive Deferred Compensation Plan was expanded to include additional officers who had not previously participated. The Executive Deferred Compensation Plan permits a participant to elect, each year, to defer receipt of up to 100% of his or her salary and bonus to be earned in the following year. The Executive Deferred Compensation Plan also permits the participant to defer the receipt of performance-based compensation not later than six months before the end of the period for which it is to be earned. The deferred amounts are credited to an account maintained on behalf of the participant and are invested at the discretion of each participant in certain deemed investment options selected by the Compensation Committee of the Board of the Company. The actual investments purchased are owned by the Company and held in a Rabbi Trust. The accounts of the Rabbi Trust are consolidated and the investments are included in other assets on the Consolidated Balance Sheets. The Company and the

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Bank may also make matching, mandatory and discretionary contributions for certain participants. A participant is fully vested at all times in the amounts that he or she elects to defer. Any contributions by the Company will vest over a five-year period.

The following table provides information on Shore Bancshares, Inc.'s contributions and participant deferrals to the Executive Deferred Compensation Plan for 2022 2023 and 2021 2022 and the related deferred compensation liability as of December 31.

(Dollars in thousands)	2022	2021
Elective deferrals	$ 238	$ 192
Deferred compensation liability	948	972

liability.

(Dollars in thousands)	December 31, 2023	December 31, 2022
Elective deferrals	$ 273	$ 238
Deferred compensation liability	1,576	948

During 2019, the Company introduced a new SERP plan for executive officers of the Company and the Bank. The related liability is unfunded; however, BOLI was purchased to offset the benefit costs. The following table provides information on the expense recognized during the years ended December 31, December 31, 2023 and December 31, 2022, as well as the balance of the unfunded SERP liability and the cash surrender value of policies purchased to offset the SERP benefit costs as of December 31. December 31, 2023 and December 31, 2022. The unfunded SERP liability and cash surrender value were included in other liabilities and other assets, respectively.

(Dollars in thousands)	2022	2021
Cash surrender value	**$56,117**	$38,414
Deferred compensation liability - SERP	**4,177**	3,114
SERP Expense	**1,063**	1,455

(Dollars in thousands)	December 31, 2023	December 31, 2022
Cash surrender value	**$ 98,140**	$ 56,117
Deferred compensation liability - SERP	**12,869**	4,177
SERP Expense	**1,405**	1,063

Lastly, in 2016, the Bank assumed agreements held by the former CNB Bank under which its former directors had elected to defer part of their fees and compensation while serving on the former Board of CNB. The amounts deferred were invested in insurance policies on the lives of the respective individuals. Amounts available under the policies are to be paid to the individuals as retirement benefits over future years.

The following table includes information on the deferred compensation liability and cash surrender value as of December 31.

(Dollars in thousands)	2022	2021
Deferred compensation liability	**$ 450**	$ 554
Cash surrender value	**2,260**	2,200

December 31, 2023 and December 31, 2022.

(Dollars in thousands)	December 31, 2023	December 31, 2022
Deferred compensation liability	**$ 388**	$ 450
Cash surrender value	**2,322**	2,260

NOTE 17. 14. ACCUMULATED OTHER EXPENSES

COMPREHENSIVE 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 summarizes provides information on the Company's changes in the component of accumulated other noninterest expenses comprehensive income (loss) for the years ended December 31.

(Dollars in thousands)	2022	2021
Advertising and marketing	**$ 898**	$ 339
Other customer expense	**1,075**	693
Other expense	**3,694**	2,425
Other loan expense	**1,670**	188
Software expense	**1,853**	1,048
Travel and entertainment expense	**478**	216
Trust professional fees	**409**	524
Total other noninterest expense	**$10,077**	$ 5,433

December 31, 2023 and December 31, 2022.

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(Dollars in thousands)	Twelve Months Ended December 31, 2023 Net Unrealized Gains And (Losses)	Twelve Months Ended December 31, 2022 Net Unrealized Gains And (Losses)
Beginning of period	$ (9,021)	$ 56
Other comprehensive income (loss), net of tax	1,527	(9,077)
End of period	$ (7,494)	$ (9,021)

NOTE 15. INCOME TAXES

Table The Company files income tax returns in the U.S. federal jurisdiction and the State of Contents

Maryland. With few exceptions, the Company is no longer subject to U.S. Federal and State income tax examinations by tax authorities for years prior to 2020.

NOTE 18. INCOME TAXES

The following table provides information on components of income tax expense for the years ended December 31.

(Dollars in thousands)	2022	2021
Current tax expense:		
Federal	$ 8,814	$ 3,920
State	3,332	1,614
	12,146	5,534
Deferred income tax (benefit) expense:		
Federal	(911)	136
State	(271)	142
	(1,182)	278
Total income tax expense	$ 10,964	$ 5,812

December 31, 2023 and December 31, 2022.

(Dollars in thousands)	December 31, 2023	December 31, 2022
Current tax expense:		
Federal	$ 172	$ 8,814
State	63	3,332
	235	12,146
Deferred income tax (benefit) expense:		
Federal	1,692	(911)
State	1,029	(271)
	2,721	(1,182)

Total income tax expense	**$ 2,956**	$ 10,964

The following table provides a reconciliation of tax computed at the statutory federal tax rate to the actual tax expense for the years ended December 31.

	2022	2021
Tax at federal statutory rate	**21 %**	21 %
Tax effect of:		
Tax-exempt income	**(1.0)**	(1.6)
State income taxes, net of federal benefit	**5.7**	6.6
Other	**0.3**	1.4
Actual income tax expense rate	**26.0 %**	27.4 %

December 31, 2023 and December 31, 2022.

	December 31, 2023	December 31, 2022
Tax at federal statutory rate	**21.0 %**	21.0 %
Tax effect of:		
Tax-exempt income	**(3.6)**	(1.0)
State income taxes, net of federal benefit	**6.1**	5.7
Bargain purchase gain	**(13.1)**	—
Nondeductible compensation costs	**3.9**	—
Nondeductible merger related expenses	**2.6**	—
Other	**3.9**	0.3
Actual income tax expense rate	**20.8 %**	26.0 %

The following table provides information on significant components of the Company's deferred tax assets and liabilities for the years ended December 31.

(Dollars in thousands)	**December 31, 2022**	December 31, 2021
Deferred tax assets:		
Allowance for credit losses	**$ 4,460**	$ 3,728
Write-downs of other real estate owned	**21**	12
Nonaccrual loan interest	**345**	253
Lease liabilities	**2,635**	3,021
Deferred compensation	**1,522**	1,246
Deferred loan costs	**1,183**	730
Unrealized losses on available-for-sale securities	**3,399**	—
Other	**1,487**	903
Total deferred tax assets	**15,052**	9,893
Less valuation allowance	**(791)**	(474)
Deferred tax assets, net of valuation allowance	**14,261**	9,419
Deferred tax liabilities:		
Depreciation	**2,491**	1,030
Right-of-use assets	**2,560**	2,968
Mortgage servicing rights	**1,405**	1,084
Acquisition accounting adjustments	**57**	986
Deferred capital gain on branch sale	**220**	228
Unrealized gains on available-for-sale securities	**—**	13
Other	**171**	184

Total deferred tax liabilities	**6,904**	6,493
Net deferred tax assets	**$ 7,357**	$ 2,926

December 31, 2023 and December 31, 2022.

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(Dollars in thousands)	December 31, 2023	December 31, 2022
Deferred tax assets:		
Allowance for credit losses	**$ 14,534**	$ 4,460
Write-downs of OREO	**33**	21
Nonaccrual loan interest	**344**	345
Lease liabilities	**3,326**	2,635
Deferred compensation	**4,160**	1,522
Federal net operating loss	**6,528**	—
State net operating loss	**2,448**	722
Deferred loan costs	**1,775**	1,183
Acquisition fair value adjustments	**30,452**	2,580
Unrealized losses on available-for-sale securities	**2,825**	3,399
Other	**1,398**	883
Total deferred tax assets	**67,823**	17,750
Less valuation allowance	**(1,015)**	(791)
Deferred tax assets, net of valuation allowance	**66,808**	16,959
Deferred tax liabilities:		
Depreciation	**4,320**	2,491
Right-of-use assets	**3,229**	2,560
Mortgage servicing rights	**1,541**	1,405
Acquisition fair value adjustments	**2,401**	466
Deferred capital gain on branch sale	**207**	220
Intangibles	**13,611**	2,290
Other	**792**	170
Total deferred tax liabilities	**26,101**	9,602
Net deferred tax assets	**$ 40,707**	$ 7,357

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NOTE 19. EARNINGS PER COMMON 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 common stock equivalents (stock-based awards). The following table provides information relating to the calculation of earnings per common share for the years ended December 31.

	For the Year Ended December 31,	
(In thousands, except per share data)	**2022**	**2021**

Net Income	**$**	**31,177**	**$**	**15,368**
Weighted average shares outstanding - Basic and Diluted		**19,847**		**13,119**
Earnings per common share - Basic and Diluted	**$**	**1.57**	**$**	**1.17**

There were no weighted average common stock equivalents excluded from the calculation of diluted earnings per share for the years ended December 31, 2022 and 2021.

NOTE 20. 16. REGULATORY CAPITAL REQUIREMENTS

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 December 31, 2023 and December 31, 2022, 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 Shore United Bank, N.A., as well capitalized under the regulatory framework for prompt corrective action. There are 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 require a common equity Tier 1 capital to risk-weighted assets ratio of 4.5%, a ratio of Tier 1 risk-based capital total risk-based capital to risk-weighted assets of 6.0%, a ratio of Total Capital to risk-weighted assets of 8.0%, and a Tier 1 leverage ratios, respectively which include a ratio of 4.0%. A capital conservation buffer is also established above the regulatory minimum capital requirements of 2.50% respectively. for all regulatory risk-weighted ratios. 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.

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The following tables present the capital amounts and ratios at December 31, 2023 and December 31, 2022.

Regulatory Capital and Ratios (dollars in thousands)	**Regulatory Minimum Ratio + Capital Conversation Buffer** (1)	**The Company** 2023	2022	**The Bank** 2023	2022
Common					

Common equity		**$ 511,135**	$ 364,285	**$ 570,100**	$ 395,594
Goodwill		**(63,266)**	(63,266)	**(63,266)**	(63,266)
Core deposit intangible (2)		**(38,069)**	(5,547)	**(38,069)**	(5,547)
DTAs that arise from net operating loss and tax credit carry forwards		**(8,977)**	—	**(6,059)**	—
AOCI (gains) losses		**7,494**	9,021	**7,494**	9,021
Common Equity Tier 1 Capital		**408,317**	304,493	**470,200**	335,802
TRUPs		**29,158**	18,398	**—**	—
Tier 1 Capital		**437,475**	322,891	**470,200**	335,802
Allowable reserve for credit losses and other Tier 2 adjustments		**58,586**	16,854	**58,586**	16,854
Subordinated notes		**43,139**	24,674	**—**	—
Total Capital		**539,200**	364,419	**528,786**	352,656
Risk-Weighted Assets ("RWA")		**4,697,504**	2,619,400	**4,693,009**	2,618,939
Average Assets ("AA")		**5,649,116**	3,390,516	**5,644,930**	3,386,771
Common Tier 1 Capital to RWA	***7.00%***	**8.69 %**	11.62 %	**10.02 %**	12.82 %
Tier 1 Capital to RWA	***8.50%***	**9.31 %**	12.33 %	**10.02 %**	12.82 %
Total Capital to RWA	***10.50%***	**11.48 %**	13.91 %	**11.27 %**	13.47 %
Tier 1 Capital to AA (Leverage) (3)	***n/a***	**7.74 %**	9.52 %	**8.33 %**	9.92 %

(1) The regulatory minimum capital ratio + the capital conservation buffer .

(2) Core deposit intangible at December 31.

31, 2023 is net of deferred tax liability.

(Dollars in thousands) 2022	Common Equity Tier 1 Capital	Tier 1 Capital	Total Risk-Based Capital	Net Risk-Weighted Assets	Adjusted Average Total Assets	Common Equity Tier 1 ratio	Tier 1 Risk-Based Capital Ratio	Total Risk-Based Capital Ratio	Tier 1 Leverage Ratio
Shore Bancshares, Inc.	$304,493	$322,891	$364,419	$2,619,400	$3,390,516	11.62 %	12.33 %	13.91 %	9.52 %
Shore United Bank, N.A.	$335,802	$335,802	$352,657	$2,618,939	$3,386,771	12.82 %	12.82 %	13.47 %	9.92 %

(3)

	Common Equity		**Total Risk-**	**Net Risk-**	**Adjusted**	**Common**	**Tier 1 Risk-Based**	**Total Risk-Based**	**Tier 1**

(Dollars in thousands)	Tier 1	Tier 1	Based	Weighted	Average	Equity	Capital	Capital	Leverage
2021	Capital	Capital	Capital	Assets	Total Assets	Tier 1 ratio	Ratio	Ratio	Ratio
Shore Bancshares, Inc.	$279,681	$279,681	$336,696	$2,191,557	$ 2,966,412	12.76 %	12.76 %	15.36 %	9.43 %
Shore United Bank, N.A.	$304,362	$304,362	$318,614	$2,189,775	$ 2,965,319	13.90 %	13.90 %	14.55 %	9.48 %

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

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 December 31, 2022 December 31, 2023, the Bank could pay dividends to the parent to the extent of its earnings so long as it maintained required capital ratios.

NOTE 17. RESTRICTIONS ON CASH AND AMOUNTS DUE FROM BANKS

The Bank issued a dividend was required to Shore Bancshares, Inc. in maintain average balances on hand or with the fourth quarter Federal Reserve Bank. The Federal Reserve Bank announced on March 15, 2020, the reduction of 2021 of $25.0 million in relation reserve requirement ratios to the purchase of Severn.

zero percent effective March 26, 2020, which eliminated reserve requirements for all depository institutions.

NOTE 21. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The Company records unrealized holding gains (losses), net of tax, on investment securities available for sale as accumulated other comprehensive income (loss), a separate component of stockholders' equity. The following table provides information on the changes in the components of accumulated other comprehensive income (loss) for the years ended December 31.

(Dollars in thousands)	Unrealized gains (losses) on available for sale securities
Balance, December 31, 2021	$ 56
Other comprehensive (loss)	(9,077)
Balance, December 31, 2022	$ (9,021)
Balance, December 31, 2020	$ 1,529
Other comprehensive (loss)	(1,473)
Balance, December 31, 2021	$ 56

NOTE 22. 18. 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 and to determine fair value disclosures. Securities available for sale and equity securities with readily determinable fair values are recorded at fair value on a recurring basis. Additionally, from time to time, the Company may be required to record at fair value other assets on a nonrecurring basis, such as impaired loans, loans held for sale and other real estate owned OREO (foreclosed assets). These nonrecurring fair value adjustments typically involve application of lower of cost or market accounting or write-downs of individual assets.

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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.

Assets Measured at Fair Value on a Recurring Basis

Investment Securities Available for Sale

Fair value measurement for investment securities available for sale 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 online resources. Although these securities have readily available fair market values, the Company deems that they be classified as level 2 investments in the fair value hierarchy due to not being considered traded in a highly active market.

LHFS

LHFS

Loans Held for Sale

Loans held for sale are carried at fair value, which is determined based on Mark to Trade (MTT) for allocated/committed loans or Mark to Market (MTM) analysis for unallocated/uncommitted loans based on third-party pricing models using quoted prices for similar loans and adjusted for observable inputs related to the loans.

LHFI, at fair value

Certain loans that have been transferred from LHFS to LHFI have and continue to be accounted for under the fair value option as described in Note 1. These loans are valued based on third-party pricing models using quoted prices for similar loans and adjusted for observable inputs related to the loans.

MSRs

(Level 2).

Mortgage Servicing Rights

The fair value of MSRs is determined using a valuation model administered by a third party that calculates the present value of estimated future net servicing income. 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,

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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. borrower (Level 3).

(Dollars in thousands)	Fair Value	Valuation Technique	Unobservable Input	Range
December 31, 2023				
MSRs (1)	**$ 5,926**	Market Approach	Weighted average prepayment speed (PSA) (2)	129
IRLCs - net asset	**$ 110**	Market Approach	Range of pull through rate	78% - 100%
			Average pull through rate	98%

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

(1)

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

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

(2)

(Dollars in thousands)	**Fair Value**		**Valuation Technique**	**Unobservable Input**	**Range**
December 31, 2021					
MSRs (1)	**$**	**4,087**	**Market Approach**	**Weighted average prepayment speed (PSA) (2)**	**156**
IRLCs - asset	**$**	**380**	**Market Approach**	**Range of pull through rate**	**77% - 100%**
				Average pull through rate	**93%**

PSA = Public Securities Association Standard Prepayment Model

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(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 year ended December 31.

(Dollars in thousands)	**For the Year Ended December 31, 2022**	
Beginning balance	**$**	**4,087**
Servicing rights resulting from sales of loans		**816**
Valuation adjustment		**372**
Ending balance	**$**	**5,275**

December 31, 2023.

(Dollars in thousands)		For the Year Ended December 31, 2023
Beginning balance	$	5,275
Servicing rights resulting from sales of loans		712
Servicing rights acquired in acquisition of TCFC		190
Valuation adjustment		(251)
Ending balance	$	5,926

The following table presents activity in the IRLCs for the year ended December 31.

(Dollars in thousands)		For the Year Ended December 31, 2022
Beginning balance	$	380
Valuation adjustment		(352)
Ending balance	$	28

December 31, 2023.

(Dollars in thousands)		For the Year Ended December 31, 2023
Beginning balance	$	28
Valuation adjustment		82
Ending balance	$	110

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

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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 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 for the years ended December 31. December 31, 2023. No assets were transferred from one hierarchy level to another during 2022 2023 or 2021.

(Dollars in thousands)	Fair Value	Quoted Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2022				
Assets:				
Securities available for sale:				
U.S. Government agencies	**$ 18,178**	**$ —**	**$ 18,178**	**$ —**
Mortgage-backed	**63,519**	**—**	**63,519**	**—**
Other debt securities	**1,890**	**—**	**1,890**	**—**
	83,587	**—**	**83,587**	**—**
Equity securities	**1,233**	**—**	**1,233**	**—**
TBA securities	**41**	**—**	**41**	**—**
LHFS	**4,248**	**—**	**4,248**	**—**
LHFI, at fair value	**8,437**	**—**	**8,437**	**—**
MSRs	**5,275**	**—**	**—**	**5,275**
IRLCs	**35**	**—**	**—**	**35**
Total assets at fair value	**$102,856**	**$ —**	**$ 97,546**	**$ 5,310**
Liabilities:				
IRLCs	**$ 7**	**$ —**	**$ —**	**$ 7**
TBA securities	**6**	**—**	**6**	**—**
Total liabilities at fair value	**$ 13**	**$ —**	**$ 6**	**$ 7**

2022.

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(Dollars in thousands)	**Fair Value**	**Quoted Prices (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Other Observable Inputs (Level 3)**
December 31, 2023				
Assets:				
Securities available for sale:				

U.S. Government agencies	**$ 20,475**	**$ —**	**$ 20,475**	**$ —**
Mortgage-backed	**84,027**	**—**	**84,027**	**—**
Other debt securities	**6,019**	**—**	**6,019**	**—**
	110,521	**—**	**110,521**	**—**
Equity securities	**5,703**	**—**	**5,703**	**—**
TBA forward trades	**2**	**—**	**2**	**—**
Loans Held for Sale	**8,782**	**—**	**8,782**	**—**
Loans Held for Investment, at fair value	**9,944**	**—**	**9,944**	**—**
MSRs	**5,926**	**—**	**—**	**5,926**
IRLCs	**110**	**—**	**—**	**110**
Total assets at fair value	**$ 140,988**	**$ —**	**$ 134,952**	**$ 6,036**
Liabilities:				
TBA forward trades	**$ 176**	**$ —**	**$ 176**	**$ —**
Total liabilities at fair value	**$ 176**	**$ —**	**$ 176**	**$ —**

(Dollars in thousands)	Fair Value	Quoted Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Observable Inputs (Level 3)
December 31, 2022				
Assets:				
Securities available for sale:				
U.S. Government agencies	$ 18,178	$ —	$ 18,178	$ —
Mortgage-backed	63,519	—	63,519	—
Other debt securities	1,890	—	1,890	—
	83,587	—	83,587	—
Equity securities	1,233	—	1,233	—
TBA forward trades	41	—	41	—
Loans Held for Sale	4,248	—	4,248	—
Loans Held for Investment, at fair value	8,437	—	8,437	—
MSRs	5,275	—	—	5,275
IRLCs	35	—	—	35
Total assets at fair value	$ 102,856	$ —	$ 97,546	$ 5,310
Liabilities:				
IRLCs	$ 7	$ —	$ —	$ 7
TBA securities	6	—	6	—
Total liabilities at fair value	$ 13	$ —	$ 6	$ 7

(Dollars in thousands)	Fair Value	Quoted Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2021				
Assets:				
Securities available for sale:				
U.S. Government agencies	$ 22,305	$ —	$ 22,305	$ —
Mortgage-backed	92,637	—	92,637	—
Other debt securities	2,040	—	2,040	—
	116,982	—	116,982	—
Equity securities	1,372	—	1,372	—
TBA securities	55	—	55	—
LHFS	37,749	—	37,749	—
MSRs	4,087	—	—	4,087
IRLCs	380	—	—	380
Total assets at fair value	$ 160,625	$ —	$ 156,158	$ 4,467
Liabilities:				
TBA securities	$ 41	$ —	$ 41	$ —
Total liabilities at fair value	$ 41	$ —	$ 41	$ —

Assets Measured at Fair Value on a Nonrecurring Basis

Impaired

Individually Evaluated Collateral-Dependent Loans

Loans for which repayment is substantially expected to be provided through the operation or sale of collateral are considered impaired when, collateral dependent, and are valued based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loan impairment is measured using the present value of expected cash flows, the loan's observable market price or the estimated fair value of the collateral, (less selling costs) if less estimated costs to sell at the reporting date, where applicable. Accordingly, collateral dependent loans are collateral dependent and these are considered classified within Level 3 in of the fair value hierarchy. Collateral may be real estate and/or business assets including equipment, inventory and/or accounts receivable. The value of business equipment, inventory and accounts receivable, discounted on management's review and analysis. Appraised and reported values may be discounted based on management's historical knowledge, changes in market conditions from the time of valuation, and/or management's expertise and knowledge of the client and the client's business.

Impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly, based on the factors identified above. Valuation techniques are consistent with those techniques applied in prior periods.

Other Real Estate Owned

OREO (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.

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The following tables set forth the Company's financial and nonfinancial assets subject to fair value adjustments (impairment) on a nonrecurring basis for the years ended December 31, that are valued at the lower of cost or market. 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				
(Dollars in thousands)	Fair Value	Valuation Technique	Unobservable Input	Range	Weighted Average (3)
December 31, 2022 Nonrecurring measurements:					
Impaired loans	$ **1,412**	Discounted cash flow analysis (1)	Discount rate	6% - 6.5%	(6%)
Other real estate owned	$ **197**	Appraisal of collateral (1)	Appraisal adjustments (2)	0% - 20%	(2%)

	Quantitative Information about Level 3 Fair Value Measurements				
(Dollars in thousands)	Fair Value	Valuation Technique	Unobservable Input	Range	Weighted Average (3)
December 31, 2021 Nonrecurring measurements:					
Impaired loans	$ 617	Appraisal of collateral (1)	Liquidation expense (2)	10%	(10%)
Impaired loans	$ 2,026	Discounted cash flow analysis (1)	Discount rate	4% - 7.25%	(6%)

Other real estate owned	$	532	Appraisal of collateral	(1)Appraisal adjustments(2)	20% - 40%	(35%)

(1) Fair value is generally determined through independent appraisals of the underlying collateral (impaired loans and OREO) or discounted cash flow analyses (impaired loans), which generally include various level III inputs which are not observable.
(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.
(3) Unobservable inputs were weighted by the relative fair value of the instruments.

	Quantitative Information about Level 3 Fair Value Measurements				
(Dollars in thousands)	**Fair Value**	**Valuation Technique**	**Unobservable Input**	**Range**	**Weighted Average**
December 31, 2023					
Nonrecurring measurements:					
Individually evaluated collateral dependent loan	**$ 633**	Appraisal of collateral(1)	Appraisal adjustment(2) Liquidation expense(2)	51% 10%	51% 10%
Other real estate owned	**$ 179**	Appraisal of collateral(1)	Appraisal adjustment(2)	0% - 20%	0%

	Quantitative Information about Level 3 Fair Value Measurements				
(Dollars in thousands)	Fair Value	Valuation Technique	Unobservable Input	Range	Weighted Average
December 31, 2022					
Nonrecurring measurements:					
Other real estate owned	$ 197	Appraisal of collateral(1)	Appraisal adjustment(2)	0% - 20%	(2%)

(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 19. FAIR VALUE OF FINANCIAL INSTRUMENTS

Table Financial instruments require disclosure of Contents

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.

Fair Value of Financial Assets and Financial Liabilities

The following table presents the carrying amounts and estimated fair values of the Company's financial instruments for the years ended December 31. December 31, 2023 and December 31, 2022. Fair values for December 31, 2022 December 31, 2023 and 2021 December 31, 2022 were estimated using an exit price notion.

(Dollars in thousands)	**December 31, 2022** Carrying Amount	**December 31, 2022** Estimated Fair Value	December 31, 2021 Carrying Amount	December 31, 2021 Estimated Fair Value
Financial assets				
Level 1 inputs				
Cash and cash equivalents	**$ 55,499**	**$ 55,499**	$ 583,613	$ 583,613
Level 2 inputs				
Investment securities available for sale	**$ 83,587**	**$ 83,587**	$ 116,982	$ 116,982
Investment securities held to maturity	**559,455**	**494,626**	404,594	401,524
Equity securities	**1,233**	**1,233**	1,372	1,372
Restricted securities	**11,169**	**11,169**	4,159	4,159
LHFS	**4,248**	**4,248**	37,749	37,749
TBA securities	**41**	**41**	55	55
Cash surrender value on life insurance	**59,218**	**59,218**	47,935	47,935
Loans, at fair value	**8,437**	**8,437**	—	—
Level 3 inputs				
Loans, net	**$2,531,027**	**$2,431,808**	$2,105,231	$2,106,373
MSRs	**5,275**	**5,275**	4,087	4,087
IRLCs	**35**	**35**	380	380
Financial liabilities				
Level 2 inputs				
Deposits:				
Noninterest-bearing demand	**$ 862,015**	**$ 862,015**	$ 927,497	$ 927,497
Checking plus interest	**694,101**	**694,101**	524,143	524,143
Money market	**709,132**	**709,132**	889,099	889,099
Savings	**319,814**	**319,814**	225,546	225,546
Club	**374**	**374**	388	388
Certificates of deposit	**424,348**	**410,455**	459,563	461,135
Securities sold under retail repurchase agreement	**—**	**—**	4,143	4,143
Advances from FHLB - short-term	**40,000**	**40,002**	—	—
Advances from FHLB - long-term	**—**	**—**	10,135	10,187
Subordinated debt	**43,072**	**41,193**	42,762	44,876
TBA Securities	**6**	**6**	41	41
Level 3 inputs				

IRLCs	7	7	—	—

December 31, 2023 Description of Asset (dollars in thousands)	Carrying Amount	Fair Value	Fair Value Measurements Level 1	Level 2	Level 3
Assets					
Cash and cash equivalents	**$ 372,413**	**$ 372,413**	$372,413	$ —	$ —
Investment securities - AFS	**110,521**	**110,521**	—	110,521	—
Investment securities - HTM, net	**513,188**	**457,830**	—	457,830	—
Equity securities	**5,703**	**5,703**	—	5,703	—
Restricted securities	**17,900**	**17,900**	—	17,900	—
Loans held for sale	**8,782**	**8,782**	—	8,782	—
TBA derivatives trades	**2**	**2**	—	2	—
Cash surrender value on life insurance	**101,704**	**101,704**	—	101,704	—
Loans, at fair value	**9,944**	**9,944**	—	9,944	—
Loans, net	**4,573,715**	**4,477,468**	—	—	4,477,468
MSRs	**5,926**	**5,926**	—	—	5,926
IRLCs	**110**	**110**	—	—	110
Liabilities					
Deposits:					
Noninterest-bearing demand	**$1,258,037**	**$1,258,037**	$ —	$1,258,037	$ —
Checking plus interest	**1,165,546**	**1,165,546**	—	1,165,546	—
Money Market	**1,430,603**	**1,430,603**	—	1,430,603	—
Savings	**347,324**	**347,324**	—	347,324	—
Certificates of Deposit	**1,184,610**	**1,184,447**	—	1,184,447	—
Subordinated debt	**43,139**	**42,579**	—	42,579	—
TRUPS	**29,158**	**28,266**	—	28,266	—

TBA Securities	**176**	**176**	—	176	—

December 31, 2022			Fair Value Measurements		
Description of Asset (dollars in thousands)	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Assets					
Cash and cash equivalents	$ 55,499	$ 55,499	$ 55,499	$ —	$ —
Investment securities - AFS	83,587	83,587	—	83,587	—
Investment securities - HTM	559,455	494,626	—	494,626	—
Equity securities	1,233	1,233	—	1,233	—
Restricted securities	11,169	11,169	—	11,169	—
Loans held for sale	4,248	4,248	—	4,248	—
TBA securities	41	41	—	41	—
Cash surrender value on life insurance	59,218	59,218	—	59,218	—
Loans, at fair value	8,437	8,437	—	8,437	—
Loans, net	2,531,027	2,431,808	—	—	2,431,808
MSRs	5,275	5,275	—	—	5,275
IRLCs	35	35	—	—	35
Liabilities					
Deposits:					
Noninterest-bearing demand	$ 862,015	$ 862,015	$ —	$ 862,015	$ —
Checking plus interest	694,101	694,101	—	694,101	—
Money Market	709,132	709,132	—	709,132	—
Savings	320,188	320,188	—	320,188	—
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	—

TBA Securities	6	6	—	6	—
IRLCs	7	7	—	—	7

NOTE 23. 20. 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.

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The following table provides information on commitments outstanding for the years ended December 31.

(Dollars in thousands)	**December 31, 2022**	December 31, 2021
Commitments to extend credit	**$ 406,353**	$ 421,088
Letters of credit	**8,009**	8,399
Total	**$ 414,362**	$ 429,487

December 31, 2023 and December 31, 2022.

(Dollars in thousands)	**December 31, 2023**	December 31, 2022
Commitments to extend credit	**$ 613,266**	$ 406,353
Letters of credit	**28,519**	8,009
Total	**$ 641,785**	$ 414,362

The Bank has established a reserve for off balance sheet credit exposures. The exposures of $1.1 million.The reserve is established as losses are estimated to have occurred through a loss for off balance sheet credit exposures charged to earnings. Losses are charged against the allowance when management believes the required funding of these exposures is uncollectible. While this evaluation is completed on a regular basis, it is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

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 of the Company's existing Maryland customers with multi-state operations. While the Company is providing banking services to customers that are engaged in growing, processing, and sales of medical-use both medical and adult-use cannabis in a manner that complies with applicable state law, such customers engaged in those activities currently violate Federal law. 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 December 31, 2022 December 31, 2023, the Company has 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 customers:

-
  - Deposit and loan balances at December 31, 2022 December 31, 2023 were approximately $131.7 million $310.2 million, or 4.4% 5.80% of total deposits, and $54.9 million $73.7 million, or 2.2% 1.60% of total gross loans, respectively.
-
  - Interest and noninterest income for the year ended December 31, 2022 December 31, 2023, were approximately $4.9 million $11.2 million and $2.0 million $1.1 million, respectively

In the normal course of business, Shore Bancshares, Inc. and its subsidiaries 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 24. SEGMENT REPORTING

We are in the business of providing financial services and we operate in two business segments – commercial and consumer banking, termed "community banking" and mortgage-banking. Community banking is conducted through the Bank and involves delivering a broad range of financial services, including lending and deposit taking, to individuals and commercial enterprises. This segment also includes our treasury and administrative functions. Mortgage-banking is conducted through the Bank's secondary marketing department and involves originating first and second-lien residential mortgages for sale in the secondary market. Results of the mortgage banking segment for the year ended December 31, 2022, reflect a full year of operating results, while results for the year ended December 31, 2021, reflect results for the mortgage banking segment from the Acquisition Date of Severn through the end of the year. Prior to the acquisition of Severn, the Company did not engage in the business of originating first and second lien residential mortgages for sale in the secondary market.

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The following tables present certain information regarding our business segments as of and for the years ended December 31.

(Dollars in thousands)	Community Banking	Mortgage Banking	Consolidated Total
For the Year Ended December 31, 2022			
Interest Income	$ 113,253	$ 592	$ 113,845
Interest Expense	12,501	42	12,543
Net interest income	100,752	550	101,302
Provision for credit losses	1,925	—	1,925
Net interest income after provision for credit losses	98,827	550	99,377
Noninterest income	17,876	5,210	23,086
Noninterest expense	75,267	5,055	80,322
Income before income taxes	41,436	705	42,141
Income tax expense	10,782	182	10,964
Net income	$ 30,654	$ 523	$ 31,177
Total assets, December 31, 2022	$ 3,467,548	$ 9,728	$ 3,477,276

(Dollars in thousands)	Community Banking	Mortgage Banking	Consolidated Total
For the Year Ended December 31, 2021			
Interest Income	$ 70,037	$ 132	$ 70,169
Interest Expense	6,031	8	6,039
Net interest income	64,006	124	64,130
Provision for credit losses	(358)	—	(358)
Net interest income after provision for credit losses	64,364	124	64,488
Noninterest income	12,550	948	13,498
Noninterest expense	55,628	1,178	56,806
Income (loss) before income taxes	21,286	(106)	21,180
Income tax expense (benefit)	5,841	(29)	5,812
Net income (loss)	$ 15,445	$ (77)	$ 15,368
Total assets, December 31, 2021	$ 3,416,519	$ 43,617	$ 3,460,136

NOTE 25. 21. RELATED PARTY TRANSACTIONS

The Company leases a portion of one of its facilities to a law firm, in which the Chairman of the Board of the Company and the Bank is a partner. In January 2022, the lease entered the final five-year renewal option under the leasing agreement. The total rent payments received were $305 thousand $0.3 million for the year ended December 31, 2022 December 31, 2023 and $50 thousand $0.3 million for the year ended December 31, 2021 December 31, 2022. The law firm also reimburses the Company for its share of common area maintenance and utilities. In addition, the law firm represents the Company and the Bank in certain legal matters. Other related party transactions consisting of normal lending and depository relationships are described in Note 4. Loans and Allowance for Credit Losses and Note 10. 8. Deposits, respectively.

NOTE 26. PENDING MERGER

On December 14, 2022 22. EARNINGS PER COMMON 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 common stock equivalents (stock-based awards). The following table provides information relating to the calculation of earnings per common share for the years ended December 31, 2023 and December 31, 2022.

(In thousands, except per share data)	**December 31, 2023**	December 31, 2022
Net Income	**$ 11,228**	$ 31,177
Average number of common shares outstanding	**26,572**	19,847
Dilutive effect of common stock equivalents	**2**	—
Average number of shares used to calculate diluted EPS	**26,574**	19,847
Anti-dilutive shares	**—**	$ —
Earnings per common share		
Basic	**$ 0.42**	$ 1.57
Diluted	**$ 0.42**	$ 1.57

As of December 31, 2023 and 2022, there were no unvested common stock equivalents excluded from the calculation of diluted earnings per share as their effect would be anti-dilutive.

NOTE 23. 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 are primarily comprised of 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 December 31, 2023.

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 years ended December 31, 2023 and 2022.

(Dollars in thousands)	**December 31, 2023**	December 31, 2022
Noninterest Income		
In-scope of Topic 606:		
Service charges on deposit accounts	**$ 5,501**	$ 5,652
Trust and investment fee income	**3,608**	1,784
Interchange income	**5,714**	4,812
Title Company revenue	**551**	1,340
Other noninterest income	**2,961**	1,752
Noninterest Income (in-scope of Topic 606)	**18,335**	15,340
Noninterest Income (out-of-scope of Topic 606)	**14,824**	7,746
Total Noninterest Income	**$ 33,159**	$ 23,086

Contract Balances

A contract asset balance occurs when an entity performs a service for a customer before the customer pays consideration (resulting in a contract receivable) or before payment is due (resulting in a contract asset). A contract liability balance is an entity's obligation to transfer a service to a customer for which the entity has already received payment (or payment is due) from the customer. The Company's noninterest revenue streams are largely based on transactional activity, or standard month-end revenue accruals such as asset management fees based on month-end market values. Consideration is often received immediately or shortly after the Company satisfies its performance obligation and revenue is recognized. The Community Financial Corporation (TCFC) entered Company does not typically enter into a definitive agreement for long-term revenue contracts with customers, and therefore, does not experience significant contract balances. As of December 31, 2023 and 2022, the Company to acquire TCFC.

Under the terms of the agreement, TCFC shareholders will did not have the right to receive 2.3287 shares of Shore common stock and cash in lieu of any fractional shares of Shore common stock. Upon closing, shareholders of Shore will own approximately 60% of the combined company and shareholders of TCFC will own approximately 40% of the combined company. The transaction is subject to satisfaction of customary closing conditions, including approval from Shore and TCFC shareholders. Shore and TCFC have received all required regulatory approvals and waivers. The transaction is expected to close late in the second quarter or early in the third quarter of 2023.

significant contract balances.

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As of December 31, 2022, TCFC had more than $2.4 billion in assets and operated ten full-service offices in Maryland and two full-service offices in Virginia.

NOTE 27. 25. PARENT COMPANY FINANCIAL INFORMATION

The following tables provide condensed financial information for Shore Bancshares, Inc. (Parent Company Only) at and for the years ending December 31.

December 31, 2023 and 2022.

Condensed Balance Sheets

December 31,

(Dollars in thousands)	2022	2021
Assets		
Cash	$ 7,145	$ 13,092
Investment in subsidiaries	396,897	376,453
Other assets	5,392	5,712
Total assets	$ 409,434	$ 395,257
Liabilities		
Accrued interest payable	$ 744	$ 551
Other liabilities	1,333	1,251

Long-term debt	**43,072**	**42,762**
Total liabilities	**45,149**	**44,564**
Stockholders' equity		
Common stock	**199**	**198**
Additional paid in capital	**201,494**	**200,473**
Retained earnings	**171,613**	**149,966**
Accumulated other comprehensive (loss) income	**(9,021)**	**56**
Total stockholders' equity	**364,285**	**350,693**
Total liabilities and stockholders' equity	**$ 409,434**	**$ 395,257**

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(Dollars in thousands)	**December 31, 2023**	December 31, 2022
Assets		
Cash	**$ 7,345**	$ 7,145
Investment in subsidiaries	**571,298**	396,897
Other assets	**7,926**	5,392
Total assets	**$ 586,569**	$ 409,434
Liabilities		
Accrued interest payable	**$ 1,050**	$ 744
Other liabilities	**2,087**	1,333
Long-term debt	**72,297**	43,072
Total liabilities	**75,434**	45,149
Stockholders' equity		
Common stock	**332**	199
Additional paid in capital	**356,007**	201,494
Retained earnings	**162,290**	171,613
Accumulated other comprehensive (loss)	**(7,494)**	(9,021)
Total stockholders' equity	**511,135**	364,285

Total liabilities and stockholders' equity	**$ 586,569**	$ 409,434

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Condensed Statements of Income

For the Years Ended December 31,

(Dollars in thousands)	2022	2021
Income		
Dividends from subsidiaries	**$ 5,500**	**$25,000**
Company owned life insurance income	**67**	**110**
Total income	**5,567**	**25,110**
Expenses		
Interest expense	**2,451**	**1,560**
Salaries and employee benefits	**324**	**423**
Legal and professional fees	**1,654**	**2,465**
Other operating expenses	**540**	**384**
Total expenses	**4,969**	**4,832**
Income before income tax (benefit) and equity (deficit) in undistributed net income of subsidiaries	**598**	**20,278**
Income tax (benefit)	**(1,059)**	**(990)**
Income before (deficit) equity in undistributed net income of subsidiaries	**1,657**	**21,268**
Equity (deficit) in undistributed net income of subsidiaries	**29,520**	**(5,900)**
Net income	**$31,177**	**$15,368**

	For the Year Ended	
(Dollars in thousands)	**December 31, 2023**	December 31, 2022
Income		
Dividends from subsidiaries	**$ 22,000**	$ 5,500
Company owned life insurance income	**141**	67
Bargain purchase gain	**8,816**	—
Total income	**30,957**	5,567
Expenses		
Interest expense	**4,454**	2,451
Salaries and employee benefits	**358**	324
Occupancy and equipment expense	**1**	—

Legal and professional fees, including merger expenses	**5,164**	1,654
Other operating expenses	**775**	540
Total expenses	**10,752**	4,969
Income before income tax (benefit) and equity (deficit) in undistributed net income of subsidiaries	**20,205**	598
Income tax (benefit)	**(1,557)**	(1,059)
Income before (deficit) equity in undistributed net income of subsidiaries	**21,762**	1,657
Equity (deficit) in undistributed net income of subsidiaries	**(10,534)**	29,520
Net income	**$ 11,228**	$ 31,177

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Condensed Statements

Service Charges on Deposit Accounts

Service charges on deposit accounts consist of Cash Flows

For 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 Years Ended December 31,

(Dollars in thousands)	2022	2021
Cash flows from operating activities:		
Net income	**$ 31,177**	$ 15,368
Adjustments to reconcile net income to cash provided by operating activities:		
(Equity) deficit in undistributed net income of subsidiaries	**(29,521)**	5,900
Amortization of debt issuance costs	**122**	123
Stock-based compensation expense	**636**	378
Company owned life insurance income	**(67)**	(110)
Acquisition accounting adjustments	**188**	31
Net decrease (increase) in other assets	**387**	(1,552)

Net increase (decrease) increase in other liabilities	**275**	(142)
Net cash provided by operating activities	**3,197**	19,996
Cash flows from investing activities:		
Purchase of company owned life insurance	**—**	(192)
Acquisition of business activity, net of cash paid	**—**	(15,945)
Net cash (used in) investing activities	**—**	(16,137)
Cash flows from financing activities:		
Common stock dividends paid	**(9,530)**	(6,607)
Retirement of common stock	**—**	(819)
Issuance of common stock	**386**	—
Exercise of stock options	**—**	6
Net cash (used in) financing activities	**(9,144)**	(7,420)
Net (decrease) in cash and cash equivalents	**(5,947)**	(3,561)
Cash and cash equivalents at beginning of year	**13,092**	16,653
Cash and cash equivalents at end of year	**$ 7,145**	$ 13,092

NOTE 28. REVENUE RECOGNITION

Topic 606 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 are primarily comprised of 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 apply earn performance-based incentives.

Optional services such as real estate sales and tax return preparation services are also available to revenue associated with financial instruments, including revenue from loans and securities. Topic 606 is applicable to noninterest revenue streams such as 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 December 31, 2023.

Other Noninterest Income

Other noninterest income consists of: fees, exchange, other service charges, safety deposit related 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 merchant income. Noninterest 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 years ended December 31, 2023 and 2022.

(Dollars in thousands)	**December 31, 2023**	December 31, 2022
Noninterest Income		
In-scope of Topic 606:		

Service charges on deposit accounts	**$ 5,501**	$ 5,652
Trust and investment fee income	**3,608**	1,784
Interchange income	**5,714**	4,812
Title Company revenue	**551**	1,340
Other noninterest income	**2,961**	1,752
Noninterest Income (in-scope of Topic 606)	**18,335**	15,340
Noninterest Income (out-of-scope of Topic 606)	**14,824**	7,746
Total Noninterest Income	**$ 33,159**	$ 23,086

Contract Balances

A contract asset balance occurs when an entity performs a service for a customer before the customer pays consideration (resulting in a contract receivable) or before payment is due (resulting in a contract asset). A contract liability balance is an entity's obligation to transfer a service to a customer for which the entity has already received payment (or payment is due) from the customer. The Company's noninterest revenue streams are discussed below.

largely based on transactional activity, or standard month-end revenue accruals such as asset management fees based on month-end market values. Consideration is often received immediately or shortly after the Company satisfies its performance obligation and revenue is recognized. The Company does not typically enter into long-term revenue contracts with customers, and therefore, does not experience significant contract balances. As of December 31, 2023 and 2022, the Company did not have any significant contract balances.

NOTE 25. PARENT COMPANY FINANCIAL INFORMATION

The following tables provide condensed financial information for Shore Bancshares, Inc. (Parent Company Only) at and for the years ending December 31, 2023 and 2022.

Condensed Balance Sheets

(Dollars in thousands)	**December 31, 2023**	December 31, 2022
Assets		
Cash	**$ 7,345**	$ 7,145
Investment in subsidiaries	**571,298**	396,897
Other assets	**7,926**	5,392
Total assets	**$ 586,569**	$ 409,434
Liabilities		
Accrued interest payable	**$ 1,050**	$ 744
Other liabilities	**2,087**	1,333
Long-term debt	**72,297**	43,072
Total liabilities	**75,434**	45,149

Stockholders' equity		
Common stock	**332**	199
Additional paid in capital	**356,007**	201,494
Retained earnings	**162,290**	171,613
Accumulated other comprehensive (loss)	**(7,494)**	(9,021)
Total stockholders' equity	**511,135**	364,285
Total liabilities and stockholders' equity	**$ 586,569**	$ 409,434

Condensed Statements of Income

(Dollars in thousands)	For the Year Ended **December 31, 2023**	December 31, 2022
Income		
Dividends from subsidiaries	**$ 22,000**	$ 5,500
Company owned life insurance income	**141**	67
Bargain purchase gain	**8,816**	—
Total income	**30,957**	5,567
Expenses		
Interest expense	**4,454**	2,451
Salaries and employee benefits	**358**	324
Occupancy and equipment expense	**1**	—
Legal and professional fees, including merger expenses	**5,164**	1,654
Other operating expenses	**775**	540
Total expenses	**10,752**	4,969
Income before income tax (benefit) and equity (deficit) in undistributed net income of subsidiaries	**20,205**	598
Income tax (benefit)	**(1,557)**	(1,059)
Income before (deficit) equity in undistributed net income of subsidiaries	**21,762**	1,657
Equity (deficit) in undistributed net income of subsidiaries	**(10,534)**	29,520
Net income	**$ 11,228**	$ 31,177

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.

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Trust and Investment Fee Income

Trust and investment fee income are primarily comprised of 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 December 31, 2022 December 31, 2023.

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, from continued operations, segregated by revenue streams in-scope and out-of-scope of Topic 606, for the years ended December 31.

	December 31,	
(Dollars in thousands)	**2022**	2021
Noninterest Income		
In-scope of Topic 606:		
Service charges on deposit accounts	**$ 5,652**	$ 3,396
Trust and investment fee income	**1,784**	1,881
Interchange income	**4,812**	3,964
Title Company revenue	**1,340**	247
Other noninterest income	**1,752**	1,519

Noninterest Income (in-scope of Topic 606)	**15,340**	11,007
Noninterest Income (out-of-scope of Topic 606)	**7,746**	2,491
Total Noninterest Income	**$23,086**	$13,498

December 31, 2023 and 2022.

(Dollars in thousands)	**December 31, 2023**	December 31, 2022
Noninterest Income		
In-scope of Topic 606:		
Service charges on deposit accounts	**$ 5,501**	$ 5,652
Trust and investment fee income	**3,608**	1,784
Interchange income	**5,714**	4,812
Title Company revenue	**551**	1,340
Other noninterest income	**2,961**	1,752
Noninterest Income (in-scope of Topic 606)	**18,335**	15,340
Noninterest Income (out-of-scope of Topic 606)	**14,824**	7,746
Total Noninterest Income	**$ 33,159**	$ 23,086

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Contract Balances

A contract asset balance occurs when an entity performs a service for a customer before the customer pays consideration (resulting in a contract receivable) or before payment is due (resulting in a contract asset). A contract liability balance is an entity's obligation to transfer a service to a customer for which the entity has already received payment (or payment is due) from the customer. The Company's noninterest revenue streams are largely based on transactional activity, or standard month-end revenue accruals such as asset management fees based on month-end market values. Consideration is often received immediately or shortly after the Company satisfies its performance obligation and revenue is recognized. The Company does not typically enter into long-term revenue contracts with customers, and therefore, does not experience significant contract balances. As of December 31, 2022 December 31, 2023 and 2021, 2022, the Company did not have any significant contract balances.

NOTE 25. PARENT COMPANY FINANCIAL INFORMATION

Table The following tables provide condensed financial information for Shore Bancshares, Inc. (Parent Company Only) at and for the years ending December 31, 2023 and 2022.

Condensed Balance Sheets

(Dollars in thousands)	December 31, 2023	December 31, 2022
Assets		
Cash	$ 7,345	$ 7,145
Investment in subsidiaries	571,298	396,897
Other assets	7,926	5,392
Total assets	$ 586,569	$ 409,434
Liabilities		
Accrued interest payable	$ 1,050	$ 744
Other liabilities	2,087	1,333
Long-term debt	72,297	43,072
Total liabilities	75,434	45,149
Stockholders' equity		
Common stock	332	199
Additional paid in capital	356,007	201,494
Retained earnings	162,290	171,613
Accumulated other comprehensive (loss)	(7,494)	(9,021)
Total stockholders' equity	511,135	364,285
Total liabilities and stockholders' equity	$ 586,569	$ 409,434

Condensed Statements of Contents

Income

(Dollars in thousands)	For the Year Ended December 31, 2023	December 31, 2022
Income		
Dividends from subsidiaries	$ 22,000	$ 5,500
Company owned life insurance income	141	67
Bargain purchase gain	8,816	—
Total income	30,957	5,567
Expenses		
Interest expense	4,454	2,451
Salaries and employee benefits	358	324
Occupancy and equipment expense	1	—
Legal and professional fees, including merger expenses	5,164	1,654
Other operating expenses	775	540
Total expenses	10,752	4,969
Income before income tax (benefit) and equity (deficit) in undistributed net income of subsidiaries	20,205	598
Income tax (benefit)	(1,557)	(1,059)
Income before (deficit) equity in undistributed net income of subsidiaries	21,762	1,657
Equity (deficit) in undistributed net income of subsidiaries	(10,534)	29,520
Net income	$ 11,228	$ 31,177

Condensed Statements of Cash Flows

(Dollars in thousands)	For the Year Ended December 31, 2023	December 31, 2022
Cash flows from operating activities:		
Net income	$ 11,228	$ 31,177
Adjustments to reconcile net income to cash provided by operating activities:		
Deficit (equity) in undistributed net income of subsidiaries	10,534	(29,521)
Bargain purchase gain	(8,816)	—
Amortization of debt issuance costs	122	122
Stock-based compensation expense	1,174	636

Company owned life insurance income	**(141)**	(67)
Acquisition accounting adjustments	**557**	188
Net (increase) decrease in other assets	**(1,267)**	387
Net (decrease) increase in other liabilities	**(682)**	275
Net cash provided by operating activities	**12,709**	3,197
Cash flows from investing activities:		
Purchase of company owned life insurance	**(249)**	—
Cash acquired in the acquisition of TCFC, net of cash paid	**88**	—
Net cash (used in) investing activities	**(161)**	—
Cash flows from financing activities:		
Common stock dividends paid	**(12,733)**	(9,530)
Issuance of common stock	**385**	386
Net cash (used in) financing activities	**(12,348)**	(9,144)
Net increase (decrease) in cash and cash equivalents	**200**	(5,947)
Cash and cash equivalents at beginning of year	**7,145**	13,092
Cash and cash equivalents at end of year	**$ 7,345**	$ 7,145

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's reports filed that the Company files under the Exchange Act with the SEC, such as this annual 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 the Company's management, including the Company's principal executive officer (the "PEO" ("PEO") and the 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, a control 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 December 31, 2022 December 31, 2023 was carried out under the supervision and with the participation of the Company's management, including the PEO and the PFO. Based on that the evaluation, the Company's management, including the PEO and the PFO, concluded that our disclosure controls and procedures were not effective at the reasonable assurance level at December 31, 2023 due to a 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 December 31, 2023 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 disclosure internal control over financial reporting was not effective as of December 31, 2023 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 associated with ineffective input review controls relating to specific aspects of the Company's ACL model and procedures previously disclosed a material weakness in relation to deferred income taxes discussed in Part I, Item 4 of the Company's Form 10-Q/A for the quarter ended September 30, 2023 (the "amended Form 10-Q").

Concerning the identified material weakness with respect to the ACL, management has concluded that the issue resulted from an insufficient validation of key loan payment and projected historical loss variable inputs in the post-merger ACL model. The lack of sufficient data validation did not require a restatement of previously reported ACL balances, nor did it materially impact the December 31, 2023 ACL balance.

Concerning the material weakness identified in the Company's amended Form 10-Q, management has concluded that the issue resulted from not performing a key control that was previously only performed in the fourth quarter on annual basis, which was the Company's annual year-end roll-forward reconciliation and review of book to tax basis differences in the Company's deferred tax asset and liability categories. Management concluded that the Company should have performed this key control in the third quarter of 2023 when the merger was consummated.

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 December 31, 2023. 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 allowance for credit losses, management is in the process of completing a detailed inventory covering select inputs to the allowance for credit losses calculation, a re-evaluation of SOX control design and operation, and determine the appropriate frequency and precision of controls to ensure all significant inputs to the allowance for credit losses calculation are addressed. 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.

Specifically, in fact, effective at relation to the reasonable assurance level.

During Company's remediation plan for the error in deferred taxes, management has continued to follow the remediation plans outlined in the Company's amended Form 10-Q. This plan includes a quarterly reconciliation of book to tax basis differences to ensure deferred tax basis items are properly recorded. Beginning in the fourth quarter of 2022, 2023, management revised the frequency of the roll-forward reconciliation and review control from an annual key control to a quarterly key control.

Management will consider the material weaknesses remediated once the applicable controls have operated for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively. We expect that the remediation of the allowance for credit losses material weakness will be completed prior to the end of 2024. We expect that the remediation of the deferred tax material weakness will be completed with the filing of the Company's 10-Q for quarter ended March 31, 2024.

Changes in Internal Control Over Financial Reporting

Except as described above, there was no change 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 fourth quarter of 2023 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

As required by Section 404 of the Sarbanes-Oxley Act of 2002, management has performed an evaluation and testing of the Company's internal control over financial reporting as of December 31, 2022 December 31, 2023. Management's report on the Company's internal control over financial reporting is included in Item 8 of Part II of this annual report.

Annual Report on Form 10-K.

Yount, Hyde & Barbour, P.C. the independent registered public accounting firm that audited the Company's financial statements included in this Annual Report on Form 10-K, issued an audit report on the Company's internal control over financial reporting as of December 31, 2023. Such attestation report expresses an adverse opinion on the effectiveness of the Company's internal control over financial reporting as of December 31, 2023 and is included in Item 8 of Part II of this Annual Report on Form 10-K.

Item 9B. Other Information.

None.

During the fourth quarter of 2023, 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 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The Company has adopted a Code of Ethics that applies to all of its directors, officers, and employees, including its principal executive officer, principal financial officer, principal accounting officer, or controller, or persons performing similar functions. A Our Code of Ethics is available on our corporate website at *www.shorebancshares.com* under the "Governance Documents" link. Shareholders can also obtain a written copy of the Company's Code of Ethics, will be provided to stockholders, free of charge, upon request to: Andrea E. Colender, Secretary, Shore Bancshares, Inc., 18 East Dover Street, Easton, Maryland 21601 or (410) 763-7800.

All other Any future changes or amendments to the Code of Ethics and any waiver that applies to one of our senior financial officers or a member of the Board will be posted to our website.

The information required by this item with respect to our directors and certain corporate governance practices is contained in our Proxy Statement for our 2024 Annual Meeting of Stockholders (the "Proxy Statement") to be filed with the SEC within 120 days after the end of the Company's fiscal year ended December 31, 2023. Such information is incorporated herein by reference.

Item 11. Executive Compensation.

The information required by this Item is incorporated herein by reference to our Proxy Statement to be filed with the following sections SEC within 120 days after the end of the Company's definitive proxy statement to be filed in connection with the 2023 Annual Meeting of Stockholders:

- Election of Directors (Proposal 1);
- Continuing Directors;
- Executive Officers;
- Qualifications of Director Nominees and Continuing Directors;
- Delinquent Section 16(a) Reports; and
- Corporate Governance Matters (under the heading, "Board Committees")

Item 11. Executive Compensation.

The information required by this item is incorporated herein by reference to the following sections of the Company's definitive proxy statement to be filed in connection with the 2023 Annual Meeting of Stockholders:

- Executive Compensation
- Director Compensation

fiscal year.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information required by this item Item regarding security ownership of certain beneficial owners and management is incorporated by reference to our Proxy Statement to be filed with the sections SEC within 120 days after the end of the Company's definitive proxy statement to be filed in connection with the 2023 Annual Meeting of the Stockholders entitled "Beneficial Ownership of Common Stock." Information relating to securities authorized for issuance under the Company's equity compensation plans is included in Part II of this Annual Report on Form 10-K under "Item 5. Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities."

fiscal year.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information required by this item Item is incorporated herein by reference to our Proxy Statement to be filed with the sections SEC within 120 days after the end of the Company's definitive proxy statement to be filed in connection with the 2023 Annual Meeting of Stockholders entitled "Certain Relationships and Related Transactions" and "Corporate Governance Matters" (under the heading, "Director Independence").

fiscal year.

Item 14. Principal Accounting Fees and Services.

The information required by this item Item is incorporated herein by reference to our Proxy Statement to be filed with the section SEC within 120 days after the end of the Company's definitive proxy statement to be filed in connection with the 2023 Annual Meeting of Stockholders entitled "Audit Fees and Services".

fiscal year.

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PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a)(1), (2) and (c) Financial statements and schedules:

(a)(3) and (b) Exhibits required to be filed by Item 601 of Regulation S-K:

The exhibits filed or furnished with this annual report are shown on the Exhibit Index that follows the signatures to this annual report, which index is incorporated herein by reference.

Item 16. 16. Form 10-K Summary.

None.

None.

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EXHIBIT LIST

Exhibit No.	Description
2.1	Agreement and Plan of Merger, dated as of March 3, 2021, between Shore Bancshares, Inc. and Severn Bancorp, Inc. (incorporated

(incorporated by reference to Exhibit 2.1 of the Company's Form 8-K filed on March 3, 2021)

2.2

2.2 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)

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(ii)

3.1(iii) Articles Supplementary relating to the Fixed Rate Cumulative Perpetual Preferred Stock, Series A (incorporated by reference Exhibit 4.1 of the Company's Form 8-K filed on January 13, 2009)

3.1(iv)

3.1(iii) Articles Supplementary relating to the reclassification of Fixed to the reclassification of Fixed Rate Cumulative Perpetual Preferred Stock, Series A, as common stock (incorporated by reference Exhibit 3.1(i) of the Company's Form 8-K filed on June 17, 2009)

3.2	
3.2	Second Amended and Restated By-Laws, dated July 1, 2023 (incorporated by reference to Exhibit 3.2 to of the Company's Form 10-K 8-K filed on March 31, 2022 July 3, 2023)
4.1	
4.1	Description of Registrant's Securities (incorporated by reference to Exhibit 4.1 to the Company's Form 10-K (filed on March 13, 2020). herewith)
4.2	
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	
10.1	Shore Bancshares, Inc. Management Incentive Plan (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K filed on April 21, 2010)
10.2	
10.2	Shore Bancshares, Inc. Amended and Restated Executive Deferred Compensation Plan (incorporated by reference to Exhibit 10.2 of the Company's Form 8-K filed on February 14, 2007)
10.3	
10.3	Shore Bancshares, Inc. 2006 Stock and Incentive Compensation Plan (incorporated by reference to Appendix A of the Company's 2006 definitive proxy statement filed on March 24, 2006)
10.4	
10.4	Form of Restricted Stock

	Award Agreement under the 2006 Stock and Incentive Compensation Plan (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed on April 11, 2007)
10.5	
10.5	Form of Performance Share/Restricted Stock Unit Award Agreement (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed on July 8, 2015).
10.6	
10.6	Shore Bancshares, Inc. 2016 Stock and Incentive Compensation Plan (incorporated by reference to Appendix A of the Company's 2016 definitive proxy statement filed on March 15, 2016)
10.7	
10.7	Form of Restricted Stock Award Agreement under the 2016 Stock and Incentive Compensation Plan (incorporated by reference to Exhibit 10.7 to the Company's Form 10-K filed on March 13, 2020).
10.8	
10.8	Form of Restricted Stock Units Award under the 2016 Stock and Incentive Compensation Plan (incorporated by reference to Exhibit 10.8 to the Company's Form 10-K filed on March 13, 2020).
10.9	

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10.9 Change in Control Agreement, dated October 31, 2017, between Shore United Bank and Edward C. Allen (incorporated by reference to Exhibit 10.4 to the Company's Form 8-K filed on November 1, 2017)

10.10 Change in Control Agreement, dated November 2, 2018 between Shore United Bank and Lloyd L. Beatty, Jr. (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed on November 2, 2018)

10.10

10.11 Change in Control Agreement, dated November 2, 2018 between Shore United Bank and Donna J. Stevens (incorporated by reference to Exhibit 10.2 to the Company's Form 8-K filed on November 2, 2018)

10.11

10.12 Shore Bancshares Announces Stock Repurchase Plan (Incorporated by reference to Exhibit 99.1 to the Company's Form 8-K filed on April 24, 2019).

10.13 Supplemental Executive Retirement Plan for Lloyd L. Beatty, Jr. (Incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed on July 25, 2019).

10.12

10.14 Supplemental Executive Retirement Plan for Edward C. Allen (Incorporated by reference to Exhibit 10.2 to the Company's Form 8-K filed on July 25, 2019).

10.15 Supplemental Executive Retirement Plan for Donna J. Stevens (Incorporated by reference to Exhibit 10.3 to the Company's Form 8-K filed on July 25, 2019).

10.13

10.16	2019 Deferred Compensation Plan (incorporated by reference to Exhibit 10.16 to the Company's Form 10-K filed on March 13, 2020).	
10.14		
10.17	Consulting Agreement, dated as of October 31, 2021, by and between Alan J. Hyatt and Shore United Bank (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed on November 1, 2021)	
10.15		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)

10.18	10.16	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)
	10.18	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)

Exhibit No.	Description
10.19	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)
10.20	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)
10.21	The Community Financial Corporation 2015 Equity Compensation Plan (as assumed by the Company effective July 3, 2023) (incorporated by reference to Appendix A in the Definitive Proxy Statement of The Community Financial Corporation filed with the Commission on March 25, 2015)
10.22	Change in Control Agreement, dated November 22, 2021, by and between Vance W. Adkins and Shore Bancshares, Inc. (filed herewith). (incorporated by reference to Exhibit 10.18 of the Company Annual Report on Form 10-K for the year ended December 31, 2022)
21	
21	Subsidiaries of the Company (included in the "BUSINESS —General" section of Item 1 of Part I of this Annual

	Annual Report on Form 10-K)	
23.1		
23.1	Consent of Yount, Hyde & Barbour, P.C. (filed herewith)	
31.1		
31.1	Certifications of the PEO pursuant to Section 302 of the Sarbanes-Oxley Act (filed herewith)	
31.2		
31.2	Certifications of the PFO pursuant to Section 302 of the Sarbanes-Oxley Act (filed herewith)	
32		
32	Certification pursuant to Section 906 of the Sarbanes-Oxley Act (furnished herewith)	
97.0		Shore Bancshares, Inc. Clawback Policy (filed herewith)
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		
101.SCH	Inline XBRL Taxonomy Extension Schema (filed herewith)	
101.CAL		
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase (filed herewith)	
101.DEF		
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase (filed herewith)	
101.LAB		
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase (filed herewith)	
101.PRE		
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase (filed herewith)	
104		
104	Cover Page Interactive Data File (formatted as Inline XBRL and	

contained in Exhibit 101).

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SHORE BANCSHARES, INC.

Date: March 15, 2024	**Shore Bancshares, Inc.**	By:	/s/ James M. Burke James M. Burke
Date: March 30, 2023	**By:**	**/s/ Lloyd L. Beatty, Jr.**	
	Lloyd L. Beatty, Jr.		
President and Chief Executive Officer			

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

/s/ James M. Burke		/s/ Michael B. Adams
/s/ Lloyd L. Beatty, Jr. James M. Burke		/s/ Blenda W. Armistead Michael B. Adams, Director
Lloyd L. Beatty, Jr	**Blenda W. Armistead, Director**	
Director,		March

President, and Chief Executive Officer

(Principal Executive Officer)

March 30, 2023 **15, 2024**

30, 2023

15, 2024

/s/ David S. Jones

David S. Jones, Director

March 30, 2023

15, 2024

/s/Vance Adkins Todd L. Capitani

Vance Adkins

Todd L. Capitani

Executive Vice President and & Chief Financial Officer

(Principal Financial Officer)

March 30, 2023 **15, 2024**

/s/ Clyde V. Kelly, III

Clyde V. Kelly, III, Director

March 30, 2023

15, 2024

/s/ Alan J. Hyatt

Alan J. Hyatt, Chairman of the Board

March 30, 2023 **15, 2024**

/s/ David W. Moore

David W. Moore, Director

March 30, 2023

15, 2024

/s/ Austin J. Slater, Jr.

Austin J. Slater, Jr., Vice Chair & Lead Independent Director

March 15, 2024

/s/ Dawn M. Willey

Dawn M. Willey, Director

March 15, 2024

/s/ John A. Lamon, III

John A. Lamon, Director

March 15, 2024

/s/ R. Michael Clemmer, Jr.

R. Michael Clemmer, Jr., Director

March 15, 2024

/s/ Frank E. Mason, III

Frank E. Mason, III, Director

March 15, 2024

/s/ James A. Judge

James A. Judge, Director

March 15, 2024

/s/ William E. Esham, III

William E. Esham, Director

March 30, 2023

/s/ Dawn M. Willey

Dawn M. Willey, Director

March 30, 2023

/s/ John A. Lamon, III	**/s/ R. Michael Clemmer, Jr.**
John A. Lamon, Director	**R. Michael Clemmer, Jr., Director**
March 30, 2023	**March 30, 2023**
/s/ Frank E. Mason, III	**/s/ James A. Judge**
Frank E. Mason, III, Director	**James A. Judge, Director**
March 30, 2023	**March 30, 2023**
/s/ Jeffery E. Thompson	/s/ Konrad M. Wayson
Jeffery William E. Thompson, Esham, Director	Konrad M. Wayson, Director
March 30, 2023 **15, 2024**	March 30, 2023 15, 2024
/s/ Esther A. Streete	/s/ Louis P. Jenkins, Jr.
Esther A. Streete, Director	Louis P. Jenkins, Jr., Director
March 30, 2023 **15, 2024**	March 15, 2024

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/s/ Rebecca Middleton McDonald	/s/ Mary Todd Peterson
Rebecca Middleton McDonald, CPA, Director	Mary Todd Peterson, Director
March 15, 2024	March 15, 2024
/s/ E. Larry Sanders, III	/s/ Joseph V. Stone, Jr.
E. Larry Sanders, III, Director	Joseph V. Stone, Jr., Director
March 15, 2024	March 15, 2024

Exhibit 10.18

CHANGE IN CONTROL AGREEMENT

THIS CHANGE IN CONTROL AGREEMENT (this "*Agreement*") 4.1

DESCRIPTION OF REGISTRANT'S SECURITIES

As of December 31, 2023, dated November 22, 2021 (the "*Effective Date*"), is entered into by and between Shore Bancshares, Inc., a corporation organized under the laws of Maryland (the "*Corporation*"), and Vance W. Adkins (the "*Executive*").

WHEREAS, the Executive is employed by the Corporation as Executive Vice President and Treasurer;

WHEREAS, the Corporation desires to be ensured of the Executive's continued active participation in the business of the Corporation; and

WHEREAS, in order to induce the Executive to remain in the employ of the Corporation and in consideration of the Executive's agreeing to remain in the employ of the Corporation, the parties desire to specify the change in control payment which shall be due to Executive in the event that the Executive's employment with the Corporation is terminated in the specified circumstances covered by this Agreement;

NOW THEREFORE, in consideration of the mutual covenants and agreements of the parties contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Executive and the Corporation agree as follows:

1. Term.

(a) The Corporation agrees to employ the Executive as an at-will employee, and the Executive agrees to be employed by the Corporation as an at-will employee, subject to the terms and conditions of this Agreement.

(b) The initial term of this Agreement shall be for 24 months commencing on the Effective Date (the “*Initial Term*”). Upon the expiration of the Initial Term, this Agreement shall automatically renew for successive terms of 12 months each (each such renewal term, together with the Initial Term, a “*Term*”) without further action by the parties, unless either party shall have served written notice on the other party at least 60 days prior to the commencement of a new Term of such party’s decision not to renew this Agreement. At least 120 days prior to the commencement of a new Term, the Board of Directors of the Corporation (“*Board*”) or a committee thereof will conduct a comprehensive performance evaluation and review of Executive to determine whether to give notice of non-renewal as provided herein. The evaluation and review shall be documented in the minutes of the Board or the committee thereof. For purposes of clarity, in the event the Board decides not to renew this Agreement and provides proper notice as set forth above, the Executive shall remain an at-will employee of the Corporation following the termination of this Agreement unless the Executive’s employment is sooner terminated.

(c) While employed by the Corporation, the Executive shall (i) perform such services for the Corporation as may be consistent with the Executive’s title and such services which are from time to time assigned to the Executive by the Corporation’s President and (ii) devote the Executive’s entire business time, attention, skill and energy exclusively to the business of the Corporation. While employed by the Corporation, the Executive shall not engage or prepare to

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engage in any other business activity, whether or not such business activity is pursued for gain, profit or other economic or financial advantage; provided, however, that the Executive may engage in appropriate civic, charitable or religious activities and devote a reasonable amount of time to private investments or boards or other

activities provided that such activities do not interfere or conflict with the Executive's responsibilities.

2. **Change in Control Payment.**

(a) **If within 12 months after any Change in Control (as hereinafter defined) of the Corporation, the Executive's employment with the Corporation is terminated by the Corporation without Cause (as hereinafter defined) or Executive terminates his employment for Good Reason (as hereinafter defined), the Executive shall be paid an amount equal to two (2) times the Executive's base salary and bonus (not to include the exercise of any stock options) paid or scheduled to be paid under the Corporation's or a subsidiary's annual incentive plan in the calendar year of the Change in Control. Subject to Section 2(h), said sum shall be paid to the Executive in one lump sum on the 60th day following the Executive's termination, provided that the Executive has executed and submitted a release of claims and the statutory period during which Executive is entitled to revoke the release of claims has expired on or before that 60th day. In addition, all unexercised or unvested equity awards, or portions thereof, held by the Executive as of the date of termination shall vest or terminate and be exercisable in accordance with their terms. The termination of the Executive's employment hereunder shall not impair any rights of the Executive under any employee benefit or fringe benefit plans that have vested as of the date of termination, which said rights shall be administered after termination of employment in accordance with the terms of such plans.**

The Corporation and the Executive intend that all benefits payable to the Executive as the result of a Change in Control, or for Good Reason whether payable under this Agreement or

under any other benefit, compensation, or incentive plan or arrangement with the Executive or the Corporation, shall not be subject to the excise tax under Sections 280G and 4999 of the Internal Revenue Code of 1986 (the "Code") and shall be deductible by the Corporation. If all or any portion of the benefits payable to the Executive under this Agreement, either alone or together with other benefits to which the Executive is entitled, constitute excess parachute payments within the meaning of Section 280G of the Code and are therefore subject to the excise tax imposed by Section 4999 of the Code or loss of the compensation deduction as the result of Section 280G of the Code, the Corporation and the Executive agree that benefits payable under this Agreement shall be reduced as necessary for the purpose of avoiding application of Sections 280G and 4999 of the Code. Any such reduction shall be made by the Corporation in its sole discretion consistent with the requirements of Section 409A of the Code. If, notwithstanding the initial application of this Section 2, the Internal Revenue Service determines that any covered payment constitutes an excess parachute payment (as defined by Section 280G(b) of the Code), this Section 2 will be reapplied based on the Internal Revenue Service's determination, and the Executive will be required to promptly repay the portion of the covered payments required to avoid imposition of an excise tax. Any determination required under this Section 2, including whether any payments or benefits are parachute payments, shall be made by the Corporation in its sole discretion.

(b) **<u>Cause</u>. For purposes of this Agreement, the term "*Cause*"Company," means: (i) the Executive's "Disability" (as hereinafter defined); (ii) an action or failure to act by the Executive** constituting fraud, misappropriation or damage to the property or business of the Corporation; (iii) conduct by Executive that amounts to fraud, personal dishonesty or breach of fiduciary duty; (iv) Executive's conviction (from which no appeal may be, or is, timely taken) of a felony or willful violation of any law, rule or regulation (other than traffic violations or similar offenses); (v) the Executive's breach of any of his obligations hereunder; (vi) the unauthorized use, misappropriation or disclosure by the Executive of any Confidential Information (as hereinafter defined) of the Corporation or of any confidential information of any other party to whom the Executive owes an obligation of nondisclosure as a result of his relationship with the Corporation; (vii) the willful violation of any final cease and desist or consent order; (viii) a knowing violation by Executive of federal and state banking laws or regulations which is likely to have a material adverse effect on the Corporation, as determined by the Board; (ix) the determination by the Board, in the exercise of its reasonable judgment and in good faith, that Executive's job performance is substantially unsatisfactory and that he has failed to cure such performance within a reasonable period (but in no event more than thirty (30) days) after written notice specifying in reasonable detail the nature of the unsatisfactory performance; (x) Executive's material breach of any of the Corporation's written policies; or (xi) the issuance of any order by the Maryland Commissioner of Financial Regulation, the Federal Deposit Insurance Corporation, the Board of Governors of the Federal Reserve System, or any other supervisory agency with jurisdiction over the Corporation permanently prohibiting the continued service of the Executive with the Corporation. No act or failure to act on the part of the Executive shall be considered "willful" unless it is done, or omitted to be done, by the Executive in bad faith or without reasonable belief that the Executive's action or omission was in the best interests of the Corporation. Any act or failure to act that is based upon authority given pursuant to a resolution duly adopted by the Board, or upon the advice of legal counsel for the Corporation, shall be conclusively presumed to be done, or omitted to be done, by the Executive in good faith and in the best interest of the Corporation.

(c) Disability. For purposes of this Agreement, the term "*Disability*" shall have the meaning given to such term in the long-term disability policy available to Executives of the Corporation, as amended or replaced from time to time.

(d) Change in Control. For purposes of this Agreement, a "*Change in Control*" shall be deemed to have occurred if the conditions set forth in any one of the following paragraphs shall have been satisfied:

(i)any one person, or more than one person acting as a group, acquires ownership of securities of the Corporation that, together with securities held by such person or group, constitutes more than 50 percent (50%) of the total fair market value or total voting power of the securities of the Corporation;

(ii)either (A) any one person, or more than one person acting as a group, acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or persons) ownership of securities of the Corporation possessing 35 percent (35%) or more of the total voting power of the securities of the Corporation; or (B) a majority of members of the Board of the

Corporation is replaced during any 12-month period by directors whose appointment or election is not endorsed by a majority of the members of the Board of Directors of the Corporation, as the case may be, prior to the date of the appointment or election; or

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(iii)any one person, or more than one person acting as a group, acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or persons) assets from the Corporation that have a total gross fair market value equal to or more than 40 percent (40%) of the total gross fair market value of all of the assets of the Corporation, as the case may be, immediately prior to such acquisition or acquisitions. For this purpose, gross fair market value means the value of the assets of the Corporation, as the case may be, or the value of the assets being disposed of, determined without regard to any liabilities associated with such assets.

Notwithstanding the foregoing, the acquisition of ownership or control of voting stock of the Corporation, individually or collectively, by the Corporation or one of its affiliates or any benefit plan sponsored by the Corporation or any of its affiliates shall not constitute a Change in Control.

(e) Good Reason. For purposes of this Agreement, the term "*Good Reason*" shall mean termination by the Executive within 12 months following a Change in Control based on:

(i)Without the Executive's express written consent, a material adverse change made by the

Corporation which would reduce the Executive's functions, duties or responsibilities as Executive Vice President and Treasurer of the Corporation.

(ii)Without the Executive's express written consent, a 5% or greater reduction by the Corporation in the Executive's Base Salary as the same may be increased from time to time; or

(iii)Without the Executive's express written consent, the Corporation requires the Executive to be based at a location more than 50 miles from Easton, Maryland (which requirement shall be deemed to be a material change in the geographic location at which the Executive must perform services for the Corporation), except for required travel on business of the Corporation to an extent substantially consistent with the Executive's present business travel obligations.

Good Reason shall, for all purposes under this Agreement, be construed and administered in manner consistent with the definition of "good reason" under Treasury Regulation §1.409A-1(n).

(f) **Full Compensation. The payments made pursuant to this Section 2 shall be considered full compensation in payment for all claims under this Agreement, and the Executive shall not be entitled to any other compensation.**

(g) **Deduction for Amounts Due Corporation. Upon termination of the Executive's employment with the Corporation, subject to any restrictions imposed by applicable law, the Corporation shall have the right to deduct from the amount due the Executive any amounts which the Executive owes the Corporation. Such right shall apply only to debts that were incurred in the ordinary course of the** employment relationship and in no event shall the Corporation have the right to deduct an amount in excess of $5,000 in any year from any payment that would be considered deferred compensation under Section 409A of the Code. In no event shall the

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Corporation have the discretion to deduct any amount pursuant to this Section 2(g) to the extent such deduction would be considered a prohibited acceleration under Section 409A of the Code. Any offset under this Section 2(g) shall comply with Section 1.409A – 2(j)(4)(xiii) of the Treasury Regulations.

(h) Compliance with Section 409A of the Code. This Agreement is intended to comply with Section 409A of the Code and its corresponding regulations, or an exemption, and payments may only be made in a manner permitted by Section 409A of the Code, to the extent applicable. Severance benefits under the Agreement are intended to be exempt from Section 409A to the maximum extent possible under the "separation pay exception, the "short-term deferral exception, "we," or another exception under Section 409A "our") had one class of the Code. For purposes of Section 409A of the Code, the right to a series of installment payments under this Agreement shall be treated as a right to a series of separate payments. In no event may the Executive, directly or indirectly, designate the calendar year of a payment. If a payment obligation under this Agreement arises on account of the termination of Executive's employment hereunder while the Executive is a "specified employee" (as defined under Section 409A of the Code, and determined in

good faith by the Corporation), any payment of "deferred compensation" (as defined in Treasury Regulation Section 1.409A-1(b)(1), after giving effect to the exemptions in Treasury Regulation Sections 1.409A-1(b)(3) through (b)(12)) that is scheduled to be paid within six (6) months after such termination of employment shall be paid, with interest, in a lump sum, within 15 days after the end of the six-month period beginning on the date of such termination or, if earlier, within 15 days after the appointment of the personal representative or executor of the Executive's estate following his death.

3. **Non-Solicitation.**

(a) **Restrictive Covenants. During the Executive's employment with the Corporation and for 12 months after the Executive ceases, for any reason, to be an employee of the Corporation, the Executive shall not, directly or indirectly, as owner, partner, director, officer, employee, agent, consultant, advisor, contractor or otherwise, whether for consideration or without consideration, for the benefit of any individual, group, corporation, partnership, trust, association, joint venture, pool, syndicate, sole proprietorship, unincorporated organization or any other form of entity not specifically listed herein (a "*Person*") other than for the Corporation and/or any of its affiliates (the "*Employer Group*"), take any of the following actions:**

(i)solicit any Business Relation (as hereinafter defined) to purchase, or sell or otherwise provide to any Business Relation, any products or services which are comparable to, or which are intended to substitute for, products or services offered by the Corporation and/or any of its affiliates (the "Non-Compete Group") during the Executive's employment with the Corporation;

(ii)employ, engage or solicit for employment or for engagement as an independent contractor or consultant, any Person who was employed by, or any Person who was engaged as an independent contractor by, any member of the Non-Compete Group during the preceding 24 months;

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(iii)employ, engage or solicit for employment any employee of the Corporation, whether or not such employee is a full-time employee or a temporary employee of the Corporation and whether or not such employment is pursuant to written agreement and whether or not such employment is for a determined period or is at will; or

(iv)encourage any Person to reduce its business with any member of the Non-Compete Group or to reduce its employment with or provision of services to any member of the Non-Compete Group.

Provided, however, that nothing in this Section 3(a) shall be deemed to prevent or limit the right of the Executive to own up to a five percent (5%) interest in the securities of a Person that are registered under Section 12 of the Securities Exchange Act of 1934, as amended.

(b) **amended (the "Exchange Act"): our common stock, $0.01 par value per share ("common stock").**

DESCRIPTION OF CAPITAL STOCK

General

The following description of the current terms of our capital stock is a summary and is not meant to be complete. It is qualified in its entirety by reference to the

Maryland General Corporation Law (the "MGCL"), federal law, the Company's Amended and Restated Articles of Incorporation as amended (the "Charter") and the Company's Second Amended and Restated By-Laws, as amended (the "By-laws").

Authorized Capital Stock

We are authorized by our Charter to issue up to 50,000,000 shares of capital stock, par value $0.01 per share , all of which are currently classified as common stock.

Voting Rights

The holders of our common stock are entitled to one vote for each share held of record on all matters submitted to a vote of stockholders. Holders of shares of common stock are not entitled to cumulative voting rights in the election of directors.

No Preemptive or Similar Rights

Holders of common stock have no preemptive rights and have no rights to convert their common stock into any other securities. The common stock is not redeemable. All of the outstanding shares of our common stock are fully paid and nonassessable.

Dividend Rights

Each holder of our common stock is entitled to receive ratably such dividends as may be declared by our Board of Directors (the "Board") out of funds legally available for dividends, subject to preferences that may be applicable to outstanding shares of preferred stock, if any, or limitations and restrictions under applicable bank holding company regulations.

Liquidation Rights

In the event of our liquidation, dissolution or winding up, holders of common stock are entitled to share ratably in all assets remaining after payment of liabilities and liquidation preferences, if any, on any outstanding shares of preferred stock.

Anti-takeover Provisions

The provisions of Maryland law and our Charter and By-Laws that we summarize below may have an anti-takeover effect and may delay, defer or prevent a tender offer or takeover attempt that a stockholder might consider in his or her best interest, including those attempts that might result in a premium over the market price for the common stock.

Business Relation Defined. For purposes Combinations under Maryland Law

Section 3-602 of this Agreement, the term "*Business Relation*" means MGCL, as in effect on the date hereof, generally prohibits corporations from being involved in any Person "business combination" (defined as a variety of transactions, including a merger, consolidation, share exchange, asset transfer or issuance or reclassification of equity securities) with any "interested stockholder" for a period of five years following the most recent date on which the interested stockholder became an interested stockholder. An interested stockholder is defined generally as a person who is the beneficial owner of 10% or more of the voting power of the outstanding voting stock of the corporation after the date on which the corporation had 100 or more beneficial owners of its stock or who is an affiliate or associate of the corporation and was the beneficial owner, directly or indirectly, of 10%

percent or more of the voting power of the then outstanding stock of the corporation at any time during within the Executive's employment with two-year period immediately prior to the Corporation, was a Person (i) date in question and after the date on which the corporation had 100 or more beneficial owners of its stock.

A business combination that is or was a customer not prohibited must be recommended by the board of any member directors, and approved by the affirmative vote of at least 80% of the Non-Compete Group, (ii) that had entered into any contract or other arrangement with any member corporation's outstanding shares entitled to vote and two-thirds of the Non-Compete Group outstanding shares entitled to vote which are not held by the interested shareholder with whom the business combination is to be effected, unless, among other things, the corporation's common stockholders receive an acceptable price (as determined in accordance with criteria set forth in the MGCL) for their shares, in cash or in the provision same form as paid by the interested stockholder for its shares. These provisions will not apply if the board of services directors has exempted the transaction in question or the sale interested stockholder prior to the time that the interested stockholder became an interested stockholder. In addition, the board of products, (iii) directors may adopt a resolution approving or exempting specific business combinations, business combinations generally, or generally by type, as to whom any member specifically identified or unidentified existing or future stockholders or their affiliates from the business combination provisions of the Non-Compete Group furnished or planned MGCL.

Control Share Acquisitions

Maryland's control share acquisition law (Sections 3-701 to furnish a proposal for the performance of services or the sale of products, or (iv) with whom any member 709 of the Non-Compete Group entered or agreed to enter into any other business relationship such MGCL), as in effect on the date hereof, generally provides that "control shares" of a joint venture, collaborative agreement, joint development agreement, teaming arrangement or agreement, or similar arrangement or understanding for the provision of services or sale of products.

4. Confidential Information.

(a) <u>Covenant</u>. The Executive acknowledges that his relationship with the Corporation shall of necessity provide him with specialized knowledge concerning the Employer Group, which, if used for the benefit of others or disclosed to others, could cause serious harm Maryland corporation acquired in a "control share acquisition" have no voting rights except to the Employer Group. Accordingly, extent approved by the Executive covenants stockholders at a meeting by the affirmative vote of two-thirds of all the votes entitled to be cast on the matter, excluding all interested shares. "Control shares" are shares of stock that, he shall not at any time, if aggregated with all other shares of stock of the corporation previously acquired by a person or in respect of which that person is entitled to exercise or direct the exercise of voting power, except solely by virtue of a revocable proxy, entitle that person, directly or indirectly, use, appropriate to exercise or disclose to others, direct the exercise of the voting power of shares of stock of the corporation in the election of directors within any of the following ranges of voting power: one-tenth or permit more, but less than one-third of all voting power; one-third or more, but less than a majority of all voting power; or a majority or more of all voting power. "Control share acquisition" means the use acquisition, directly or indirectly, by any person, or ownership of, or appropriation the power to direct the exercise of voting power with respect to, issued and outstanding control shares, subject to certain exceptions. If voting rights or control shares acquired in a control share acquisition are not approved at a stockholders' meeting, then, subject to certain conditions, the issuer may redeem any or all of the control shares for fair value. If voting rights of such control shares are approved at a stockholders' meeting and the acquiror becomes entitled to vote a majority of the shares of stock entitled to vote, all other stockholders may exercise appraisal rights.

Our By-Laws contain a provision exempting all shares of our capital stock from the MGCL's control share acquisition law.

Preference Stock Authorization

The Charter gives our Board the authority to, without stockholder approval, create and issue a class or series of capital stock with rights superior to the rights of the holders of our common stock. As a result, this "blank check" stock, while not intended as a defensive measure against takeovers, could be issued quickly and easily, could adversely affect the rights of holders of common stock and could be issued with terms calculated to delay or prevent a change of control of the Company or make removal of management more difficult.

Advance Notice Procedure for Stockholder Proposals

Our Charter and By-Laws allow stockholders to submit director nominations and stockholder proposals. For nominations and proposals to properly come before the meeting, however, the proposing stockholder must have given timely notice in writing to the Secretary of the Company pursuant to the By-Laws.

For an annual meeting, notice of intention to make a director nomination must be delivered or mailed to the Secretary at the Company's principal executive offices not less than 120 days nor more than 180 days prior to the meeting called for the election of directors. In the event that the date of the annual meeting is advanced by more than 30 days or disclosure delayed by more than 60 days from the anniversary date of the preceding year's annual meeting, notice by the stockholder must be delivered not earlier than the 180th day prior to others such annual meeting and no later than close of any Confidential Information (as hereinafter defined) except as expressly provided herein.

(b) Permitted Use. While employed with business on the Corporation, later of the Executive may use Confidential Information only 120th day prior to such annual meeting of the 10th day following the day on which public announcement of the date of such annual meeting is first made. In the case of a special meeting called for the purpose that is necessary of electing directors, a stockholders' notice must be given not later than the close of business on the 10th day following the day on which notice of the date of the special meeting was mailed or public announcement of the meeting was made, whichever occurs first. Notice to the carrying out Secretary shall set forth:

- the name and address of each proposed nominee;
- the principal occupation of each proposed nominee;
- the number of shares of capital stock owned by each proposed nominee;
- the name and residence address of the Executive's duties as set forth herein or assigned to him notifying stockholder;
- the number of shares of capital stock owned by the Corporation, and notifying stockholder;
- the Executive may not make use of any Confidential Information after he is no longer an employee consent in writing of the Corporation.

(c) **<u>Confidential Information Defined</u>. For purposes of this Agreement, the term "*Confidential Information*" means all information of any member of the Employer Group, whether oral, written, computerized, digitized or otherwise, regarding the business of the Employer Group, including, without limitation, information regarding the Employer Group's customers, referral sources,**

insurance carriers, sales and marketing information, costs, prices, earnings, business plans, financial information and forecasts, contracts, business arrangements, methods of operation, business strategies, prospects, and Intellectual Property (as hereinafter defined), whether or not

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such information is deemed "trade secrets" under applicable law. Confidential Information does not include information that (i) becomes generally available proposed nominee as to the public proposed nominee's name being placed in nomination for director;

- a description of all arrangements or understandings between the notifying stockholder and each proposed nominee and any other than as a result of disclosure person(s) (including their names) pursuant to which the nomination(s) are to be made by the Executive notifying stockholders;

- a representation that such notifying stockholder intends to appear in violation of this Agreement, (ii) was available person or by proxy at the meeting to make the nomination; and

- any other information relating to the public on a non-confidential basis from a source other than the Employer Group, (iii) is made available to a third party on a non-confidential basis by the Employer Group, (iv) was already known to the Executive at the time of disclosure by the Employer Group, or (v) is nominee required to be disclosed in a proxy statement in connection with the solicitation of proxies for election of directors by legal process Regulation 14A under the Exchange Act and Rule 14a-11 promulgated thereunder.

A stockholder proposal will be timely if it is delivered or applicable law.

5. Intellectual Property. The Executive agrees that any mailed and all information, reports, other documents

and other works (whether in an electronic format or otherwise) created received by the Executive for or on behalf Secretary at the Company's principal executive offices not less than 60 days nor more than 90 days prior to the first anniversary of the Corporation during preceding year's annual meeting. If, however, the Executive's service date of the annual meeting is advanced by more than 30 days or delayed by more than 60 days from the anniversary date of the preceding year's annual meeting, then notice by the stockholder must be so delivered not earlier than the 90th day prior to such annual meeting and not later than the close of business on the later of the 60th day prior to such annual meeting or the tenth day following the day on which public announcement of the date of such meeting is first made. Notice to the Secretary shall set forth as to each proposal:

- a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the meeting;
- the name and address of such stockholder as they appear on the Company's books and of the beneficial owner, if any, on whose behalf the proposal is made;
- the class or series and number of shares of capital stock of owned beneficially or of record by such stockholder and such beneficial owner;
- a description of all arrangements or understandings between the stockholder and any other person(s) (including their names) in connection with the Corporation, whether proposal and any material interest of such stockholder in such business; and
- a representation that such stockholder intends to appear in person or not developed by proxy at the meeting to make the proposal.

Classified Board; Removal of Directors

Our Charter provides that the members of our Board are divided into three classes as nearly equal as possible. Each class is elected for a three-year term. At each annual meeting of stockholders, approximately one-third of the members of the Board are elected for a three-year term and the other directors remain in office until their three-year terms expire. Our By-Laws provide that a director may be removed only in accordance with the provisions of Maryland law. The MGCL provides that, because our Board is divided into classes, no director may be removed without cause. Any removal for cause requires the affirmative vote of the holders of at least a majority of the voting power of the outstanding capital stock entitled to vote for the election of directors. Thus, control of the Board cannot be changed in one year without removing the directors for cause as described above; rather, at least two annual meetings must be held before a majority of the members of the Board could be changed. Generally, an amendment or repeal of these provisions requires the authorization of the Board and the approval of the holders of at least 80% of the aggregate votes entitled to be cast on the Corporation's premises or equipment or during the Corporation's normal business hours (the "*Intellectual Property*"), are and shall remain works made for hire and the sole and exclusive property matter; however, two-thirds of the Corporation. To entire Board may alter the extent that such Intellectual Property is not considered work made for hire, the Executive hereby assigns to the Corporation (or its nominee) any and all interest that the Executive may now or in the future have in the Intellectual Property. Upon request number of directors set by the Corporation, Charter to not exceeding 25 nor less than one, but such action may not affect the Executive shall execute and deliver tenure of office of any director.

Restrictions on Ownership of Company Common Stock

The ability of a third party to acquire our stock is also limited under applicable U.S. banking laws, including regulatory approval requirements. The Bank Holding Company Act of 1956 (the "BHCA") requires any "bank holding company," as defined in that BHCA, to obtain the Corporation any document or instrument that may be necessary to secure or perfect the Corporation's title to or interest in any Intellectual Property so assigned.

6. Return of Property. The Executive agrees that upon termination of his employment with the Corporation, he will:

(a) promptly return to the Corporation all Confidential Information, all Intellectual Property, and all other property approval of the Corporation, including but not limited Board of Governors of the Federal Reserve System (the "Federal Reserve") prior to all correspondence, manuals, notebooks, lists acquiring more than 5% of customers and suppliers, computer programs, disks and any documents, materials or property, whether written or stored on computerized medium, and all copies in his possession or control;

(b) not take any action to preserve or regain access to such information through any means, including but not limited to access to the Corporation's facilities or through a computer our outstanding common stock. Any corporation or other digital company that becomes a holder of 25% or electronic means; and

(c) promptly pay all amounts due, owing more of our outstanding common stock, or otherwise payable by him to the Corporation.

The Executive expressly authorizes the Corporation to withhold any amounts payable to her, including for compensation, reimbursement and otherwise, until he has complied with this

Section 6, subject to the terms5% or more of Section 2(g).

7. <u>No Disparaging Statements</u>. During the Executive's employment with the Corporation and for 12 months after the Executive ceases to be an employee of the Corporation, the Executive will not make any statements or comments of a disparaging nature to third parties regarding any member of the Employer Group or its officers, directors, personnel or products.

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8. **<u>Executive's Representations and Warranties</u>.**

(a) **<u>No Prior Agreements</u>. The Executive represents and warrants that he is not a party to or otherwise subject to or bound by the terms of any contract, agreement or understanding which in any manner our common stock under certain circumstances, would limit or otherwise affect his ability to perform his obligations hereunder, including without limitation any contract, agreement or understanding containing terms and provisions similar in any manner to those contained in Sections 3, 4, 5 or 7 of this Agreement.**

(b) **<u>Confidential Information of Others</u>. The Executive represents, warrants and covenants that he will not disclose to the Corporation, or otherwise use in the course of his service with the Corporation, any confidential information which he is restricted from disclosing or using pursuant to any other agreement or duty to any other person.**

9. **<u>Remedies</u>.**

(a) **Arbitration of Disputes**. **If a dispute arises with respect to the enforcement or interpretation of any provision of this Agreement (other than a dispute to be resolved under Section 9(b)), then the parties hereto agree to submit the dispute to non-appealable binding arbitration. Such arbitration shall be conducted before a board of three arbitrators, with one member selected by the Executive, one member selected by the Employer, and the third member selected by the first two arbitrators. The party responsible for the payment of the costs of such arbitration (including any legal fees and expenses incurred by the Executive) shall be determined by the board of arbitrators. The board of arbitrators shall be bound by the rules of the American Arbitration Association in making its determination. The parties hereto agree that they and their heirs, personal representatives, successors, and assigns shall be bound by the decision of such board of arbitrators with respect to any controversy properly submitted to it for determination.**

(b) **Disputes Arising Under Sections 4 Through 8**. **The Executive recognizes that a violation by him of any provision of Sections 4 through 8, inclusive, of this Agreement may cause irreparable injury to the Corporation, and that there may be no adequate remedy at law for such violation. Therefore, the Executive agrees that, in addition to any other remedies for its violation hereof available to the Corporation, which shall include the recovery of all damages incurred, as well as reasonable attorney's fees and other costs, the Corporation shall have the right, in the event of the breach or threatened breach of any provision hereof by the Executive to obtain an injunction and/or temporary restraining order against such breach or threatened breach or specifically** enforce this Agreement. The Corporation's rights and remedies specified in this Section 9(b) are in addition to and not in lieu of any rights available under applicable law and regulations, including, without limitation, those laws and regulations governing trade secrets and other proprietary information.

10. **Miscellaneous.**

(a) **Withholding of Taxes.** All compensation and benefits payable pursuant to this Agreement shall be subject to all applicable tax withholding requirements.

(b) **Compliance with Banking Laws.** Any payments made regulation as a bank holding company under the BHCA. In addition, any person other than a bank holding company may be required to the Executive pursuant to this Agreement, or otherwise, are subject to, and conditioned upon their compliance with 12 U.S.C. Section 1828(k) and any regulations promulgated thereunder.

(c) **Suspension of Employment by Regulators.** In the event the Executive is temporarily prohibited from participating in the conduct obtain prior approval of the affairs Federal Reserve to acquire 10% or more of our outstanding common stock under the Corporation pursuant to notice served by a regulatory agency having jurisdiction over the Corporation, unless stayed by appropriate proceedings, then the Corporation's obligations under this Agreement shall be suspended and the Executive shall have no right to any payment Change in Bank Control Act of compensation, as of the date such notice 1978.

Stock Exchange Listing

Our common stock is served listed on the Corporation. If NASDAQ Global Select Market under the charges specified in any such notice shall be dismissed, then the Corporation shall (i) pay the Executive any compensation withheld from the Executive pursuant to the suspension of the Corporation's obligations as required by this Section 10(c) as soon as practicable following the completion of continued employment symbol "SHBI."

Transfer Agent and Registrar

The transfer agent and registrar for 30 days following such dismissal and (ii) reinstate the obligations so suspended.

(d) Entire Agreement; Amendment. This Agreement supersedes all prior agreements, written and oral, between the parties with respect to its subject matter, our common stock is intended as a complete and exclusive statement of the terms of the agreement between the parties with respect thereto, and may be amended only by a writing signed by both parties hereto. The Corporation and the Executive agree to execute any and all amendments to this Agreement permitted under applicable law that the Corporation's legal counsel determines to be necessary to ensure compliance with the distribution provisions of Section 409A of the Code or to otherwise ensure that this Agreement complies with Section 409A of the Code.

(e) Nonwaiver. The failure of either party to insist upon strict adherence to any term of this Agreement on any occasion will not operate as a waiver or deprive that party of the right thereafter to insist upon strict adherence to that term or any other term of this Agreement. Any waiver must be in a writing signed by the party to be charged therewith.

(f) Assignment. The Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their successors and assigns and their representatives. This Agreement may not be assigned by either party without the consent of the other party, except that the Corporation may assign all of its rights and delegate performance of all of its obligations hereunder in connection with a Change in Control.

(g) Counterparts. This Agreement may be executed in two or more counterparts, each of which will be an original, but all of which together will constitute the same instrument.

(h) Headings. The headings in this Agreement are for convenience of reference only and should not be given any effect in the interpretation of this Agreement.

(i) Governing Law. This Agreement shall be governed in all respects whether as to validity, construction, capacity, performance or otherwise, by the laws of the State of Maryland, without regard to any provision that would result in the application of the laws of any other state or jurisdiction, except to the extent that Federal law shall be deemed to apply.

(j) Interpretation. This Agreement is intended to comply with, or otherwise be exempt from, Section 409A of the Code and any regulations and Treasury guidance promulgated thereunder. If the Corporation determines in good faith that any provision of this Agreement would cause the Executive to incur an additional tax, penalty, or interest under Section 409A of the Code,

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then the Corporation and the Executive shall use reasonable efforts to reform such provision,

if possible, in a mutually agreeable fashion to maintain to the maximum extent practicable the original intent of the applicable provision without violating the provisions of Section 409A of the Code or causing the imposition of such additional tax, penalty, or interest under Section 409A of the Code. As used in this Agreement, the terms "termination of employment", "resignation" and words of similar import mean, for purposes of any payments under this Agreement that are payments of deferred compensation subject to Section 409A of the Code, the Executive's "separation from service" as defined in Section 409A of the Code.

(k) **Severability. The provisions of this Agreement shall be deemed severable and the invalidity or unenforceability of any provision shall not affect the validity and enforceability of the other provisions hereof.**

(l) **Employer Policies, Plans and Programs. Except as expressly provided otherwise in this Agreement, whenever any rights under this Agreement depend on the terms of a policy, plan, or program established or maintained by the Employer Group, any determination of such rights will be made on the basis of the policy, plan, or program in effect at the time as of which such determination is made. No reference in this Agreement to any policy, plan, or program established or maintained by the Employer Group precludes any member of the Employer Group from prospectively or retroactively changing or amending or terminating that policy, plan, or program or adopting a new policy, plan, or** program in lieu of the then existing policy, plan, or program.

(m) Survival of Terms. The provisions of Sections 2 through 7, inclusive, and Sections 9 and 10 of this Agreement shall survive the termination of the Executive's employment hereunder.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date written above.

ATTEST:	SHORE BANCSHARES, INC.	
____________	By:	____________
Name:	Name:	Lloyd L. Beatty, Jr.
	Title:	President and Chief Executive Officer
WITNESS:	EXECUTIVE:	
____________	____________	
Name:	Name: Vance W. Adkins	
	Title: Executive Vice President and Treasurer	

Exhibit

EXHIBIT 23.1

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CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in Registration Statements (No. 333-225614, 333-206110, 333-195527, 333-167762, 333-157141, and 333-143002) on Form S-3 and Registration Statements (No. 333-273112, 333-260537, 333-211736, 333-134955, and 333-105159) on Form S-8 of Shore Bancshares, Inc. of our report reports dated March 30, 2023 March 15, 2024, relating to the consolidated financial statements of Shore Bancshares, Inc. (the Company) and the effectiveness of the Company's internal control over financial reporting (on which our report expresses an adverse opinion on the effectiveness of the Company's internal control over financial reporting because of material weaknesses), appearing in this Annual Report on Form 10-K of Shore Bancshares, Inc. the Company for the year ended December 31, 2022 December 31, 2023.

/s/ Yount, Hyde & Barbour, P.C.

Winchester, Virginia

March 30, 2023

15, 2024

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, Lloyd L. Beatty, Jr., James M. Burke, certify that:

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

1. I have reviewed this report on Form 10-K 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

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.

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

Date: March 15, 2024 By: /s/ James M. Burke.

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.

James M. Burke

Date: March 30, 2023	**By:**	/s/ Lloyd L. Beatty, Jr.

Lloyd L. Beatty, Jr.
President and 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, Vance Adkins, Todd L. Capitani, certify that:

1. I have reviewed this report on Form 10-K 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 annual 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

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 annual 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.

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**

Date: March 15, 2024	By:	/s/ Todd L. Capitani

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.

Todd L. Capitani

Date: March 30, 2023 **By:** /s/ Vance Adkins

Vance Adkins

Executive Vice President and 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 Annual Report of Shore Bancshares, Inc. on Form 10-K for the year ended December 31, 2022 December 31, 2023 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: March 30, 2023	***/s/* Lloyd L. Beatty, Jr.**		
Date:		March 15, 2024	Lloyd L. Beatty, Jr. /s/ James M. Burke James M. Burke President and Chief Executive Officer (Principal Executive Officer)
Date: March 30, 2023		March 15, 2024	/s/ Vance Adkins Todd L. Capitani Vance Adkins Todd L. Capitani Executive Vice President and Chief Financial Officer (Principal Financial Officer)

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SHORE BANCSHARES, INC. CLAWBACK POLICY Page 1 of 5 TABLE OF CONTENTS I. STATEMENT OF PURPOSE AND SCOPE 2 II. POLICY REQUIREMENTS 2 III. ADMINISTRATION 4 EXHIBIT A: ACKNOWLEDGEMENT FORM 5

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SHORE BANCSHARES, INC. CLAWBACK POLICY Page 2 of 5 I. STATEMENT OF PURPOSE AND SCOPE The purpose of this policy is to provide for the recovery of incentive-based compensation received by current or former executive officers of Shore Bancshares, Inc. (the “Company”) where that compensation was based on erroneously reported financial information. This policy applies to the Company’s current and former executive officers (the “Covered Executives”). For the purpose of this policy, an executive officer is the Company’s president, principal financial officer, principal accounting officer (or if there is no such accounting officer, the controller), any vice-president of the Company in charge of a principal business unit, division, or function (such as sales, administration, or finance), any other officer who performs a policy-making function, or any other person who performs similar policy-making functions for the Company. Executive Officers of the Company’s subsidiaries are deemed executive officers of the Company if they perform such policy-making functions for the Company. Policy-making function is not intended to include policy-making functions that are not significant. II. POLICY REQUIREMENTS The Company will recovery reasonably promptly the amount of erroneously awarded incentive-based compensation in the event that the Company is required to prepare an accounting restatement due to the material noncompliance of the Company with any financial reporting requirement under the securities laws, including any required accounting restatement to correct an error in previously issued financial statements that is material to the previously issues financial statements, or that would result in a material misstatement if the error were corrected in the current period or left uncorrected in the current period. A change to the Company’s financial statement that does not represent an error correction is not a restatement, including without limitation: (i) retrospective application of a change in accounting principle; (ii) retrospective revision to reportable segment information due to a change in the structure of the Company’s internal organization; (iii) retrospective reclassification due to a discontinued operation; (iv) retrospective application of a change in reporting entity, such as from a reorganization of entities under common control; and (v) retrospective revision for stock splits, reverse stock splits, stock dividends or other changes in capital structure. This policy applies to all incentive-based compensation received by a person: (i) On and after October 2, 2023; (ii) After beginning service as an executive officer; (iii) Who served as an executive officer at any time during the performance period for that incentive- based compensation; (iv) While the Company has a class of securities listed on a national securities exchange or a national securities association; and (v) During the three completed fiscal years immediately preceding the date that the Company is required to prepare an accounting restatement. In addition, this policy applies to any transition period that results from a change in the Company’s fiscal year within or immediately following those three completed fiscal years, other than a transition period between the last day of the Company’s previous fiscal year end and the first day of its new fiscal year that comprises a period of nine to 12 months, which would be deemed a completed fiscal year. The Company’s obligation to recover erroneously awarded compensation is not dependent on if or when the restated financial statements are filed.

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SHORE BANCSHARES, INC. CLAWBACK POLICY Page 3 of 5 For purposes of determining the relevant recovery period, the date that the Company is required to prepare an accounting restatement is the earlier to occur of the date: (i) The Company’s Board of Directors, a committee of the Board of Directors, or the officer or officers of the Company authorized to take such action by the Board of Directors is not required, concludes, or reasonably should have concluded, that the Company is required to prepare an accounting restatement as described above; or (ii) A court, regulator, or other legally authorized body directs the Company to prepare an accounting restatement as described above. The amount of incentive-based compensation that is subject to this policy is the amount of (“erroneously awarded compensation”) incentive-based compensation received on or after October 2, 2023, that exceeds the amount of incentive-based compensation that otherwise would have been received had it been determined based on the restated amounts, and shall be computed without regard to any taxes paid. In no event shall the Company be required to award a Covered

Executive an additional payment if the restated or accurate financial results would have resulted in a higher incentive compensation payment. For incentive-based compensation based on stock price or total shareholder return, where the amount of erroneously awarded compensation is not subject to mathematical recalculation directly form the information in an accounting restatement: (i) The amount must be based on a reasonable estimate of the effect of the accounting restatement on the stock price or total shareholder return upon which the incentive-based calculation was received; and (ii) The Company shall maintain documentation of the determination of that reasonable estimate and provide such documentation to Nasdaq. For purposes of this policy, incentive-based compensation is any compensation that is granted, earned or vested based wholly or in part upon the attainment of a financial reporting measure. Financial reporting measures are measures that are determined and presented in accordance with the accounting principles used in preparing the Company’s financial statements, and any measures that are derived wholly or in part from such measures. Stock price and total shareholder return are also financial reporting measures. Financial reporting measures may include “non-GAAP financial measures” as well as other measures, metrics and ratios that are not GAAP measures. A financial reporting measure need not be presented within the financial statements or included in a filing with the SEC. Incentive-based compensation is deemed received in the fiscal period during which the financial reporting measure specified in the incentive-based compensation award is attained, even if the payment or grant of the incentive-based compensation occurs after the end of that period. Equity awards that vest exclusively upon completion of a specified employment period, without any performance condition, and bonus awards that are discretionary or based on subjective goals or goals unrelated to any financial reporting measures, do not constitute incentive-based compensation for purposes of this policy. The Compensation Committee of the Company’s Board of Directors (the “Committee”) will determine, in its sole discretion, the method for recovering erroneously awarded incentive-based compensation hereunder, which may include, without limitation: (a) requiring reimbursement of erroneously-awarded cash compensation previously paid; (b) seeking recovery of any gain realized on the vesting, exercise, settlement, sale, transfer, or other disposition of any equity-based awards; (c) offsetting the recovered amount from any compensation otherwise owed by the Company to the executive officer; (d) cancelling outstanding vested or unvested equity awards; and/or (e) taking any other remedial and recovery action permitted by law, as determined by the Compensation Committee. The Committee shall recover any erroneously awarded incentive-based compensation in accordance with this policy except to the extent that the conditions specified below are met, and the Committee has determined that recovery would be impracticable.

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SHORE BANCSHARES, INC. CLAWBACK POLICY Page 4 of 5 (i) The direct expense paid to a third-party to assist in enforcing the policy would exceed the amount to be recovered. Before concluding that it would be impracticable to recover any amount of erroneously awarded compensation based on expense of enforcement, the Company must make a reasonable attempt to recover such erroneously awarded compensation, document such reasonable attempt(s) to recover, and provide that documentation to Nasdaq. (ii) Recovery would violate home country law where that law was adopted prior to November 28, 2022. Before concluding that it would be impracticable to recover any amount of erroneously awarded compensation based on violation of home country law, the Company must obtain an opinion of home country counsel, acceptable to Nasdaq, that recovery would result in such a violation, and must provide such option to Nasdaq. (iii) Recovery would likely cause an otherwise tax-qualified retirement plan, under which benefits are broadly available to employees of the registrant, to fail to meet the requirements of 26 U.S.C. 401(a)(13) or 26 U.S.C. 411(a) and the regulations thereunder. The Company shall not indemnify any Covered Executive against the loss of any erroneously awarded compensation for which the Committee has determined to seek recovery pursuant to this policy. III. ADMINISTRATION This policy will be reviewed annually and re-approved by the Board of Directors at least once every two calendar years. The Committee is authorized to interpret and construe this policy and to make all determinations necessary, appropriate, or advisable for the administration of this policy. Exceptions to the requirements of this policy are not permitted. The Company may not enter into any agreement that exempts an incentive-based compensation that is granted, paid or awarded to an executive officer of the Company from the application of this policy or that waives the Company's right to recovery of any erroneously awarded compensation, and this policy supersedes any such agreement. The Company will file all disclosures with respect to this policy in accordance with the requirements of the federal securities laws, including the disclosure required by the applicable SEC filings. The Committee intends that this policy will be applied to the fullest extent of the law. The Committee may require that any employment or service agreement, cash-based bonus plan or program, equity award agreement, or similar agreement entered into on or after the adoption of this policy shall, as a condition to the grant of any benefit thereunder, require a Covered Executive to agree to abide by the terms of this policy. Any right of recovery under this policy is in addition to, and not in lieu of, any other remedies or rights of recovery that may be available to the Company pursuant to the terms of any similar policy, any employment agreement, equity award agreement, cash-based bonus plan or program, or similar agreement and any other legal remedies available to the Company. For the avoidance of doubt, any right of recovery under this policy will prevail over any other remedies or rights of recovery that may be available to the Company pursuant to the terms of any similar policy to the extent that a larger recovery amount would be recoverable under this Policy. The policy shall be binding and enforceable against each Covered Executive and, to the extent required by applicable law, his/her beneficiaries, heirs, executors, administrators or other legal representatives. To the extent required by the Committee, each Covered Executive shall be required to sign and return to the Company the acknowledgement form attached hereto as Exhibit A pursuant to which such Covered Executive will agree to be bound by the terms of, and comply with, this policy. For the avoidance of doubt, each Covered Executive will be fully bound by, and must comply with, the Policy, whether or not such Covered Executive has executed and returned such acknowledgment form to the Company.

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SHORE BANCSHARES, INC. CLAWBACK POLICY Page 5 of 5 EXHIBIT A: ACKNOWLEDGEMENT FORM By signing below, the undersigned acknowledges and confirms that the undersigned has received and reviewed a copy of the Shore Bancshares, Inc. Compensation Clawback Policy (the “Policy”) and understands the Policy. Capitalized terms used but not otherwise defined in this acknowledgement form (this “Acknowledgement Form”) shall have the meanings ascribed to such terms in the Policy. As a condition of receiving Incentive Compensation from the Company, the undersigned agrees that any incentive compensation received on or after October 2, 2023 is subject to recovery pursuant to the terms of the Policy, and further agrees to abide by the terms of the Policy including, without limitation, by returning any erroneously awarded compensation to the Company reasonably promptly to the extent required by, and in a manner permitted by, the Policy, as determined by the Committee in its sole discretion. To the extent any agreement or organizational document purports to provide indemnification against any loss of any erroneously awarded compensation, the Covered Executive hereby irrevocably agrees to forego such indemnification. To the extent the Company’s recovery right conflicts with any other contractual rights the undersigned may have with the Company, the undersigned understands that the terms of the Policy shall supersede any such contractual rights. The terms of the Policy shall apply in addition to any right of recoupment against the undersigned under applicable law and regulations. Signature of Covered Executive Date

DISCLAIMER

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