

Report of Organizational Actions Affecting Basis of Securities

OMB No. 1545-0123

► See separate instructions.

Part I Reporting Issuer

1 Issuer's name		2 Issuer's employer identification number (EIN)	
Shore Bancshares, Inc., successor to Severn Bancorp, Inc.		52-1974638	
3 Name of contact for additional information	4 Telephone No. of contact	5 Email address of contact	
Meera Parikh	240-210-9606	meera.parikh@shoreunitedbank.com	
6 Number and street (or P.O. box if mail is not delivered to street address) of contact		7 City, town, or post office, state, and ZIP code of contact	
18 East Dover Street		Easton, MD 21601	
8 Date of action		9 Classification and description	
October 31, 2021		Common stock	
10 CUSIP number	11 Serial number(s)	12 Ticker symbol	13 Account number(s)
825107105	n/a	SHBI	n/a

Part II Organizational Action Attach additional statements if needed. See back of form for additional questions.

- 14** Describe the organizational action and, if applicable, the date of the action or the date against which shareholders' ownership is measured for the action ► See attachment

- 15** Describe the quantitative effect of the organizational action on the basis of the security in the hands of a U.S. taxpayer as an adjustment per share or as a percentage of old basis ► See attachment

- 16** Describe the calculation of the change in basis and the data that supports the calculation, such as the market values of securities and the valuation dates ► See attachment

Part II **Organizational Action** (continued)

17 List the applicable Internal Revenue Code section(s) and subsection(s) upon which the tax treatment is based ►

Internal Revenue Code sections 302, 354, 358, 368, 1001, 1221, and 1223

18 Can any resulting loss be recognized? ► See attachment

19 Provide any other information necessary to implement the adjustment, such as the reportable tax year ►

The merger became effective on October 31, 2021, and, therefore, the reportable tax year is the taxable year that includes the October 31, 2021, effective date. This is the 2021 calendar year for those shareholders who report taxable income based on a calendar year.

**Sign
Here**

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than officer) is based on all information of which preparer has any knowledge.

Signature ►

Date ►

Print your name ► **Charles S. Cullum**

Title ► **Chief Financial Officer**

**Paid
Preparer
Use Only**

Print/Type preparer's name

Preparer's signature

Date

Check ☐ if
self-employed

PTIN

Firm's name ►

Firm's EIN ►

Firm's address ►

Phone no.

Shore Bancshares, Inc.
EIN 52-1974638
Attachment to Form 8937
Merger of Severn Bancorp, Inc. with Shore Bancshares, Inc.

REPORT OF ORGANIZATIONAL ACTIONS AFFECTING BASIS OF SECURITIES

The information contained in Form 8937 and this attachment does not constitute tax advice and does not purport to be complete or describe the consequences that may apply to particular categories of shareholders. Each shareholder is advised to consult his or her tax advisor regarding the tax treatment of the merger. Further discussion of the tax consequences of the merger can be found in Shore Bancshares Inc.'s Registration Statement on Form S-4/A filed with the U.S. Securities and Exchange Commission on September 10, 2021, under the heading "The Merger – Material Federal Income Tax Consequences" available at www.sec.gov (the "Form S-4").

Part II, Box 14

The organizational action involves the merger of Severn Bancorp, Inc. ("Severn") with and into Shore Bancshares, Inc. ("Shore") on October 31, 2021, with Shore continuing as the surviving entity (the "merger").

As a result of the merger, each share of Severn common stock issued and outstanding immediately prior to the effective time was converted into the right to receive (i) 0.6207 shares of Shore common stock and (ii) \$1.59 in cash. Holders of Severn common stock who otherwise were entitled to a fractional share of Shore common stock instead received an amount in cash (rounded to the nearest cent) determined by multiplying the fractional interest by \$10.60.

Part II, Box 15

As described in the Form S-4, the merger is intended to qualify as a "reorganization" within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended (the "Code"). If the merger so qualifies, a U.S. holder generally should have recognized gain (but not loss) in an amount equal to the lesser of (i) the sum of the amount of the cash (other than cash in lieu of a fractional share of Shore common stock) and the fair market value of the Shore common stock received (including any fractional share of Shore common stock deemed received and redeemed for cash), minus that U.S. holder's adjusted tax basis in its shares of Severn common stock surrendered in exchange therefor and (ii) the amount of cash received (excluding cash received in lieu of a fractional share of Shore common stock).

If a U.S. holder acquired different blocks of shares of Severn common stock at different times or different prices, any gain or loss will be determined on a block-for-block basis for each block of shares and such U.S. holder's basis and holding period in its shares of Shore common stock will be determined with reference to each block of shares of Severn common stock.

The aggregate tax basis of the Shore common stock received (including fractional shares deemed received and redeemed) equals the aggregate adjusted tax basis of the shares of Severn common stock surrendered, reduced by the amount of cash consideration received by the U.S. holder (excluding any cash in lieu of a fractional share) and increased by the amount of gain (regardless of whether such gain is classified as capital gain or dividend income but excluding any gain

recognized with respect to cash in lieu of a fractional share), if any, recognized by the U.S. holder on the exchange. The holding period of the Shore common stock received in the merger (including fractional shares deemed received and redeemed) includes the holding period of the shares of Severn common stock surrendered.

A U.S. holder who received cash in lieu of a fractional share of Shore common stock generally will be treated as having received such fractional share and then as having received such cash in redemption of the fractional share. Gain or loss generally is recognized based on the difference between the amount of cash in lieu of the fractional share and the tax basis allocated to such fractional share. Such gain or loss generally is long-term capital gain or loss if, as of the effective time of the merger, the holding period for such shares was more than one year (including the holding period of shares of Severn stock surrendered).

Part II, Box 16

As noted above, assuming the merger qualifies as a “reorganization” within the meaning of Section 368(a) of the Code, the aggregate tax basis of the Shore common stock received (including any fractional share deemed received and redeemed) equals the aggregate adjusted tax basis of the shares of Severn common stock surrendered, reduced by the amount of cash consideration received by the U.S. holder (excluding any cash in lieu of a fractional share) and increased by the amount of gain (regardless of whether such gain is classified as capital gain or dividend income but excluding any gain recognized with respect to cash in lieu of a fractional share), if any, recognized by the U.S. holder on the exchange.

For purposes of determining the amount realized and the fair market value of the Shore common stock received in the merger, Shore used \$18.48 per share, the closing price of Shore common stock on The Nasdaq Stock Market on October 29, 2021, the last trading day before the October 31, 2021, effective date of the merger.

Part II, Box 18

As noted above, a U.S. holder generally cannot recognize any loss for U.S. federal income tax purposes as a result of the merger, except that loss may be recognized by those U.S. holders treated as having received a fractional share pursuant to the merger and then as having exchanged that fractional share for cash to the extent the amount by which the cash received by such holder is less than the holder’s basis in the fractional shares as set forth above.